STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL ENVIRONMENT AND ORGANIZATIONAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

BY

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DECLARATION

This project is my original work and has not been submitted for an award of a degree in this or any other University.

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DEDICATION

I dedicate this research project to almighty God, my strong pillar, my source of inspiration, wisdom and understanding. To my parents, wife and children who have been encouraging me throughout the process and all who sat down with me in prayers, financial support, brothers and sisters who motivated me and helped me during the period of my study.

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ABBREVIATIONS AND ACRONYMS

SPSS: Statistical Package for Social Sciences

CBK: Central Bank of Kenya

ABSTRACT

Due to the changes in the technology advancement, globalization, intense competition and economic reforms in the country, there is need for the organization to develop strategies in order to adopt to environmental dynamisms. The external environment which is ever-changing requires strategic responses from the organization so as to ensure sustainability and performance. The objectives of the study is to identify factors affecting commercial state corporations in Kenya; to find out the strategic responses that commercial state corporations in Kenya employ in reaction to the external environmental changes and to establish the effect of strategic responses on organizational performance of commercial state corporations in Kenya. The study adopted a cross-sectional descriptive deign. The target population was 33 Kenyan commercial state corporations .Primary data was collected using questionnaires. The collected data was analyzed using SPSS by the use of multi-regression analysis and presentation was done using Tables and Figures. With a response rate of 81.8% the study found out that external micro and macro environment are significant factors affecting commercial state corporations. The most significant strategic responses included staff retrenchment, collaborations with local firms, new product development and downsizing. Staff retrenchment significantly influenced organizational performance. Collaboration has a significant impact on organizational performance. Innovation has significant effect on performance. Downsizing has a significantly influenced performance. The study concludes that external micro and macro environment are significant factors affecting commercial state corporations' .The study recommendations were that senior management team of all Kenyan commercial state corporations in Kenya should consider adopting lowering the price of their products and extending to new markets in response to changing business environment. Policy makers including the National Treasury and the Central Bank of Kenya need to improve on the fiscal and monetary policies in place.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

As a result of advanced technology, intense competition, change in the regulation frameworks, globalization, high complexities in the organizational trade link and dynamic economic environment that affects the operations of the business, there is a need of shift from internal analysis to more sophisticated external environment. The external environment has an effect to the operations of the organization due to the resource link between the business and its environment (Machuki and Aosa, 2011). Due to the turbulence of the external environment there is need for the organization to develop strategies to curb the changes in the external environment for the firm to be profitable and sustainable. The strategic responses will ensure adjustments and allow shifts in the operations of the organization (Hoskisson, 2011).

This study was anchored on three theories namely: Open approach theory which was developed by Burnes (2002) which established that the organization operates in open system that allows for the interaction with the internal and external environment. It recognizes the external environment to be very important for the survival of a business and thus the efficient monitoring of the external environment will constantly lead to high firms' performance and sustainability in the competitive environment (Bastedo, 2004). The resource dependence theory which was developed by Pettigrew (1992) which recognized that the firms are affected by the external environment, since the firm usually acquires essential resources from the external environment for their sustainability in the high competitive environment, thus there is need to constantly scan the external environment and develop strategies that will make the firm to survive in the industry. The chaos theory was developed by Murphy (2010) which recognized that the external environment is unstable and dynamic that requires organization to have strategic responses in order to mitigate the risk that has been triggered by the ever-changing environment and influence the organizational performance.

The commercial state corporations are important to the economy of the country as their have been created with a mandate to ensure sustainability of the economic growth, enhancement of the social life, reduction in the alleviating poverty level of the people through the delivery of the essential products and services to the public, strenthening of the public service delivery and provision of the harmony ground to provide employment opportunities. The exetrnal environment of the commercial state corporation are characterized with intense competition from the private sector, low funding from the government, high cost of production, the change in the economic environment and shift of focus by customerson the state corporations products and services (Koufterous, 2011).

1.1.1 Concept of Strategy

Strategy refers to the plan of actions that facilitate the organization to achieve its goals in the long-term through effective allocation of resources (Niklos, 2016). Strategy creates a favorable condition for the firm to achieve its goals and enables the firm to be sustainable in a competitive environment. The strategy in an organization has been identified as the link between internal and external environment, hence bringing a balance in the operations of the firm (Aosa, 1992). According to Johnson, Scholes and Wittington (2009), strategy refers to the direction and scope of organizational functions in the long-term such utilization of the firms' capabilities, resources and competencies to fit in the turbulent internal and external environment, meet and to exceed customers and shareholders expectations.

A firms' internal environment is composed of the structures of the organization, cost of production, operation levels, quality of the products and services, effectiveness of the functions and hence easier for the organization to control as compared to the external environment which the organization is not in control. However, when organizations are able to strategically sort the internal challenges, they are able to attain the internal organizational performance. The external environment on the other hand is unstable, highly dynamic, sensitive, non-linear and it is outside the boundaries of the organization control (Alshammari, Pavlovic and Qaied, 2016). The external environment is characterized by competition, political, economic, social, customer behavior, legal and technological changes that affect the business environment of the organization.

Since the firm can't operate in closed systems without the effect of the external environment, there is need for the organization to develop and implement strategies that will fit in the ever-changing external environment in quest to enhance their performance, sustainability and survival in the competitive business environment (Damilola et al., 2015). Change in the external environment threaten firms survival and performance, therefore there is need for continuous strategic management process that will result in the development and adoption of effective strategic responses to match the dynamic external environment (Goldsmith and Mechling, 2008)

1.1.2 Strategic Responses

Strategic responses entail changes in the firms' procedures, methods and processes in order to attain a certain objective (Akhter and Barcellos, 2011). Different organizations develop and implement different strategic responses depending on its environment, firm's capability, resources and competencies. Strategic responses enable the firm to have a competitive advantage over other rivals in the competitive environment (Snow and Hambrick, 2008). The competition level is always analyzed in order to determine the predictive purpose of the organization. Firms within a single industry compete on the basis of general orientation, thus the reason why different firms facing similar situations act differently in a particular industry (Stenard, 2012)

Strategic responses can be classified along the horizon and control dimension in that the strategic responses with the long-term objective are termed as strategic responses in the firm (Ansoff and McDonnel, 1990), the responses that will trigger instant responses are termed as tactical, and those with long-term objective are regarded as adaptive responses since they involve incremental actions to make the firm restore the activities and functions (Smart and Vertinsky, 1984).

