RESPONSE STRATEGIES ADOPTED BY SAROVA HOTELS LIMITED, KENYA TO CHANGES IN THE ENVIRONMENT

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DECLARATION

This research Project is my original work and has not been presented for examination in any university.

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This research Project has been submitted for examination with my approval as the University supervisor.

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ACKNOWLEDGEMENTS

DEDICATION

This project is dedicated to God and to all the members of my family who I love and adore so much.

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ACRONYMS AND ABBREVIATIONS

GDP: Gross Domestic Product

KEBS: Kenya Bureau of Standards

KWS: Kenya Wildlife Service

NEMA: National Environment Management Authority

R&D: Research and Development

SHL: Sarova Hotels Limited

ABSTRACT

Change in the business environment is likely to create pressure for change in an organization. Specific factors in the business environment will likely affect different organizations in different ways, favoring others while posing a threat to others. It is important for organizations to continuously study the environment and respond to its instability and uncertainty if they are to retain their competitive advantage. Strategic response is important in dealing with environmental changes because if a firm wants to succeed in the long run it has to make every effort to make sure it is not adversely affected by the environmental changes. The research was conducted as a case study of the Sarova Hotels Limited. This is a chain of hotels located in Kenya that has been a market leader in the hotel and tourism industry in East Africa. The environment in which Sarova is operating is very competitive and highly affected by the changes in the business environment in Kenya that include economic and political forces that can potentially have a negative or positive impact on Sarova Hotels. The objective was to determine the response strategies that have been adopted by Sarova Hotels Limited to help them deal with the dynamic changes they face. The data collected was primary and secondary in nature. The primary data was collected by conducting interviews of top managers at Sarova Hotels Limited. The findings were that the group of hotels has used a number of competitive and responsive strategies to deal with the changes in the environment. They include cost leader ship, differentiation, outsourcing, product innovation and diversification. The conclusion made from the study was that the strategies being used by Sarova Hotels Limited to respond to changes in the environment are helping it retain and grow their market share and increase their revenues. The study made recommendations that research and development is key to any organization that seeks to keep up with the changes in the external environment, it is not only important to be aware of the change but also to respond accordingly to remain in business. Theoretical implications of this study illustrate support of the structural contingency theory that different units of an organization face different types of external environments and also support for the population ecology theory that the external environment selects organizations or rejects depending on their coexistence.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An organization's environment is defined as all the elements existing outside the boundary of the organization that have the potential to affect all or part of the organization (Daft, 1997). Organizations are ordinarily dependent on the environment for their survival. They are open systems operating in turbulent environment and change is inevitable as yesterday's determinants of success can be today's and tomorrow's determinants of failure (Kottler, 2003). The general environment is composed of factors that have dramatic effect on a firm's strategy (Dess, Lumpkin and Taylor, 2006). A company has little ability to predict trends and events in the general environment and even less ability to control them. Organizations must therefore respond appropriately to the changes in their environment in order to survive and achieve their objectives. If the organization's products or services are not required by the environment, then they cannot survive. They depend on the environment for the financial and human resources necessary to carry out their activities (Heffron, 1989).

According to the Structural Contingency Theory in the Burns and Stalker studies, Lawrence and Lorsch (1967) observed that different units of an organization face different types of environments; each subunit develops a structure matching its own environment. The successful organization was one which differentiated according to environments, but which was able to integrate the diverse elements. Pfeffer and Salancik

(1978) who authored what is now referred to as Resource Dependence Theory, see organizations as constantly striving to reduce their dependence on the environment by acquiring control over their resources. Therefore, environmental scanning plays a central role in the organization's decision-making processes and its strategic adaptations. According to the Population Ecology Theory by Hannan and Freeman (1978, 1989), the environment selects organizations or rejects them. Every firm has to find a niche for itself if it is to survive. As long as a firm is fulfilling the demands of the niche, it will survive.

The hospitality Industry in Kenya, just like any other industry, is affected by the environment. The stakeholders have to keep in mind that it is not for the environment to change in their favor, but it is up to them to update their operations in line with the environmental changes, otherwise they will be pushed out of business (Eisenhardt and Brown, 1998).

1.1.1 Organization's External Environment

The organization exists in the context of a complex political, economic, social, technological, environmental (i.e. green) and legal world (Johnson, 2008). The environment changes and is more complex for some organizations than for others. How this affects the organization could include an understanding of historical and environmental effects, as well as expected or potential changes in environmental variables. Many of those variables will give rise to opportunities and others will exert threats on the organization or both. The external environment of an organization can further be described as all entities that exist outside its boundary and control but have significant influence on its growth and survival. Due to the limited control, the

organization needs to constantly monitor and adapt to external changes. A proactive or reactive response leads to significantly different outcome.

According to Johnson and Scholes (2002) dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the influences in the environment may be possible but it may not be of much use because important influences on the organization are not clear. Secondly the speed of change is another issue. Managers feel that the pace of technological change and global communications will lead to faster changes than ever before. The other problem is complexity. Since managers cope with complexities the same way as other individuals; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

1.1.2 Response Strategies

Tregoe (2001) defined strategy as a framework within which the choices about the nature and direction of an organization are made. Framework means boundaries or parameters defined by clear criteria which help determine what lies inside or outside the scope of the organization's strategy. Choices to be made are what products and/or services will and will not be offered; what markets will and will not be served; and what key capabilities are needed to take products to markets. Response strategies are concerned with decisions and actions meant to achieve business objectives and purpose. Pearce and Robinson

(2007) defined response strategies as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives.

According to Hitt, Ireland and Hoskinsson (2004) response strategies or strategic action is a market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse. In order to effectively achieve the firm's objectives, this set of plans and actions must be strategically fit to the complexities and dynamism of a rapidly shifting environment.

