STRATEGIC RESPONSES TO CHANGES IN EXTERNAL ENVIRONMENT BY SUPERMARKETS IN KENYA

BY

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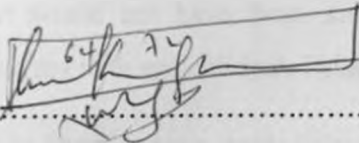AWARD OF THE DEGREE OF MASTER
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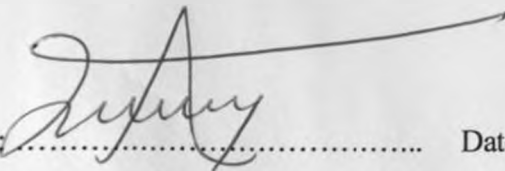
UNIVERSITY OF NAIROBI

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DECLARATION

This is my original work and has not been submitted to any institution or university for examination.

Signed: .... Date: $08/11/2011$

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D61/8380/2006

This research project has been presented for examination with my approval as university supervisor

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DEDICATION

I dedicate this project to my ever supportive family.

I owe my deepest gratitude to my entire family for enormous support; both emotionally and financially.

This project would not have been successfully completed without the love of and patience from my wife and children. I sincerely thank them.

I am as ever indebted to my parents for the love and support throughout my life.

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Firstly to almighty God who consistently reassures me that with him, all things are possible.

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I am highly thankful to the staff at the school of business-University of Nairobi for their valuable support throughout this study.

Lastly I am gratefully for the cooperation of supermarket administrators who assisted in my data collection.

ABSTRACT

The purpose of this study was to establish the strategic responses applied by supermarkets in Kenya. The study was guided by the following objectives: to determine the challenges facing Supermarkets in Kenya that emanate from the external environment and to establish strategic responses employed by supermarkets in Kenya to effectively deal with challenges that emanate from the external environment. The study is expected to benefit the management of the retail supermarkets, other institutions and also enrich the body of knowledge where the findings can be used as a basis of further analysis and research in scholarship.

This research problem was solved through the use of a survey design. This enabled an analysis of the strategic responses employed by the mainstream supermarkets in Nairobi to counter threats emanating from the external environment. The target population of this study was all the 22 mainstream supermarkets in Nairobi. No sampling was done and all supermarkets were included in the survey. This resulted to a total of 22 questionnaires being distributed to all the targeted supermarkets. Data collection was through questionnaire which was administered to a senior administrator of each supermarket. The data and information obtained through the questionnaire were coded and all the data entered into statistical package for social sciences and analyzed based on descriptive statistics. The descriptive statistics that were used included mean scores, percentages and ratios and correlations. The results from the analysis were then presented using tables, pie charts and bar graphs for easier interpretation.

Study findings indicate that economic environment is the most challenging followed by technological environment. Political and social environments were of little threat. Major challenges mentioned include competition, changing customer needs, turbulent economic conditions, technology and controlling operational costs. On strategic responses, specific strategic responses included increasing the number of products on offer, starting satellite branches in the residential areas, opening outlets on high demand areas (prime areas) and offering loyalty programs to build customer loyalty. Other strategic responses that supermarkets largely applied include competitive hiring of management staff, aggressive

marketing and advertising to fend off competition and upgrading of IT systems in the supermarket for efficiency and improved customer service.

The following recommendations are made. First, supermarkets should combine retail market analysis with competitive analysis to understand the dynamics of retail markets and to analyze strategic options. Secondly, supermarkets should follow best practices such as having a visible and effective communication process spearheaded by an experienced person that ensures that information on strategic responses is timely communicated across the organization. Another improvement would be to embrace technology in the planning models which can enhance inclusivity of the process where many stakeholders are consulted and incorporated in the process. Lastly, the study recommends that the government through its finance docket should check on inflation, depreciating shilling, interest rates and other forces in the economic environment which were mentioned as major forces threatening the retail industry.

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LIST OF ABBREVIATIONS

CEO   Chief Executive Officer

COMESA   Common market for Eastern and Southern Africa

EAC   East African Community

FDI   Foreign Direct Investment

GDP   Gross Domestic product

IT   Information Technology

PC   Personal Computer

ROI   Return on Investment

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2001). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Welch and Welch, 2005).

Scholes and Johnson (2008) noted that industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changed environment. They adopt strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (1990), increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become a routine for survival. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Andrews (1987) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (2005), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

Barney (1991) indicated that creation of value is important to the survival of any organization. To the supermarkets, they must offer their customers a value exceeding cost so as to return profits. Supermarkets must also closely monitor factors in the external environment to design strategies that align to the external environment. They must also monitor the environment to read any opportunities or threats that may affect their operations (Collins, 2001). This helps in designing strategic responses to take advantage of opportunities and to counter threats. For the supermarkets, exploring new ways of doing business has become a constant obsession. The various strategic responses that these organizations adapt to achieve competitive advantage and counter environmental challenges are what this study was about.

1.1.1 Strategic Responses to Environmental Changes

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. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. 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 environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide. The speed or response time to the environment challenges has been identified (Johnson and Scholes, 2002) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It's thus imperative to quickly adjust and formulate strategic responses so as not to be overtaken by events.

Effective strategic responses may enable a business to influence the environment in its favour and even defend itself against competition. Hamel and Prahalad (1994) also adds

that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kanter (2004) says that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment. If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength.

1.1.2 Concept of Environmental Change

Business environment internationally, nationally and locally has undergone significant change over the years. The impact of these changes on all the industries and firms has been significant. Competition in the market has never been greater. In addition to traditional forms of business, there are now dozens of different types of businesses attempting to gain their share of the market (Karemu, 1993). Every firm in the industry today is faced with the challenges of maintaining market share and profits while attempting new concepts and operational formats in an effort to differentiate themselves from other firms.