The organization are categorized according to the strategic responses they develop and adopt due to changes in the external environment which are classified as analyzers, defenders, reactors and prospectus (Lischka, 2015). To maximize long term organizational performance, there is need for the strategic managers to develop the responses that will help them adopt to the external environmental changes (Mislevy, 2004). Thus, the appropriate strategic responses will ultimately curb the changes in the external environment and ultimately affect the organizational performance (Bastedo, 2004).

1.1.3 Firm Performance

Firm performance refers to the achievement of the market-oriented objectives and goals as well as financial objectives. It is a powerful tool for prioritizing firms' goals and attaining them (Kirkendall, 2010). Performance measurement is essential in every firm for it involves quantifying how effective and efficient the internal and external processes are in attaining the organizational objectives using the specific set of metrics (Henri, 2011). Firm performance acts as a surrogate for organizational phenomena, for it provides information concerning the operations of the firm to both internal and external users. It entails all elements of the organization management cycle, which constitute a process for creating and implementing a certain course of action.

Organizational performance entails the financial performance which includes the return on assets, profitability, contribution margins and product market performance which includes responsive on demand, market share, and sales index (Richard, 2009). Organizational performance is achieved through development and implementation of course of actions that will ensure sound management, good governance, focus on customers' value, efficiency and effectiveness, processes, activities, and functions (Mahapatro, 2009). Performance measurement usually informs the implementers, policymakers,and management on the position of their businesses and some of its elements that require attention by allowing progressive evaluation and monitoring of the environment of the organization.

According to Poister (2003), organizational performance helps to strengthen the management and inform decision making. He noted that profits and market share index are the financial measures of performance. Abdifatah (2012) argued that performance is not uniform in all organizations and keen considerations is needed on different non-financial measures; factors such as effectiveness and efficiency of internal operations, flexible production processes, good supplier relationship management, customer relationship management and continuous improvement in the firms' operations. This study will adopt both finance based and non-financial indicators of performance.

1.1.4 State Corporations in Kenya

The state corporations in Kenya are governed by the State Corporations Act Chapter 446 of the Laws of Kenya. The parastatals are established through the Act of Parliament and through the order of the president to establish corporations in order to perform specific functions in the economy of the nation. The parastatals are usually established in order to meet commercial and social functions which have been categorized into commercial/manufacturing, regional development authorities, tertiary education, financial corporations, training education/training state, regulatory activities, training and research, public universities (Njiru, 2008).

The parastatals in Kenya have been mandated to enable the sustainability of the economic growth, enhancement of the social life, reduction of the alleviating poverty levels of the people through delivery of the essential products and services to the public, production of high quality products, strengthening of the public service delivery and provision of the harmony ground to provide employment opportunities. The parastatals in Kenya according to the Inspectorate of State corporations in Kenya are one hundred and forty-two (142) in number. The government of Kenya has been in constant development of the performance improvement in the public service, which will seek to increase the operational performance and enhance efficiency and effectiveness of the public service to the public.

Supply chain activities and functions in the parastatals are characterized by their dynamism, usually being public entities gets funds from government grants and donations, hence, without effective supply chain management practices would lead to low operational performance, customer responsiveness that will ultimately affects the overall performance of the firm (Otieno, 2003). There is dynamic change of the environment of parastatals in Kenya thus the need to emphasize on the strategies that will ensure high customer satisfaction and operational efficiency in order to enhance organizational performance (Baily, Farmer, Jessop & Jones, 2008).

1.1.5 Commercial State Corporation in Kenya

State corporations are government institutions formed for attainment of several objectives like to correction of market failure, exploitation of political and social goals, spreading the income and development in marginal areas and provision of education and health. They are government state corporations that generate income and can independently manage their financial obligations. Apart from the contribution of the commercial state corporations in the Kenyan economy, they have continued to underperform due to the high economic changes and poor perception from the citizens towards the products and service (Vision 2030).

According to State Corporation Advisory Committee (2018), there are 33 commercial state corporations in Kenya. Very few commercial state corporations have the pre-requisite strategic responses that are necessary for sustainability. This is explained by the huge amount of costs involved in setting up strong systems besides the skill gap in the labor market. It is only through proper implementation of the strategic responses that will ensure sustainability of commercial state corporations can be enhanced.

1.2 Research Problem

Due to the changes in the technology advancement, globalization, intense competition and economic reforms in the country, there is need for the organization to develop strategies in order to respond to the changes in the environment. The external environment which is ever-changing it requires strategies responses from the organization in order to ensure sustainability and performance (Machuki and Aosa, 2011). The strategic responses are chosen in regard to the firms' capabilities, competencies and resources in order to balance with the changes in the external environment with aggressiveness and ensure sustainability in a competitive environment (Ansoff and McDonnell, 1990; Teece et al, 1997).

Commercial state corporations in Kenya have turned out to be essential in the economic development in Kenya since they ensure products and services are available to the public which ensures economic development. The commercial state corporations over the last four decades have however been marred with challenge of changes in the external environment. Micro and macro environmental changes are however without an organization's control and therefore the organization's management must constantly keep alert and examine the environmental dynamics, assess the impact and influence of these changes and come up with responsive strategies (Papulova & Papulova, 2006). Strategic responses are therefore inevitable for companies that strive to survive and build competitive advantage and improved profitability for organizational performance (Thompson, 2008).