Some of the strategies adopted by various firms, as shown in other studies are; Chepkwony (2001) studied how the response strategies of petroleum firms in Kenya to challenges of increased competition in the industry players has made various strategic changes in their internal dimensions. Major adjustments were carried out on strategic variables such as product, promotion, social responsibility, process, research and development, and costs structure. Isaboke (2001) carried out investigations on strategic responses by major oil companies in Kenya to the threats of new entrants. He established that majority of the oil companies are using combination of generic strategies including differentiation and market focus, segmentation, cost leadership, penetration and development of new markets. They also use competitive strategies such as the use of convenient stores and restaurant franchise in up-market areas to compete against the new entrant. Thiga (2002) found out that firms in the aviation industry formed alliances and partnerships so as to globalize their route and earn competitive edge. The airlines

surveyed had adapted strategies that helped them cope with the changed environmental conditions.

1.1.3 Hospitality Industry in Kenya

The schizophrenia of the hospitality industry, and the "fragmentation" of hospitality academia, is a potentially limiting factor in the industry's drive for growth and development (Jones, 2004). This schizophrenia is illustrated by questions about whether the hospitality industry is a service industry, whether it is entertainment, or art or theatre, or retailing, or whether it is no more than another form of business (Jayawardena, 2000). In the academic world, the dominant approach is one based on business and management, with many institutions focusing on services and some taking a retailing perspective. Jones (2004) sought to identify the "principal schools of thought" and identified six main approaches: science, management, studies, relationships, systems, and pragmatism. However, according to Morrison &O'Mahoney (2002) there are some "major tensions, contradictions and debates confronting contemporary hospitality management educationalists", and that hospitality management as a field of study "continues to struggle for definition".

Since independence, Kenya has relied on its tourism industry to generate foreign exchange earnings. In the short-term, Third World Countries in general, and Kenya in particular, viewed the development of tourism as a quick and reliable source of much sought after foreign exchange receipts, job creation and economic growth. However, a critical evaluation of the evolution and development of tourism in Kenya indicates that

the country's hospitality industry faces socio-economic problems and structural deficiencies which reduce the industry's efficacy as a tool for local, regional and national sustainable development (Akama, 1999).

There are several essential things that are supposed to be known about your hotel guests to be able to offer great service (Jones, 2004). Traditionally tourist activity at the Kenya Coast is low during the "off season" so that many properties opt to shut down temporarily. In reality, the hotels should not shut down and actually it is the best time to stay open as there are many ways on how they can operate and generate new business off season.

1.1.4 Sarova Hotels Limited, Kenya

Sarova's hotel empire began with the acquisition of Ambassadeur Hotel in 1974 which isn't a part of the group anymore, but which at the time, an incredibly timely opportunity. Sarova Whitesands Beach Resort & Spa would be the group's next acquisition in 1976, and their first out of Nairobi. In 1978 Sarova took on what is probably their most famous hotel, The Sarova Stanley. The Stanley was Nairobi's first hotel, created in 1902. Over the ensuing decades Sarova has added and at times dropped more venues to the ranks, so that today there are eight properties under the umbrella: Sarova Whitesands (1976), Sarova Stanley (1978), Sarova Panafric (1982), Sarova Mara Game Camp (1984), Sarova Lionhill Game Lodge (1985), Sarova Shaba Lodge (1989) and Sarova Salt lick Game Lodge and Sarova Taita Hills Game Lodge (2006).

Today, Sarova looks to build upon their successes and continue to become better. In their 41st year, the hotel and tourism Industry is facing a variety of changes worldwide and Kenya is not an exception in this crucial sector. Competition is intense, business travel has declined significantly, terrorism threats and acts have greatly reduced the number of tourists coming to Kenya. Sarova is looking to expand outside of Kenya and into East Africa. And in the longer term, further into the continent in an effort to increase its market.

1.2 Research Problem

Change in the business environment is likely to create pressure for change in an organization. Specific factors in the business environment will likely affect different organizations in different ways, favoring others while posing a threat to others. It is important for organizations to continuously study the environment and respond to its instability and uncertainty if they are to retain their competitive advantage. Strategic response is important in dealing with environmental changes because if a firm wants to succeed in the long run it has to make every effort to make sure it is not adversely affected by the environmental changes.

The research will be conducted as a case study of the Sarova Hotels limited. This is a chain of hotels located in Kenya that has been a market leader in the hotel and tourism industry in East Africa. The environment in which Sarova is operating is very competitive and highly affected by the changes in the business environment in Kenya that

include economic and political forces that can potentially have a negative or positive impact on Sarova Hotels.

A number of studies have been done locally on response strategies by organizations towards the changing business environment; Kandie (2001) focused on response strategies by Telkom Kenya Limited in a competitive environment; Kiptugen (2003) researched on response strategies by Kenya Commercial Bank to a changing competitive environment; Mohamed (2008) focused on response strategies by commercial banks in Kenya to business environmental conditions. Murungi (2013) on response strategies employed by oil marketing companies in Kenya and Noor (2012) on response strategies adopted by Hass Petroleum Limited to environmental challenges. Internationally, Bufton (2011) focused on response strategies by property development firms to survive in an economic downturn in New Zealand and Sharma (2015) researched on response strategies by firms in India to deregulation. While these studies have revealed that different organizations face different environmental changes, the organizations adopt equally different strategies to respond to such changes. Therefore, the findings cannot be generalized to apply across all organizations. Consequently, no known study has looked at response strategies adopted by Sarova Hotels Limited to environmental changes. This study sought to address the inherent gap: What response strategies has Sarova Hotels Limited adopted to deal with the environmental changes?

1.3 Research Objective

The objective of this study was to determine the response strategies adopted by Sarova Hotels Limited to help them deal with environmental changes in Kenya.

1.4 Value of the Study

The findings of this study will be beneficial to various stakeholders of importance: First, the shareholders and management of Sarova Hotels Limited; they will be able to know the environmental changes facing the group, at the same time, they will be able to formulate strategies which they can implement so that they can compete effectively with other established Hotels.

Second, it will be of benefit to other organizations that may face similar environmental changes, mostly those in the hospitality industry, as they will be able to know the changes which have taken place in the environment and therefore design strategies which can respond effectively to the changes. The policy makers will obtain knowledge of the changes that have taken place in the hospitality industry thus use the information in designing appropriate policies that will regulate the industry. Third, the study will help organizations to identify new opportunities by prompt response to the challenges of the dynamically changing environment and flexible movement towards the market demand. Fourth, for academicians, this study will form the foundation upon which other related and replicated studies can be based on.

CHAPTER TWO

LITERATURE RIVIEW

2.1 Introduction

This chapter covers the theoretical foundation and the strategies that can be used by organizations to cope with changes in the external environment. Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish (Hofer and Schendel, 1978).

2.2 Theoretical Foundation

According to the Structural Contingency Theory in the Burns and Stalker studies, Lawrence and Lorsch (1967) observed that different units of an organization face different types of environments; each subunit develops a structure matching its own environment. The successful firm was one which differentiated according to environments, but which was able to integrate the diverse elements. This theory has created interventions for assessing an organizations reaction to the external environment and making changes in the organization if the need arises.

Pfeffer and Salancik (1978) who authored what is now referred to as Resource Dependence Theory, see organizations as constantly striving to reduce their dependence on the environment by acquiring control over their resources. Therefore, environmental scanning plays a central role in the organization's decision-making processes and its strategic adaptations. This theory emphasizes importance of environmental scanning that

is necessary to access changes in the external environment. According to the Population Ecology Theory by Hannan and Freeman (1978, 1989), the environment selects organizations or rejects them. Every organization has to find a niche for itself if it is to survive. As long as an organization is fulfilling the demands of the niche, it will survive. Organization responses to the environment more often than not involve change. To be successful, change has to link the strategic and operational aspects of the organizations. It therefore emphasizes the importance of translating strategic change into detailed resource plans, critical success factors and key tasks but also the way the organization is managed through control processes and everyday communication (Johnson and Scholes, 2003).

2.3 Organization's Macro and Micro Environment

The environmental analysis can be methodically broken down into analyses of the macro and micro environments (Johnson et al., 2012; Sedláčková a Buchta, 2006; Hitt et al., 2012). An organizational environment is composed of forces or institutions surrounding an organization that affect performance, operations, and resources (Joplin, 2014). It includes all of the elements that exist outside of the organization's boundaries and have the potential to affect a portion or all of the organization.

A macro-environmental analysis includes examination of elements and connections in the company's widest environment. Methodologically, macro-environmental factors can be divided into political, economic, social, technical, and technological. Political factors chiefly include the level of legislation in individual countries, labour regulations, law enforceability, political stability, environmental standards, work safety standards

(Crossan et al., 2009). The economic factors include basic macro-economic indicators: unemployment, interest rate, inflation, and the development of the domestic / national product. In terms of social factors, the subjects of analyses are mainly basic demographic characteristics (population age structure, etc.), trends in consumers' preferences (e.g. an interest in the healthy lifestyle), level of education, culture, access to leisure, etc. The main monitored technical and technological characteristics are the speed at which technologies get obsolete, investment in research and development, etc. (Sedláčková a Buchta, 2006).

The micro environment includes factors or elements in an organization's immediate area of operations that affect its performance and decision-making freedom(Johnson et al., 2012). These factors include competitors, customers, distribution channels, suppliers, and the general public.

2.4 Response Strategies to changes in the Environment

A response strategy affects the long term direction of a company and generally requires large amounts of resources. The strategy is aimed at achieving advantage for the firm and as such it is concerned with the scope of the entire organization's activities (Johnson and Scholes, 2003). According to Ansoff (1990) information obtained from strategic diagnosis is used to select a response strategy which will assure the firm's future success. According to Ansoff and McDonnell (1990) response strategies involve changes to organization's strategy behavior to assume success in transforming future environment. Strategy is a bridge between the firm's resources and the opportunities and the risks the

firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the responses depends on the speed with which a particular threat or opportunity develops in the environment. Well developed and targeted response strategies are formidable weapons for a firm in acquiring and sustaining competitive edge. Some of the response strategies may include; cost leadership, differentiation, focus, outsourcing, information technology, delivery and distribution, and product innovation strategy. Effective response strategies may enable a business to influence the environment in its favor and even defend itself against competition.

Porter (2005) observes that for firms to be able to retain competitive advantage, they need to examine their environment, both internal and external and respond accordingly. Ansoff and McDonnell (1990) also point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development. To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the firm needs and what the environment can provide (Johnson and Scholes, 2002).

2.4.1 Competitive Strategies

Porter (1985) describes a category scheme consisting of three generic competitive strategies that are commonly used by businesses to achieve and maintain competitive advantage; cost-leadership, differentiation and focus strategies. Cost-leadership aims at being efficient in production and operations to reduce costs by having controls to this effect. This strategy emphasizes efficiency. It aims at becoming the lowest cost producer in the industry. The product is often produced at a low cost and availed to a very huge customer base. To maintain this strategy requires a consistent search for cost reductions in all areas of the business. This strategy is usually associated with large-scale business offering standard products with relatively little differentiation and that are perfectly acceptable to the majority of customers (Porter, 1985).According to Pearce and Robinson (2007) when a firm designs, produces, and markets a product more efficiently, than its competitors, such a firm has implemented a cost leadership strategy. Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product (Overby, 2007).

Differentiation means targeting different market segments and catering for each individually to gain maximum value. Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique (Porter, 1985). The firm may then charge a premium for its services or products. This approach can be associated with brand image, design, technology, features, network or customer's service. Barney (2001) states that though a company may have several basis of differentiation, in the end, it is only perception that will matter. To build

competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rivals to match (Thompson and Strickland, 2007).The risks that usually emerge with the differentiation strategy include changes in customer tastes and imitation by competitors in the industry.

Many organizations that use focus strategies may be able to achieve greater differentiation in the market segments that they are engaged in. The emphasis can be on brand image, proprietary technology, special features, superior services, a strong distribution network or other aspects that might be specific to an industry (Pearce and Robinson, 2007).Differentiation strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation (Pearce and Robinson, 2007). Focusing a firm's marketing efforts on narrow market segments and tailoring its marketing to these specialized markets, is believed to lead to situations where the firm better meets the needs of that target market. The organization looks to gain competitive advantage through brand marketing and/or product innovation.