Several researchers both locally and globally have provided insights on the strategic response to the external environmental changes. Globally, Venkatraman and Prescott (2007) did a study on the relationship between external environment, strategic responses and performance in where it was established that there existed a positive relationship between strategic responses on the performance. Teece et al (2010) studied on the effects of strategic responses to changes in the environment and performance in which the study established a positive correlation. Damilola, Adekunle, Fatai, Ola, & Oloruntoyin (2015) did a study to find out how strategic management influenced Competitive Advantage and Organizational Performance of a Nigeria's bottling firm which it established the a positive correlation between strategic responses and the performance of the organization which also enhances competitive advantage. Machuki and Aosa (2011) established that the external environment has an influence on performance of the firm. Mwangi and Ombui (2012) established that strategic responses are essential in a dynamic environment. Tanui (2017) studied on the strategic reactions to the external environmental changes by Pension administrator companies locally; it established that firms need to adopt different response strategies to drive competitiveness and sustainability in the environment.

From the aforementioned studies, several researchers on the study topic have used content analysis, interviews and case studies in establishing the strategic responses to the external environment by companies (Venkatraman and Prescott, 2007; Teece et al, 2010: Machuki&Aosa, 2011;Damilola, Adekunle, Fatai, Ola, & Oloruntoyin, 2015;Mwangi&Ombui, 2012; Tanui, 2017).It is evident that there is a contextual, conceptual and methodology gap regarding commercial state corporations in Kenya and their response to the external environment and the relationship between strategic responses and organizational performance of the commercial state corporations in Kenya. The study endeavored to address the gap by providing answers to the research questions; what are the strategic responses employed by Commercial state corporations in Kenya in response to the changes in the external environment? What are the relationships between strategic responses on firms' performance?

1.3 Research Objectives

The objectives of the study were as follows: -

i. To identify environmental factors affecting commercial state corporations in Kenya
ii. To determine the strategic responses that commercial state corporation in Kenya employ in response to external environmental changes
iii. To establish the effect of strategic response on organizational performance of commercial state corporations in Kenya

1.4 Value of the Study

The study would be essential to the commercial state corporations in Kenya and other firms in the sense that the study highlights the strategic responses to the highly dynamic and turbulent external business environment. These strategic responses enhance organizational survival and boost their competitive advantage.

The study would inform researchers and academicians in the field of strategic management, more importantly, the study findings would be useful to the strategic management functions of commercial state corporations and other similar organizations in coming up with responsive strategies to match the dynamic and unstable business environment for sustainability, survival, competitive advantage and improved bottom-line profitability.

Additionally, the findings of this study would inform the policymakers in the formulation of regulations and policies that favor the commercial state corporations without jeopardizing the rights of customers and beneficiaries. This study would further validate the existing theories of strategic business environment on their relevance in modern vast dynamic business environment and/or give room for development of other theories.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section entails the theoretical foundation, the strategy concept, dynamic environment, strategic responses to changes in the environmental changes, empirical literature review and research gap alongside conceptual framework.

2.2 Theoretical Foundation of the Study

A number of theories have explained the rationale on strategic responses to changes in external environmental changes. The research is anchored towards the chaos theory, open systems approach theory and resource dependence view.

2.2.1 Chaos Theory

Chaos theory was developed by Murphy (2010) in which it refers to a 'dynamic instability' or simply a 'state of disorder'. The theory recognizes the external environment as non-stable, non-linear, highly dynamic and sensitive systems that occur in organizations warranting short-term strategic planning given that small causes equals large effects over time due to the dynamic and chaotic nature of non-linear relationships (Marwan et al., 2016). They indicate that organizations are naturally complex systems in a dynamic domain necessitating proper strategic management to mitigate challenges that result from the relationship between systems and environment. They further argue that due to the dynamic instabilities in the external environment, organizations are constantly under constrains, threats and constant voluntary or imposed changes.

While micro and macro environmental dynamics may be out of industry's control, the dynamic nature of chaotic systems requires that organizations strategically adapt. In this regard therefore businesses are left with no choices but to respond strategically to the ever changing business environment. Chaos theory states the importance of developing strategies to cope with complexity in the business environment (Alshammari et al., 2016). Competition, economic changes, increased customer demands, pressure from the financiers; government regulations among other environmental factors have affected the commercial state corporations. Strategic responses are basically an organization's managements' responsibility and thus this demands that commercial state corporations in Kenya develop strategies to devise ways of coping with the chaotic environmental changes.

2.2.2 Open Systems Approach Theory

Open Systems approach theory was developed by Burnes (2000), the theory suggests that organizations operate in open systems where there is an interaction between internal and external environment. Most often, organizations transact with the environment by obtaining their inputs from the environment, processing them to goods and/or services and getting their output to the environment (Bastedo, 2004). This indicates that organizations cannot exist without the external environment which explains organizational environmental dependence. It is therefore the responsibility of the managers to constantly scan the open systems in order to devise strategic responses to turbulent waves of change. Business environment significantly influences performance of organizations and its impact and influence needs to be constantly assessed for strategic realignment.

Organizational external environment consists of the micro and macro environments. In this regard it is prudent for organizations' management to be keen on current and trending issues emerging technologies, new legal regulations, inflations, customer behavior, competition, supplier challenges, customers' demands, political shifts among other issues that may affect their organizational performance. Failure to be on the lookout for environmental shifts, adaptation and response may lead to loss of market shares, losses and at times extinction. Commercial state corporations operate in open systems where they transact with the environment. They are thus affected by environmental changes in the micro and macro environments. This explains the relevance of this theory in this study.

2.2.3 Resource Dependency Theory

Resource dependence theory was developed by Pettigrew (1992), the theory articulates that firms operates in an environment with scarce resource, and thus strives to acquire as much resource as possible in order to have a competitive edge over other firms. Resources are from external environment which is dynamic, thus there is need for the organization to develop strategies in order to be at par with the ever-changing environment (Stenard, 2012). Since the organization depends on the external environment for the resources, there is need of constant scan through the environment, as being in control of these scarce resources will make an organization influential in the industry. The organization need to be proactive and effectively being able to manage incompatible and competing demands from the environment. This requires the firms to develop and adopt certain measures in order to influence demand and acquiring of the critical resources and consequently to reduce the uncertainty in its external environment (Oluoch, 2013).

The theory is essential in the research study for it recognizes the extent to which firms depend on the macro environment by firms, especially for the necessary operating resources and how firms needs to manage their external dependency in order to reduce their environmental uncertainty and transaction cost that are associated with external environment interdependency.

2.3 Strategic Responses and Organizational Performance

Major environmental shifts often make organizations' strategies outdated calling for strategic adjustments in response to advancements in technology, competitions from other firms within the industry, client behavior, partner and sponsor requirements, supplier and distributor considerations, changes in regulations, inflations, changes in societal values, political waves among others. In this regard, companies ought to be constantly alert by identifying their strengths and weaknesses in relation to environmental threats and opportunities (Akhter & Barcellos). Kibet and Simiyu (2016) indicate that this can be achieved through constant strategic process evaluations for organizational performance which can be enhanced through organizational strategic management.

Ndirangu (2013) argues that companies can adopt various strategies including strategic alliances, outsourcing, mergers and acquisitions, vertical integrations and offensive strategic responses to adapt to the environmental shifts for sustainability, competitiveness and survival. Ndirangu (2013) stated that organizations must have the required capabilities to match their strategies to turbulent environment in order to optimize profitability. He further indicates that the relationship between environment and strategy and in turn to performance cannot be underestimated. Organizations are left with little to do other than respond to environmental changes accordingly to enhance their survival and competitive advantage.

organization’s strategies. Strategic management process (Planning, implementation and execution, monitoring, evaluation and control) is a sum total of an organization’s long term goals that require flexibility in an unstable environment. Therefore, businesses must be constantly alert to competitive pressures and respond strategically failure to which organizations are doomed to perform poorly (Mutuku 2014).

Strategic responses are characterized by major market adjustments, innovations, technological adoption and strategy realignment to gain a fit to dynamic business environments. Companies with outstanding performance align their strategies to delivery performance, flexibility, and quality. Often, successful companies find themselves in dynamic and competitively hostile environments thus adopting strategies that enable differentiation based on operations capabilities.

Ketchen and Palmer (1999) argue that poorly performing companies will always apply threat rigidity by bringing changes in their products and services based on their historical performance rather than innovations and marketing adjustments as applied by highly performing companies. They further elaborate that low performing companies often focus on making adjustments in the internal environment like lowering product costs to gain fit to the environment while high performers try new product and market innovations to match the competitive environment. More often, strategic responses determine the survival, competitive advantage and performance of organizations in the business environment.

2.4 Organization External Environment

Organizations are often surrounded by the industry and operational environments affecting their day-to-day activities. Micro (Industry) and macro (operational) environments transact with organizations on a daily basis. According to Eruemegbe(2015), business environment is complex and dynamic with great impacts on organizations. It is characterized by globalization, vast growth in technology, political and economic shifts, changes in societal values, competition, varying customer and supplier demands, legal reforms among others.

Pindiche (2013) clearly states that microenvironment level affects the customers/ consumers, suppliers, distributors and competitors who are the main market players. Consumers majorly are essential in the normality of the market by purely determining the direction of supply and demand curves. Suppliers and distributors are organizations and individuals that provide organizational inputs while competitors are similar firms in the same industry seeking to meet the same customer needs. Organizations need to project and respond strategically to changes in the microenvironment to outdo those of their competitors. Flexible organizations adapt to the micro environment by investing in research and development to achieve economies of scale (Kadocsa & Francsovics, 2011; Isoraite, 2009). Research and development programs often materialize into innovative products, brands and technologies leading to flexibility and adaptability to turbulent environmental changes (Goldsmith &Mechling, 2008).

Macroeconomic levels on the other hand consist of political, economic, social, technological and legal reforms (PESTEL) that affect businesses on a daily basis. Components of macro environment do not emerge in the same direction and with the same intensity and therefore have adverse effects on company operations (Pindiche, 2013). In this regard, the impact of political waves, the influence of economic factors and social factors, the technological advancements and regulation cannot be underestimated.

Political factors such as the type of government, political party systems, political regime, government legislations, stability of government policies and policy measures economically and socially affect both national and foreign investors (Kirkbesoglu, 2012; Cooper &Schendel, 2001; Sternad, 2012). It is therefore important to constantly assess the macroclimate and determine its influence on organizational operations in order to determine strategies that foster adaptability to the environment.

Organizational concentration on external business environment allows determination of organizational SWOT analysis and to measure responsiveness and anticipation. The detection of pension administrator companies' strengths and weaknesses and alignment to the external environmental threats and opportunities is particularly important for connecting business to its dynamics. SWOT analysis can only be carried out in relation to the external environment. Business external environment often affects organizational performance in terms of strengths, weaknesses, threats and opportunities. These factors affect day-to-day activities of organizations thereby affecting the organizational performance. Poor performance of organizations impacts negatively on its immediate environment as well as the external environment (Gavrea et al., 2011).