Focus involves concentrating on one particular market niche to position in the market. Grant (2000) argues that focus strategy concentrates on serving a particular market niche, which can be defined geographically or through the type of customer or by segment of the product line. Organizations can make use of the focus strategy by making sure that they focus on a specific niche. This is sometimes referred to as the niche strategy (Johnson and Scholes, 2002). Firms pursuing this strategy are willing to service isolated geographic areas, satisfy needs of customers with special financing, inventory or

servicing problems or even to tailor the products to somewhat unique demands of the small to medium sized customers. According to Porter (1985) a firm's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is always no competitive advantage for a firm that is stuck in the middle and usually the result is often poor financial performance. This strategy differs from the first two (cost leadership and differentiation) in that it is directed towards serving the needs of a limited customer group or a segment making the company specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-end cost and differentiated enterprise which tend to be larger.

2.4.2 Outsourcing Strategy

Outsourcing is the process of contracting an outside company to provide a service previously performed by staff. In many cases, outsourcing involves a transfer of management responsibility for delivery of services and internal staffing patterns to an outside organization. It is a business strategy whereby a company hires an independent outside company to do some of its non-core company work. It is subcontracting a process, like product design or manufacturing, to a third-party company. It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider (Overby, 2007).

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements (Hamel and Prahalad, 1994). It assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. Focusing on the core activities ensures the collective learning especially on how to co-ordinate diverse production skills and integrates multiple streams of technologies.

2.4.3 Product Innovation Strategy

In today's economy, firms are challenged to stay competitive and offer a continuous line of innovative products and services. In technologically intensive industries, investments in research and development have been the primary source of product innovation and superior returns. Research and development investments indicate the strategic importance of innovation for a firm (Hamel and Prahalad, 1994) and constitute an important input for the development of intangible capital, differentiation, and product innovation.

Product strategy is not the same as product innovation strategy. According to Ashmore (1991), product strategy is current; the goal is to increase sales in the current product cycle. On the other hand, product innovation is concerned about future trends in competition and market share. Product innovation strategy is about the next product, or rather the next product launch. It will need to address new features due to new customer demands. Separating the two areas allows product managers to focus on the key drivers of product innovation.

2.4.4 Diversification Strategy

Principally, diversification strategy may help firms to more survive in face of crisis (Elsas et al 2010). Conceptually, diversification should have a positive effect on corporate performance as it helps companies achieve economies of scale, greater scope and leverage the experience to other markets (Ackoff, 1981). However, empirical studies on the role of diversification on performance of company give different results. Montgomery and Wernerfelt (1988) pointed out that diversification has a negative impact on performance. Diversification often increases the cost of operation, causing conflict in form of greater managerial and organizational complexity (Schnitzer 1999). Berger and Ofek (1995) have examined the effects of diversification of products or services and examine the international diversification on corporate performance.

The results of other empirical studies show that diversification strategy has an impact on a firm's performance. Li and Rwegasira (2008) found that association between diversification strategy and corporate performance is positive and significant. Lu and Yao (2006) found an association between diversification and firm performance. Elsas, et al (2010) gives a new point of view the direct and indirect effects of diversification strategies on firm value, by distinguishing the aggregate effects of diversification and growth through interaction, and vertical integration. Companies diversify in order to expand the scope of industrial companies. Diversification is considered more efficient because of resource transfer between segments (Pitts and Lei 2003).

2.5 Summary of key Gaps

Studies have been done locally on response strategies by organizations towards the changing business environment; Kandie (2001) focused on response strategies by Telkom Kenya Limited in a competitive environment; Kiptugen (2003) researched on response strategies by Kenya Commercial Bank to a changing competitive environment; Mohamed (2008) focused on response strategies by commercial banks in Kenya to business environmental conditions. Murungi (2013) on response strategies employed by oil marketing companies in Kenya and Noor (2012) on response strategies adopted by Hass Petroleum Limited to environmental challenges. These studies limited themselves to the specific firms studied and did not address their respective industries.

Internationally, Bufton (2011) focused on response strategies by property development firms to survive in an economic downturn in New Zealand and Sharma (2015) researched on response strategies by firms in India to deregulation. While these studies have revealed that different organizations face different environmental changes, the organizations adopt equally different strategies to respond to such changes. Therefore, the findings cannot be generalized to apply across all organizations. Consequently, no known study has looked at response strategies adopted by Sarova Hotels Limited to environmental changes.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was aimed at setting out various stages and phases that would be followed in completing the study. It involved a blue print for the collection, measurement and analysis of data. The aim of the research was to conduct an analysis of the response strategies adopted by Sarova Hotels Limited to deal with environmental changes. The study was aimed at building theoretical frameworks on how hotels in Kenya would deal with environmental changes.

3.2 Research Design

Kothari (2005) defines a research design as a detailed outline of how an investigation will take place, this consists of how data will be collected, what instruments will be employed, how the instruments will be used and the intended means for analyzing the data collected. The research design chosen for this study was a case study.

A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The case study method has the ability of enabling the researcher to explore the content being studied and, as argued by Yin (1984) retain the holistic characteristics of real life events in fields such as organizational and managerial processes.

The significance of a case study is that it brings out an understanding of a complex issue and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

3.3 Data Collection

The study made use of primary and secondary data. The primary data was obtained through sending the interview guide to the departmental heads, and the results were developed in line with the objective of this study. The main target interviewees for interviews were the various departmental heads, more specifically, from Sarova's head office. This method helped in extracting some in depth information through directed questions to the interviewees in which a questionnaire by itself will not be very helpful. The interview guide was constructed around the research propositions that were expected to be answered in this research. The interviews and discussions were held at Sarova Hotels' head office.

The interviewees were the top managers and functional heads in charge of operations, finance and accounts, engineering, administration, information technology, human resources, and sales and marketing. They were considered to be key informants for this research. In addition, the departments in which the interviewees work in are the key implementers of the hotel strategies. The secondary data was collected by use of existing audited financial reports of Sarova

Hotels Limited, existing and previous strategic plans, and the monthly and year performance reports.