2.5 Summary of Literature Review and Research Gap

Various researchers have found that external environmental factors affect different organizations differently and therefore strategic responses vary within and between organizations. Venkatraman and Prescott (1990) did a study on how the external environment relates to strategic response and Performance. On which the study focused on the influence of environment-strategy alignment: An empirical test of its implications on performance. There was a positive performance impact of environment strategy co-alignment. The study limited itself to ‘external fit’. Formulation of strategy in alignment to environmental context. Strategic orientations exhibited in each of the environments not considered. Pidiche (2013), in his study on the effects of external environmental components on trade companies in Romania, found that environmental factors often define organizational strategies. He argues that dealing with the external business environment enabled the trade companies to find out their strengths and weaknesses and to measure responsiveness and anticipation. Banahene et al. (2016) also substantiates this fact by appreciating the contribution of business environment to organizational strategic success in Handicraft export organizations in Ghana. According to them, macro environmental factors act as both enabling and challenging factors to strategic implementation process. On the other hand, Obasan (2014) indicates that external environment shapes organizational performance in terms of growth, survival, relevance and extinction.

Machuki and Aosa (2011) did an empirical investigation of strategic responses to the external environmental changes on the selected strategy concepts on firm’s performance in large private manufacturing firms in Kenya. Independent effect of selected variables (core capabilities, strategy and strategy implementation on firm’s performance). The role of external environment was not considered in this study yet it influences firm’s strategic response. Also limited to large private manufacturing firms.

Mwangi and Ombui (2017) in their study on strategic responses to external environment by Murata Sacco, using case study research design, interviews and content analysis method, found that new technologies, high client expectations and government regulations affected their performance. They suggested that strategic responses such as marketing and advertisement, diversification, rebranding and partnerships would be appropriate for the ultimate performance of the Sacco.

Tanui (2018) studied on the strategic responses to the environmental changes by Pension administrator companies in Kenya. The study targeted 30 pension administrator companies. With a response rate of 86.67%, the study established that the pension administrator companies have adopted retrenchment, mergers and acquisitions, low pricing, downsizing, new product development and expansion of the market boundaries as the strategic responses to changes in the external environment which has lead to customers growth, improved market share, adoption of new technologies, increase in profitability, new product development and enhancing the competitiveness of the pension administrator companies.

The researchers have neither addressed any external environmental factors affecting the commercial state corporations in Kenya; the strategic responses to the turbulent business environment; or the relationships with the organizational performance. Where studies have been carried out on strategic responses to the environmental changes with the relationship in organizational performance, more emphasis has been placed on the internal environment and to different industry and used case study research design, interviews and content analysis in their study on strategic responses to external environment (Adeoti et al., 2012; Odundo, 2008, Machuki and Aosa, 2011, Mwangi and Ombui, 2017, Tanui, 2018). In this case, there is a conceptual, contextual and methodology gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section presents the research design, population, the procedures for collecting data and the methods of analyzing data that were employed

3.2 Research Design

This study used a descriptive cross-sectional survey research design. It enhanced an analysis of the strategic responses that commercial state corporations employ to cope with the vast dynamic business environment. A cross-sectional survey design reports on the situation as it is without changing in any way (Olsen & Diane, 2004).

This design was appropriate for the study, as it facilitated the collection of substantive information regarding strategic responses to the external environmental changes by Kenyan commercial state corporations.

3.3 Population of the Study

Population is a mix of elements, objects and things of interest to the researcher (Mugenda and Mugenda 2003). It is the aggregate of all that are in conformity with a particular specification. This study population consisted of all 33 commercial state corporations in Kenya as at October 2018. The study employed a census survey given the relatively low population size.

3.4 Data Collection

Primary data was collected using a semi-structured questionnaire. The questionnaires were the only instruments for collecting primary data. A questionnaire is a research instrument that gathers data over a large sample (Kombo& Tromp, 2006). The structured questions provided a comprehensive data on how the respondents perceive the strategic responses on the external environmental changes and performance. It was also cheap and took less time. The questions were both closed and open ended. The respondents comprised of the managing directors, strategic managers, operations managers or their equivalents for they were deemed to be knowledgeable on the strategic reactions to the external environmental changes and how they influence organizational performance.

3.5 Data Analysis

Data that was obtained was processed, and analysed using a descriptive statistics and regression analysis to generate required information.Data processing involves the editing, coding, classification and tabulation of collected data (Kothari, 2004). The process involved data preparation and carrying out descriptive analysis and correlation analysis. The descriptive analysis was in terms of frequency, mean, and standard deviation.

According to Saunders et al., (2007), every statistic used to describe a set of data summarizes the information in the data by revealing the mean indicators of the variables of the study. The findings/output from descriptives were summarised using simple tabulation and the data presented using tables and charts.Strategic responses strategies were regressed on External enviromental changes to determiine thier relationship on the performance of the Kenyan commercial state corporations.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1: Introduction

Any collected data cannot make sense when it has not been processed. Several techniques are utilized in the analysis of the collected data from the field. In this study, the collected data was first cleaned to remove inconsistencies. The cleaned data was then entered in excel and SPSS software. A response rate was determined followed by subsequent analysis of the general information on the variables of the study. This chapter therefore systematically presents how the collected data was analyzed to achieve the study objective.

4.2 Response Rate and General Information on the Respondents

33 questionnaires were issued to commercial state corporations in Kenya out of which 27 of them were dully filed and returned to the researcher. This was equivalent to a response rate of 81.8% which is in line with Babbie 2015) who opined that for excellent presentation of the findings response rates should be 70% and above. On the name of corporation, several organizations were studied as shown on Appendix II. Regarding the job designation of respondents in the company, 10 were strategic managers, 8 were operations managers, 6 were logistics managers while 3 were marketing managers. The study noted that most of the respondents had worked for 11-15 years.

4.3 Environmental Factors Affecting Commercial State Corporations in Kenya

The objective number one of the study sought to establish the factors affecting commercial state corporations in Kenya. The findings are shown subsequent sections.

4.3.1 External Micro-Environment

The study sought to determine how external micro environment affected organizational performance of commercial state corporations in Kenya. The findings are presented below in Table 4.1.

Table 4.1: External Micro-Environment

	No	Mean	Std. Dev
My company's industry environment is faced with stiff competition from the private owned companies	27	4.13	.915
Setting prices is very challenging to the organization due to the changes in the market place	27	3.71	.771
The organization is faced with challenges due to the change of customers' demands and preferences	27	3.68	.931
My company is threatened by new market entrances especially from the private owned organization	27	3.59	.530
My company offers a limited number of products and services to the public	27	3.43	.537
Suppliers to my company are effective, efficient and consistent with the market trends	27	3.60	.665
Our suppliers have good negotiation skills	27	3.66	.759
Our clients are satisfied with our products and services that we offer to them	27	3.76	.715
Our clients are very demanding on the products and services	27	3.61	.535
My company has the ability to attract capable employees to meet customers demand	27	3.63	.567
Average Mean	**27**	**3.68**	**.6925**

From Table 4.1, the company's industry environment was faced with stiff competition from the private owned companies, the clients were satisfied with the products and services that were offered to them and setting prices was very challenging to the organization due to the changes in the market place with means of 4.13, 3.76 and 3.71 respectively.

The organization was faced with challenges due to the change of customers' demands and preferences, suppliers had good negotiation skills, the company had the ability to attract capable employees to meet customers demand and the clients were very demanding on the products and services with means of 3.68, 3.66,3.63 and 3.61 respectively. The study further indicated that suppliers to the company were effective, efficient and consistent with the market trends and the company was threatened by new market entrances especially from the private owned organization with means of 3.60 and 3.59. Respondents were not sure whether the company offered a limited number of products and with a low mean of 3.43.

4.3.2 External Macro-Environment

The researcher sought further to determine how external macro environment influenced performance of state commercial state corporations as presented in Table 4.2.

Table 4.2: Macro-Environment

Statements	No.	Mean	Std. Dev
Political climate affects the organizational operating environment	27	4.09	.640
Tax policies restrict our company's functions and operations	27	3.81	.535
Political stability enhances our the efficiency and effectiveness of our operations	27	4.06	.504
Economic growth affect the company's output and operations	27	3.70	.718
Inflation rates are affects the organization operations	27	4.18	.396
Interest rates disrupt the company's strategic implementation	27	4.21	.420
Exchange rates affect our daily operations as an organization	27	4.13	.470
Client preferences are a threat to the sales of our products	27	3.60	.665
Changes in tastes and preferences affect production processes	27	3.73	.669
Consumers growth has an effect on my company's operations	27	3.43	.537
Average Mean	**27**	**3.89**	**.554**

The findings in Table 4.2 shows that interest rates disrupt the company's strategic implementation, inflation rates affected the organization operations, exchange rates affected the daily operations as an organization, and political climate affected the organizational operating environment and political stability enhanced the efficiency and effectiveness of the operations with means of 4.21, 4.18, 4.13, 4.09 and 4.06.

The study further revealed that tax policies restricted the company's functions and operations, changes in tastes and preferences affected production processes, economic growth affected the company's output and operations and that client preferences were a threat to the sales of our products with means of 3.81, 3.73, 3.70 and 3.60. Respondents however were not certain whether consumers' growth had an effect on the company's operations with mean of 3.42 and standard deviation of 0.537.

4.4 Strategic Responses

The study sought further to determine the strategic responses that commercial state corporation in Kenya employed in response to the changes in the external environment. The findings are presented in Table 4.3.

Table 4.3: Strategic Responses

Statements	No	Mean	Std. Dev
We have retrenched our employees due to the increased costs experienced in the organization	27	4.18	.592
We have used mergers and acquisitions with private sectors in order to drive competitiveness and sustainability	27	3.65	.439
We have lowered the price of our products and services in order to ensure competitiveness in the market	27	3.48	.420
We have downsized our scope of work due to the dynamic work environment	27	3.74	.653
We have resolved to new product development due to the changes in the customers' demands and preferences	27	3.84	.514
We have extend to new markets due to the changes in the environment that is beyond our control	27	3.43	.780
The organization have started to use locally produced raw materials due to the high tax regime imposed on imported products	27	3.63	.567
We have made collaborations with the local organization so as to drive market domination	27	3.89	.665
Average Mean	**27**	**3.73**	**.57875**

From the findings, the most significant strategic responses included staff retrenchment (4.18), collaborations with local firms (3.89), new product development (3.84) and downsizing (3.74). Ndirangu (2013) argues that companies can adopt various strategies including strategic alliances, outsourcing, mergers and acquisitions, vertical integrations and offensive strategic responses to adapt to the environmental shifts for sustainability, competitiveness and survival.

The other strategic responses in place of the studied firms included mergers and acquisitions (3.65) and use of locally produced raw materials (3.63). However lowering of price (3.48) and extension to new markets (3.43) were not significant strategic responses in place among the studied companies.

4.5 Effect of Strategic Responses on Organizational Performance

The above significant were regressed to determine their influence on performance. The findings are shown in Table 4.4.

Table 4.4: Effect of Strategic Responses on Organizational Performance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	23.52	5.42		4.334	.000
Staff Retrenchment	.627	.181	.370	3.462	.001
Collaboration	.461	.145	.881	3.177	.004
New Product Development	.331	.105	.484	3.152	.000
Downsizing	.631	.179	.812	3.535	.001

At 5% level of significance, the study documents that staff retrenchment $p=0.001<0.05$ had a significant effect on organizational performance. Collaboration $p=0.004<0.05$ has a significant effect on organizational performance. New product development $p=0.000<0.05$ had significant effect on performance. Downsizing $P=0.001<0.05$ had significant effect on performance. It can therefore be generalized that strategic responses have significant effect on organizational performance. Machuki and Aosa (2011) established that the external environment has an influence on performance of the firm. Mwangi and Ombui (2012) established that strategic responses are essential in a dynamic environment. Tanui (2017) studied on the strategies responses to changes in the external environment by Pension administrator companies in Kenya; it established that firms need to adopt different response strategies in order to be competitive and sustainable in the environment.