3.4 Data Analysis

After collection of both primary and secondary data, the data was analyzed through content analysis. Naichmias & Naichmias, 1996 stated that content analysis is used in making inferences by systematically and objectively identifying specified characteristics of information. Content analysis helped in gaining detailed and in-depth information from the qualitative data received.

All the information collected on response strategies was organized in a standardized format that allowed researcher to make inferences about the characteristics and meaning of the written and other material provided during the interviews that were carried out at SHL. Once this was done the researcher was able to narrow down to the specific response strategies that are being used at SHL to changes in their external environment.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The research objective was to determine the response strategies adopted by Sarova Hotels Limited to help them deal with environmental changes.

The primary data was collected mostly from Sarova Hotels' top management team who included the Group Management Accountant, Group engineer and Group Financial Controller, Director of operations, Group Information technology manager, Human resources manager, corporate sales and marketing manager, and Food and Beverage Director. Interviews were carried out in the offices of the respective managers. They time ranged between fifteen to thirty minutes depending on the availability of the manager. The interviewer took notes as he interviewed the managers.

One of the interviewees has a doctorate degree, five have a postgraduate degree while the rest have an undergraduate degree. The interviewees picked have a high level of education qualification, hence very reliable. Four interviewees have worked for the company over 16 years, while two have worked for between 10 and 15 years while the rest have worked for between 5 and 9 years. This distribution of interviewees in relation to their experience indicated that most were well vast with Sarova Hotels, hence giving responses that are related to the current organizational

trends. With their experience, the indication was that management of Sarova Hotels is composed of individuals that have been exposed to the changes in the external environment and are part of the team formulating strategies to deal with the changes in the external environment.

The secondary data was collected from data was collected from existing audited financial reports of Sarova Hotels Limited from the year 2005 to 2015. The researcher also got to look at the monthly and yearly management reports that gave a clear picture of the revenue of the hotel for the last ten years. These documents outlined the revenues, expenses and profits SHL has been making over the last ten years. This was important to show the researcher if the response strategies had any effect on the revenue streams of SHL, which indicated part of the success of the response strategies. The strategic plan document was also made available to researcher and it showed both the long term and short term strategies employed by SHL.

4.2 Changes in Sarova Hotel's External Environment

All companies regardless of the country they are located usually have to deal with the changes in the environment on a daily basis. The changes might be in terms of competition, technological advancements, economic factors, legal issues, political factors, ecological factors, as well as social factors. In order to either increase or maintain a firm's market share, the organization has to make sure that it has adopts effectively to its environmental changes.

The researcher focused on increase in the number of hotels in Kenya, change of legislation in the hospitality industry, change of tax imposed to the hospitality industry, terrorism incidences experienced in Kenya in the recent past, high turnover of staff in hospitality industry and technological changes adopted by the various industry players as the data on the external environment to base the study.

Interviewees were asked to list the major environmental changes that have affected the operations of Sarova Hotels Limited within the last ten years. The responses as collected during the interviews done are analyzed below.

4.2.1 Competition in the industry

The researcher found out from the interviewees that there are many new hotels and lodges in the Kenya in the last five years. Most of the new entrants are part of international hotel chain that decided to open properties in the country. With this increase in supply, the customers are now more sensitive to the products offered in the hospitality industry due to increase in supply from the new entrants. This has also meant that the market share for the leading hotel chains in the country has been eroded significantly especially for the hotels and lodges that have not had effective response strategies to these changes.

Staff poaching has been another major blow for Sarova Hotels limited. The new entrants offer more lucrative remuneration for qualified and experienced labour. This has led to a high turnover rate in terms of employees leaving and others

joining. Competition has also diluted some of the flagship products that were offered by Sarova Hotels Limited and led to lack of differentiation. Some of these services include the famous outside catering concept that is very popular with most hotels in the Sarova Hotels Limited chain.

4.2.2 Technological Advancement

Another area that has been a change to Sarova Hotels Limited is the loss of intellectual property in terms of its training modules being exported by the ex-staff. This has led to a lot of homogenous products and services being offered in the industry. There has also been an enormous growth in internet sales over the past five years according to the interviewees. Online search engines have made it possible for guests to freely share experiences in various destinations and this has had a huge impact in choice of hotel by the customers.

The researcher also found out from the interviewees that fraud cases have also increased significantly over the last decade. Hackers all over the world have become a menace to the online payment systems used by banks and have led to huge losses of revenue to the hospitality industry in particular. This means that the hotels that are yet to invest in state of the art internet security systems have been left behind while those that are constantly upgrading their systems are able to manage the frauds.

Electronic guest feedback systems have been the latest feature in the industry to enable the industry players to get feedback from their clients almost instantly. This has also meant that responses to the guests after getting their feedback has also be hastened.

4.2.3 Legal Issues

The researcher found out that there have been introduction to new levies to the hotels and lodges in Kenya and Value Added Tax that used to be charged at 14% exclusively to the industry was increased to 16% three years ago. Compliance just like in all other industries is a must and therefore this eroded the revenues in the industry. With the recent introduction of devolved governments in Kenya have also come more taxes and levies charged by different county authorities.

Compliance requirements by KBS, NEMA and health and safety bodies have also brought changes to the industry. The hygiene standards in the hotels and lodges in now under constant scrutiny and penalties charged for non compliance are hefty.

4.2.4 Economic Factors

The researcher found out that the slow growth in GDP in Kenya has led to less spending by the local customer. There has been reduced disposable income in the hands of the locals and all the hotels are competing to attract these clients by offering reduced rates. The depreciation of the shilling has also meant that the raw

materials imported by the hotels that include capital investments have become more expensive.

On the flip side with the appreciation of the dollar there has been increased revenue from the foreign clients that prefer to pay in dollars. Recently the government had ordered a reduction in government activities held in hotels that included trainings and seminars to reduce its bloated costs. This meant that the revenue enjoyed by the hotels from the government had been significantly reduced. The announcement later that the Kenyan government had revoked its earlier decision was met with a lot of joy by the industry players.