The Model Summary showing the coefficient of correlation R and coefficient of determination R square is shown in Table 4.5.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.837[a]	.701	.648	1.30459

From the findings, the value of the coefficient of determination R square is 0.701. This shows that 70.1% change in organizational performance is explained by strategic responses in place. Teece et al (2010) studied on the effects of strategic responses to changes in the environment and performance in which the study established a positive correlation. Damilola, Adekunle, Fatai, Ola, &Oloruntoyin (2015) studied the impact of strategic management on Competitive Advantage and Organizational Performance of Nigerian bottling company which it established the a positive relationship between strategic responses and organizational performance which also enhance competitive advantage.

An Analysis of Variance ANOVA of the processed data was conducted at 5% level of significance. Table 4.6 presents the findings.

Table 4.6: Analysis of Variance ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	67.733	4	16.933	5.272	.000[b]
Residual	28.933	22	1.315		
Total	**96.667**	**26**			

From the ANOVA Table, the value of F calculated is 5.272 and the p value p=0.000<0.05. This shows that the overall regression model was significant and thus fit for the study.

4.6 Discussion

The study established that both external micro and macro environment are significant factors affecting commercial state corporations. According to Eruemegbe (2015), organizations are often surrounded by the industry and operational environments affecting their day-to-day activities. Micro (Industry) and macro (operational) environments transact with organizations on a daily basis.

The study revealed that the most significant strategic responses included staff retrenchment (4.18), collaborations with local firms (3.89), new product development (3.84) and downsizing (3.74). This finding is in line with Ndirangu (2013) who argued that companies can adopt various strategies including strategic alliances, outsourcing, mergers and acquisitions, vertical integrations and offensive strategic responses to adapt to the environmental shifts for sustainability, competitiveness and survival.

The study found out that advantage staff retrenchment p=0.001<0.05 had a significant effect on organizational performance. Collaboration p=0.004<0.05 has a significant effect on organizational performance. New product development p=0.000<0.05 had significant effect on performance. Downsizing P=0.001<0.05 had significant effect on performance.

Ketchen and Palmer (1999) argue that poorly performing companies will always apply threat rigidity by bringing changes in their products and services based on their historical performance rather than innovations and marketing adjustments as applied by highly performing companies. They further elaborate that low performing companies often focus on making adjustments in the internal environment like lowering product costs to gain fit to the environment while high performers try new product and market innovations to match the competitive environment.

The study established that strategic responses influenced performance. This finding is in line with Ndirangu (2013) who argues that companies can adopt various strategies including strategic alliances, outsourcing, mergers and acquisitions, vertical integrations and offensive strategic responses to adapt to the environmental shifts for sustainability, competitiveness and survival.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the analysis on the collected primary data. The conclusions emerging from the findings are also clearly indicated. The recommendations of the study and suggestions for further studies are clearly brought out.

5.2 Summary of the Findings

The study objectives were; to identify factors affecting Kenya's commercial state corporations to determine the strategic responses that commercial state corporation in Kenya employ in response to the changes in the external environment and to determine the influence of strategies responses on organizational of Kenya's commercial state corporations. The study was informed by three theories; the open approach theory, the resource dependence theory and the chaos theory was.

On the first objective which was to identify factors affecting commercial state corporations, the study found that micro and macro environment are significant factors affecting commercial state corporations. In view of the external micro environment, the study established that the company's industry environment was faced with stiff competition from the private owned companies, the clients were satisfied with the products and services that were offered to them and setting prices was very challenging to the organization due to the changes in the industry. In view of the external macro environment, the findings of the study indicated that interest rates disrupt the company's strategic implementation, inflation rates affected the organization operations, exchange rates affected the daily operations as an organization, and political climate affected the organizational operating environment and political stability enhanced the efficiency and effectiveness of the operations.

On the second objective which was to determine the strategic responses that the Kenya's commercial state corporation employ in reaction to the external environmental changes , the study found out that the most significant strategic responses included staff retrenchment, collaborations with local firms, new product development and downsizing. The other strategic responses in place of the studied firms included mergers and acquisitions and use of locally produced raw materials.

With regard to the last objective which was to understand the effect of strategic responses on performance, the study established the coefficient of determination R square of 0.618, which shows that 61.8% change in organizational performance is explained by strategies responses. The research further established that staff retrenchment significantly influenced performance. Collaboration had a significant effect on performance. Innovation had significant effect on performance. Downsizing has a significant influence on an entity.

5.3 Conclusion

The researchers' conclusions are that external micro and macro environment are significant factors affecting commercial state corporations. The company's industry environment was faced with stiff competition from the private owned companies. The clients were satisfied with the products and services that were offered to them and setting prices was very challenging to the organization due to the market dynamics. Interest rates disrupt the company's strategic implementation. Inflation rates affect the organization operations. Exchange rates affect the daily operations as an organization.

The study further concludes that the most significant strategic responses among commercial state corporations in Kenya are staff retrenchment, collaborations with local firms, new product development and downsizing. The other strategic responses in place include mergers and acquisitions and use of locally produced raw materials. However, lowering of price and extension to new markets are not largely practiced in most commercial state corporations.

The study also concludes that strategic responses have significantly influenced performance. Staff retrenchment has a significant effect on organizational performance. Collaboration has a significant impact on organizational performance. Innovation development has significant effect on performance. Downsizing significantly influenced performance.

5.4 Recommendations of the Study

The study recommends that senior managers of all Kenyan state corporations should consider adopting lowering the price of their products and extending to new markets in response to changing business environment. The management team of all commercial state corporations should also consider increasing the level of collaboration with other firms.

The study recommends to policy makers including the National Treasury and the Central Bank of Kenya to improve on the fiscal and monetary policies in place. The CBK should use policy tools like Open Market Operations to regulate the level of interest rates in the country and thus positively influencing performance of commercial state corporations.

5.5 Limitations of the Study

This study did not consider other variables that influence how organizations respond to factors in their external environment. Large organizations have more resources than smaller organizations do, and this means that the response to environmental factors may be different depending on whether an organization is large or small. The research study did not also consider the functions and operations of the commercial state corporations. For instance those in Agriculture, Energy and Manufacturing e.t.c. Since this organization may respond differently to the changes in the external environment Understanding the different segments in the organizations will provide important insights on how organizational antecedents affect strategic responses to environmental factors.

5.6 Suggestions for Further Studies

The focus of the current study was on strategic responses and how they affect performance. The study specifically focused on commercial state corporations. Future studies should focus on private entities and firms in Kenya. The value of R square was 0.618 showing that 61.8% change in performance of commercial state corporations is explained by strategic responses. Thus, there are other factors apart from strategic response that influence performance which future studies should focus on.

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Appendix I: Commercial State Corporations

1. Agro-Chemicals and Food Company
2. Chemelil Sugar Company
3. East African Portland Cement Company
4. Gilgil Telecommunications Industries
5. Jomo Kenyatta Foundation
6. Kenya Airports Authority
7. Kenya Broadcasting Corporation
8. Kenya Electricity Generating Company
9. Kenya Literature Bureau
10. Kenya Ordinance Factories Corporation
11. Kenya Pipeline Company
12. Kenya Ports Authority
13. Kenya Power and Lighting Company
14. Kenya Railways Corporation
15. Kenya Civil Aviation Authority
16. Kenya Safari Lodges and Hotels
17. Kenya Seed Company Limited
18. Kenya Wine Agencies
19. Kenyatta International Convention Center
20. National Cereals and Produce Board
21. National Housing Corporation
22. National Oil Corporation of Kenya
23. National Water Conservation and Pipeline Corporation

24. Numerical Machining Complex
25. Nzoia Sugar Company
26. Postal Corporation of Kenya
27. Pyrethrum Board of Kenya
28. School Equipment Production Unit
29. South Nyanza Sugar Company
30. Telkom Kenya Limited
31. University of Nairobi Enterprises and Services Limited
32. New Kenya Co-operative Creameries Ltd
33. Kenya Electricity Transmission Company

Source; State Corporation Advisory Committee (2018).

Appendix I: Research Questionnaire

Introduction

This questionnaire is intended for use in collecting data in pursuit of the objectives of the study titled "Strategic responses to changes in the external environment and organizational performance of Commercial State Corporations in Kenya". It has three sections each containing questions on bio-data, extent of external environment factors on the organization and relationship of strategic responses to performance. Kindly complete the questionnaire as per the instructions. Your participation is highly appreciated.

Section A: General Information

1. Corporation Name ________________

2. What is your Job designation in this company? (Tick as appropriate)

Strategic Manager ☐

Operations Officer ☐

Procurement Manager ☐

Logistics Manager ☐

Marketing Manager ☐

Other (Specify) ____________

3. For how long have you held the position? (Tick as appropriate)

1-5 years ☐

6-10 years ☐

11-15 years ☐

Over 20 years ☐

Other (Specify) __________

Section B: External Environment

4. Indicate how the following statements describe your organization's external Micro-Environment. (1-strongly disagree, 2 - Disagree, 3 – neutral, 4 -Agree, 5 - strongly agree)

No.	Statement	1	2	3	4	5
1	My company's industry environment is faced with stiff competition from the private owned companies					
2	Setting prices is very challenging to the organization due to the changes in the market place					
3	The organization is faced with challenges due to the change of customers' demands and preferences					
4	My company is threatened by new market entrances especially from the private owned organization					
5	My company offers a limited number of products and services to the public					
6	Suppliers to my company are effective, efficient and consistent with the market trends					
7	Our suppliers have good negotiation skills					
8	Our clients are satisfied with our products and services that we offer to them					
9	Our clients are very demanding on the products and services					
10	My company has the ability to attract capable employees to meet customers demand					

5. Indicate how the following statements describe your organization's external Macro-Environment. (1-strongly disagree, 2 - Disagree, 3 – neutral, 4 -Agree, 5 - strongly agree)

No.	Statement	1	2	3	4	5
1	Political climate affects the organizational operating environment					
2	Tax policies restrict our company's functions and operations					
3	Political stability enhances our the efficiency and effectiveness of our operations					

4	Economic growth affect the company’s output and operations					
5	Inflation rates are affects the organization operations					
6	Interest rates disrupt the company’s strategic implementation					
7	Exchange rates affect our daily operations as an organization					
8	Client preferences are a threat to the sales of our products					
9	Changes in tastes and preferences affect production processes					
10	Consumers growth has an effect on my company’s operations					

Section C: Strategic Responses

6. Rank the following strategic responses in order of preference to what works for your organization. (1-strongly disagree, 2 - Disagree, 3 – neutral, 4 -Agree, 5 - strongly agree)

No.	**Strategic Responses**	1	2	3	4	5
1	We have retrenched our employees due to the increased costs experienced in the organization					
2	We have used mergers and acquisitions with private sectors in order to be more competitive and sustainable in the market					
3	We have lowered the price of our products and services in order to be competitive in the market					
4	We have downsized our scope of work due to the dynamic work environment					
5	We have resolved to new product development due to the changes in the customers’ demands and preferences					
6	We have extend to new markets due to the changes in the environment that is beyond our control					
7	The organization have started to use locally produced raw materials due to the high tax regime imposed on imported					
8	We have made collaborations with the local organization in order to be competitive in the market					

Any comment?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

Thank You for your participation