4.2.5 Political Factors

The researcher was made to understand that the general election cycle in Kenya is a big factor when it comes to revenues generated around the election period. Historically Kenya has experienced clashes during and after the general elections held once every five years. Around that time foreign clientele stay away from the country until otherwise advised by their governments through travel advisories.

Rating of the hotels has historically taken a political angle according to the interviewees. Most establishments end up with very high star ratings due to their political connection whereas others who deserve high ratings up on with lower ratings. With the high ratings a hotel's chances of attracting more clients is increased and this usually translates to higher revenues for the highly rated hotels and lodges.

Kenya has had to play a significant role in peace keeping in the region due its rich political ties with the region and western countries. This has led to a lot of terror groups that are in constant conflict with the western countries to wage war with Kenya. According to the interviewees the incidences of terror have had a negative impact in the industry and the country as whole. Travel advisories have occasionally affected the foreign clientele and led to reduced revenues to the local hotels.

4.2.6 Social Factors

The researcher found out that the local communities around the lodges and hotels in the country have unique demands to the management of the hotels. Most local communities demand that the workforce in the hotel be comprised of at least 50 % of members from the local community. This means that there would be a compromise in the levels of competence and work experience required to run the hotels. This has been a huge source of conflict especially to Sarova Hotels Limited that does not compromise the efficiency required from its labour force.

More Kenyans are now embracing local tourism and this has meant that all the players in the industry are thinking about customizing their products and services to attract the local clientele. This is also as a result of the constant travel advisories by the western countries due to incidents of terror or suspected terror.

4.2.7 Ecological Factors

According to the interviewees unpredictable weather patterns have also had a impact on the industry and Sarova Hotels Limited in particular. Traditionally international clients from the west come to the country when it is winter in the countries to come enjoy the sunlight and in Kenya. This has changed in the recent past with occasional cases of perennial rain during the months that were traditionally sunny. Many tourists from the west end up changing their travel plans to head to destinations with more favorable weather.

Regulations by NEMA and KWS have meant that some services offered by Sarova Hotels Limited are no longer part of the tourist experience. All night functions, for example, in the lodges that are located in the national parks have been banned. This is in an effort to reduce human wildlife conflict.

4.3 Discussions and Findings on Response Strategies

For technology advancements, Sarova Hotels limited has invested in state of the art technologies in areas of operations, online bookings and customer feedback platforms. This has come a long way to ensure that customer satisfaction is raised to very high levels through prompt responses to the customer needs not met initially. The Hotel has recently centralized all its departments, more specifically, the central reservations function, the marketing and sales function and the finance department. This has helped Sarova Hotels Limited to be able to harness manpower effectively to make sure that all customer issues are dealt with from a central office.

Interviewees were asked about what they considered to be important responses to the changes in the external environment that is around Sarova Hotels Limited. From the interviews, the most important responses include; differentiation of the services and products at the hotel, outsourcing of services considered not be Sarova's core business, focus marketing to segments that are considered to yield the most revenue to the group, service and product innovations and finally cost leadership in all the departments. The above responses are categorized in terms what the interviewees considered to be the most important to the least important. The findings also point out at increased advertising both in the local and international media, business promotion to the corporates in the region and beyond and increased investment in Information Technology as part of the hotel`s responses.

4.4 Response Strategies Adopted by Sarova Hotels Limited

According to the sales and marketing manager SHL combined response strategies with competitive strategies so that their response to the changes in the environment would be effective. All the strategies gathered from the interviews are discussed in the subsequent paragraphs.

4.4.1 Competitive Strategies

The interviews especially the ones done on sales and marketing manager, the group management accountant, the human resources manager and the group engineer indicate that cost leadership, focus marketing and differentiation have been used as responses to the various changes in the external environment around the hospitality

industry Kenya. On cost leadership, Sarova Hotels Limited had to restructure its list of suppliers to move to those who offer quality at a lower price than their traditional suppliers. By reducing the cost of inputs in their kitchen and all other service providers, they have been able to pass on the reduced rates to their customers. They have begun farming in some of their units located in the conservancies and the parks. This has meant that a portion of the raw materials required is planted right in the hotel's compound reducing their input costs effectively. Another measure taken has been the introduction of a wide variety of menu offered to the customers at any one time. The new menus feature vegetarian diets, fruits only meals and traditional Kenyan food that were not in the offerings a few years back. This has led to reduced costs of the food offered and increased sales at most of their outlets.

Focus has also been put to new market segments that were not considered profitable in the past. An example is the extensive marketing done to the corporate firms in Kenya. Sarova Hotels Limited has tailor made rates for corporate clients and these rates are significantly lower compared to those given to other clients. According to the findings, the idea here was that since corporate business involves large volumes of people in a single event, even with lower rates the hotels are able to generate huge sales from this market segment. Introduction of the Kids Club in most Sarova properties is also another strategy to target parents who opt not to travel because of their children. They can now enjoy a great holiday with their kids because the hotel has tailor made programs to keep the children occupied and entertained as their parents are having a rest in the hotel.

According to the findings, differentiation has been the most effective of all the competitive strategies used by Sarova Hotels Limited. There has been introduction of a Sarova Kitchens sub department in the food and beverage department that is specialized in outside catering. The sub department has been equipped with new refrigerated trucks that can keep food fresh for long distances. All other state of the art equipment that now enables Sarova Hotels to be able to offer outside catering services anywhere in the country and the region at large has been acquired. The hotel has also opened a Thai Chi restaurant at the Sarova Stanley hotel to cater for clients that love sea food and by extension Asian food. Lido restaurant at the Sarova Whitesands has also been opened to appeal to the sea food lovers at the coast.

4.4.2 Outsourcing Strategy

Outsourcing of products and services is being used widely by many firms, not only as a cost reduction strategy, but also as a means of allowing companies to focus on their core business. The aim here just like all the other response strategies is to increase profitability. Security services at Sarova Hotels limited that were a few years ago offered internally have now been outsourced to a professional outfit that has introduced state of the art security systems and equipment in all Sarova properties. This is in addition to another Israeli firm that has been brought on board responsible for advising management regularly on security upgrades and gaps that may exist.

Another area that has been outsourced recently is the online booking engine at Sarova Hotels. This is now being run a professional outfit at a commission for all bookings

made to Sarova Hotels online. The booking engine runs part of Sarova's website in an effort to make sure there is enough traffic to the site and a likely hood of increased online sales. Another marketing company has also been contracted to market the group of hotels all over Kenya and by extension the region. This has led to increased awareness in the country of the products and services offered by Sarova Hotels.

Transport of guests between the Sarova Hotel units and airport transfers have also been outsourced. This was done on recommendation from the internal audit team who realized that this step would save the company motor vehicle maintenance costs, wages to the drivers and vehicles licensing fees. Sarova Hotels limited has set a standard for the type and condition of the vehicles they expect their clients to use for transit and the company only needs to do spot checks to see if their requirements are met.

Another notable service that has been outsourced recently in some Sarova units is Laundry. This has greatly reduced the over head costs associated with running a fully fledged laundry unit in the hotel. The findings indicate the repair of broken down laundry machines was very costly especially in the town units and that is one of the reason the hotel outsourced that function.

4.4.3 Product Innovation

SHL has put a lot of emphasis on innovation of its services and products. Introduction of menus tailor made for different religions and after tests and recipe costing, as well as doing regular wine tasting functions by inviting different wine tasters and wine lovers to change and update the wine lists. Events like 'wine in the dark',

Nairobi pizza festival every twice a year and electric cuisine nights are a few examples of the different services and products introduced by Sarova hotels limited.

According to the interviewees the engineering team has also come up with new innovation to supply clean water to the different outlets in the group. The Reverse osmosis technology introduced in all Sarova properties is an efficient method of purifying all water that is used for cooking and also drinking.

The loyalty program by the name 'Zawadi' was launched two year ago as a way of rewarding loyal clients and encouraging new ones to stick to the hotel. It is a reward program that was re-launched this year with better deals offered. Clients earn points on their Zawadi card for every coin spent in the hotel. They can later redeem the points in exchange for a product or service in the hotel. The Zawadi card holders also get great discounts on all products and services offered at Sarova Hotels.

4.4.4 Diversification Strategy

According to the interviewees, SHL has only embraced diversification as a response strategy on a small scale basis. In some of their properties they have set up curio shops away from the hotel but are managed by the group. The idea here is to increase revenue generated from these minor operating department in addition to the curio shops that are within the hotel premises.

According to the interviewees there are plans to invest in real estate in the next few years to add another revenue stream to the group of hotels. SHL has contracted some professionals to look at the viability of this project and to come up with a report.

4.5 Discussion of Findings

These findings indicate that SHL has experienced a lot of changes in its external environment that has brought about opportunities and threats for the hotel. The greatest threat is by new entrants to the industry that are more experienced and seasoned hoteliers. SHL market share is being attacked every season and it has made the group of hotels to go back to the drawing board to re-strategize. These findings are consistent with the empirical literature by Banda (2006) and Methu (2003). These two researchers found that increased competition is part of the changes facing most business organizations. Product Innovation, outsourcing and diversification were part of the long term strategies to respond to the changes in the external environment.

The study also showed that outsourcing has been an effective response strategy since it makes SHL concentrate on its core business and all resources are channeled towards that. These findings are consistent with empirical studies by Mogeni (2008) who found that Coca cola's Kisii Bottlers also utilized outsourcing as a response strategy. The findings are also consistent with what Johnson and Scholes (2003) indicated; that change has to link the strategic and operational aspects of the

organizations and the importance of translating strategic change into detailed resource plans, critical success factors and key tasks are important to the way the organization is managed through control processes and everyday communication.

According to the interviewees SHL has had to create a niche for itself in various segments of the market. This has helped it retain a huge part of its market share by targeting the niche. This is consistent the Population Ecology Theory by Hannan and Freeman (1978, 1989), the environment selects organizations or rejects them. Every organization has to find a niche for itself if it is to survive. As long as an organization is fulfilling the demands of its niche it will survive.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of this study was to determine the response strategies adopted by Sarova Hotels Limited to changes in the external environmental in Kenya. The external environment within which businesses operate is very volatile; therefore, firms must develop response mechanisms to deal with the constant changes in their environment in order to survive and to achieve their objectives.

The interviewees cited that the hotel had come up with several response strategies that have been adopted to ensure that the hotel obtains the desired results and that the goal of constant revenue growth is achieved.

5.2 Summary of the findings

The study was carried out by way of interviewing top level management and they responded to the interview requests. All the eight interviewees were interviewed and their responses are summarized below.

The findings indicate that Sarova Hotels Limited has experienced a lot of changes in its external environment that has brought about opportunities and threats for the hotel. Competition has become stiff due to many new hotel chains in Kenya. Sarova Hotels limited had to restructure its strategy to remain competitive and in order to

maintain and grow its market share. Innovation in its products and services has gone a long way to help the group of hotels retain its customers.

Sarova Hotels Limited also decided to centralize all its departments to make sure that the response strategies to changes in the environment are implemented uniformly across the hotels. This was an initiative of the research and development team that works very closely with the marketing team and has been one of the reasons why the response strategies adopted have been very successful.

According to the management reports there has been a steady increase in revenue over the past five years as the response strategies are being fully implemented. Trends in the business environment now call for strategic alliance for cost effectiveness in the service delivery and economies of scale for mutual benefit of organizations involved. These alliances facilitate information and knowledge sharing and technical cooperation in projects including payment systems, online booking procedures and training. On responses strategies, the study established that each and every department had a strategic approach to responses.

5.3 Conclusion

The study made the conclusion based on the study findings that Sarova Hotels Limited is facing several changes in the external environment just like many other businesses. The greatest change is increased competition particularly from new entrants in to the industry such Crowne Plaza, Kempinski Hotel, the Tribe hotel and

Radisson Blue. The other changes include the ever changing information technology, customer tastes and preferences as well as the rising costs of production, changing government legislation, social and ecological factors.

Sarova Hotels Limited has responded to the changes in the external environment through strategic leadership, cost leadership and product and service innovation. Other strategies they have used include improved promotion and service development. The firm has also embraced new technologies and positive culture change.

SHL is has now put in place mechanisms that help the group of hotels to deal with changes in the environment and whereas the strategy is not static the foundation has been laid for future adjustments to its strategies. From all the interviews that were held it was very clear that the group has to constantly keep monitoring the external environment, specifically its competitors, customers and the hospitality industry as a whole to be well informed and base decisions on the information gathered.

5.4 Recommendations for Policy and Practice

The study makes recommendations based on the study findings that Sarova Hotels Limited needs for to invest more in research and development. This is because R &D could help unravel issues of competitive strategy, product development and new markets that have not been tackled. Changes in the external environment are constant; therefore Sarova Hotels limited needs to put in place policies reduce

bureaucracy in attempts to adopt to the environment by taking advantage of new opportunities in the market and tackling any threats brought about by the changes.

Sarova Hotels limited should also make it a practice to benchmark with the best in the industry internationally and also locally. This would go a long way to ensure that the hotel adapts to best practices that are worldwide and it would be easier to adapt to changes in the environment. All employees should also be engaged to be part of the changes recommended by management in adopting to changes in the environment.

5.5 Implications for Theory

Theoretically, this study contributes to the advancement of the Structural dependency theory in the Burns and Stalker studies (Lawrence and Lorsch, 1967) and the Population Ecology theory (Hannan and Freeman, 1978, 1989). The study confirms that different units of an organization face different types of external environment therefore the organization has to respond to the changes in the environment for each unit uniquely. The study also agrees with the Population ecology theory that every organization has to find a niche for itself if it is to survive. As long as an organization is fulfilling the needs of the niche by responding to the changes in the niche it will survive.

For the resource dependency theory (Pfeffer and Salancik, 1978), the study also confirms that environmental scanning plays a central role in the organization's decision-making processes and its strategic adaptations to the changes in the

external environment. The study also agrees with (Johnson and Scholes, 2002), that to be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the firm needs and what the environment can provide.

5.6 Limitations of the Study

The researcher was faced with various challenges when conducting the research that included unwillingness by top management to give information about the company which they considered confidential. It was also very difficult to schedule appointments with some of the interviewees who are very busy and when the researcher finally got the appointment he was given very little time to carry out the interviews.

Time limitation made it impractical to include more questions in the interviews and therefore the researcher had to work with the limited time. Some interviewees may have been biased or dishonest in their answers but the researcher looked carefully at the contradictions in the information collected and no inconsistency was found. It also important to note that this was a case study, therefore, the research findings may not be used to make generalization for the hospitality industry as a whole.

5.7 Suggestions for Further Research

This study focused on the response strategies adopted by Sarova Hotels limited to changes in the external environment. The responses identified in the research might

not be the same across all industry players. Further studies need to be carried out to identify the various response strategies that have been adopted by the other hotels in the region in the last ten years. To try and overcome the limitation of unwillingness of interviewees to give information about the companies, the study recommends that the researcher assures interviewees that the information collected would be purely for academic research and would be made available to them on request.

It would be important to also carry out a research that focuses specifically on response strategies adopted by hotels to challenges in the external environment. While carrying out this study, the researcher has to allocate enough time to collect the data so as not to be constrained by time. The study would also need to schedule appointments with the interviewees in good time so as to get maximum attention from the interviewees. The study also recommends that to deal with contradictions during the data analysis stage the researchers should increase the number of interviewees to have more consistent data. These findings would show the general responses adopted by the industry players and would help new entrants to navigate more smoothly in the business.

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APPENDICES

APPENDIX I: Interview Guide

Goal of the Interview Process: To determine the response strategies adopted by Sarova Hotels Limited to deal with environmental changes.

SECTION A: General Background

1. Indicate your position and department _____

2. How long have you worked for Sarova Hotels Limited? [ ] 0 – 5 Years [ ] 6 – 10 Years [ ] 11 – 15 Years [ ] Over 16 Years

3. Highest Education Level _____

4. What are the various services offered by Sarova Hotels Limited?

5. What are the products offered by Sarova Hotels Limited?

SECTION B: Environmental Changes

1. Kindly explain how the following environmental changes have impacted on Sarova Hotels Limited' business:-

i. Competition in the industry

ii. Technological advancement

iii. Legal issues

iv. Economic factors

v. Political factors

vi. Social factors

vii. Ecological factors

SECTION C: Response Strategies

1. What are the opportunities and threats that Sarova Hotels Limited is facing with the changes in the external environment?

2. How has Sarova Hotels Limited applied the following response strategies in response to changes in the external environment; Cost Leadership, Focus Strategy, Differentiation, Outsourcing, Product Innovation and Diversification?

3. What factors influence the choice of strategy to adopt in response to the changes in the external environment?

4. What are the outcomes of the strategies that have been adopted so far?

5. How has Sarova Hotels Limited differentiated in the market? What are you doing different from other hotels?

6. Has the hotel been able to increase in profits with the adoption of the response strategies?

7. Has the hotel experienced growth and expansion after adoption of the response strategies?

8. Has the hotel invested in research and development as a primary source of product and service innovation and experienced superior returns?

9. To what extent has research and development helped Sarova Hotels Limited in product and service innovation?

10. Has the hotel achieved an increase in the level of efficiency after adoption of the response strategies?

Thank you for your cooperation.

APPENDIX II: List of Hotels

Below is a list of all the hotels that are under the Sarova Hotels Limited, Kenya featured in the study.

1. Sarova Whitesands beach Resort and Spa

2. Sarova Stanley Hotel

3. Sarova Panafric Hotel

4. Sarova Mara Game Camp

5. Sarova Lionhill Game Lodge

6. Sarova Shaba Game Lodge

7. Sarova Saltlick Game Lodge

8. Sarova Taita Hills Game lodge

9. Sarova Head Office

Source: *Sarova Hotels Limited*, 2014. ''Company profile''.