Major social, demographic and consumer lifestyle changes have affected not only how consumers shop, but also where they choose to shop and eat their meals. Traditional businesses have seen a decline in how much shoppers spend and how frequently they shop in a particular store. While some entities continue to attempt to cut costs so they can offer reduced everyday prices, they find this to be a tough approach when competing with low cost operators. Organizations are therefore faced by ever-changing consumer preferences, styles, tastes and changes in family sizes which all affect how consumers buy and where.

Another factor that has brought changes in the business environment is economic forces. Economic factors such as globalization, unemployment, inflation slow economic development and poor infrastructure have all played a part in determining how businesses operate and respond. Globalization has opened up borders and businesses have found themselves facing competition form global giants, customer expectations also rise following access to global quality products and global communications have ensured that consumers have become more enlightened. Inflation and unemployment have lowered revenues to businesses and pushed up operating costs. Controlling operational costs is certainly another big challenge that any business faces. There are also changes in the labour markets where employees are becoming more and more demanding from the employer pushing labour costs up.

Competition has raised the bar for supermarket retailers. Perhaps some have simply lost sight of what the customers needed and wanted. Regardless, today's customers have less time, and are more intelligent, than ever before. Supermarket retailers will continue to face increasing survival pressures. Consolidation in the market space will continue to affect existing supermarket chains, both large and small. The top-tier supermarket chains that have increased the size of their store base through recent acquisitions are struggling to absorb what they have bought while trying to defend market share against the low-cost operators (Reardon, 2009). Those chains that remain standing will be the ones that learn how to reinvent themselves. Successful supermarket chains will become experts at targeting specific consumer segments. Some are proving that being willing to target and settle for a smaller piece of the pie can be a winning formula. This becomes an iterative process that takes time, effort, resources, and—perhaps the most difficult thing of all—a change in culture. Each retailer must search for its own winning formula to compete. To succeed, supermarket retailers must take advantage of new innovations, to create customer experiences that deliver true differentiation.

Technology is another environmental variable that has changed significantly over time. Generally speaking, most supermarket retailers have added technology at a conservative pace over the years, mainly due to stringent ROI requirements. As technology has

evolved over the years, most retailers have created a patchwork of disparate systems on different platforms throughout the store. The amount of hardware has also increased to include servers, PCs, printers, and wireless handheld devices. Many systems either do not connect, or are connected in a cumbersome manner that requires manual processes. Information is difficult to retrieve, and new releases are resource-intensive to manage. This can present a competitive disadvantage for retailers as new innovations are made available over time. Older hardware is difficult and costly to maintain. IT departments have grown in size as technology has been deployed over the years. Supermarket retailers need real-time information in order to provide customers with the shopping experience they are looking for. Creating this positive shopping experience, and creating the perception of value in the customer's mind, is the absolute key for traditional supermarkets to succeed in the marketplace. Ideally, retailers need to know who their customers are and the products they want to buy.

The political legal environment has not been left behind. Kenyan political landscape has changed materially from early 2000s. The GDP has seen a real growth of 4.113% in 2010 on average from a growth of 2.406% in 2009. This has been brought by reforms in the economic environment mostly liberalization of industries (Economic Abstract 2010). Various legal pronouncement have affected the retail sector mostly development of agricultural sector where the retail sector has become one of the major outlets in the country. Other political legal areas that have affected the retail sector include handling of flammable products regulations, regulations on handling of alcoholic beverages and cooperation between COMESA and EAC which have seen some retail chains exploring markets beyond Kenyan borders.

Businesses must continually monitor the changes in the environment and design strategic responses to adapt to these changes. Customers have changed a lot giving more challenges to businesses. Customer's hectic lifestyles mean that they have less time to shop and prepare meals in today's world. There has been much consolidation in the supermarket industry in recent years. The surviving players have realized that they cannot be all things to all people. Some will make it work, others will fail. There will be more

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consolidation in the marketplace. Successful players will capitalize on the strengths of the value proposition they choose to drive, and they will learn to do it well. In the customers' eyes, it's all about how well a retailer can satisfy what they are looking for in their shopping experience, and how well the retailer does at creating the perception of value in their minds (Njenga, 2006).

1.1.3 Retail Sector in Kenya

The Retail Sector is comprised of establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. Retailing is the final step in the distribution of goods to consumers. In addition to retailing merchandise, some types of retailers engage in the provision of after-sales services, such as repair and installation. New machines and equipment dealers, supermarkets, electronic and appliance stores and musical instrument stores are included among this group providing products and service. In the studies on the retail sector, industries within the Retail Sector have been grouped into five categories as follows:

With 38.6 million inhabitants, (http://www.knbs.or.ke/Census%20Results/KNBS%20 Brochure.pdf) Kenya has a potentially big market in East Africa and is likely to experience faster growth in the modern retail sector as the economy continues its upward trend. In fact, Kenya's modern grocery retail sales are forecast to more than double by the end of the 2015 trading period thanks to the government's continued effort to improve the country's business environment. Even though the retail sector is dominated by traditional retail channels and independent supermarkets in the countryside, the development of modern grocery chains has taken root in urban areas.

The retail sector in Kenya is dominated by a few large supermarkets and many small scale retailers. Traditionally, supermarkets are viewed as markets for rich consumers. For a long time, they were only found in large cities of the developed world and middle-income countries. However, urbanization and increasing incomes in the developing world, including the sub-Saharan Africa, have inevitably invited supermarkets into the region. Supermarkets have been spreading rapidly in the East and Southern African

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region since the early 1990s (Munyoki, 1997). The development of these supermarkets has taken place in three stages. The same pattern seems to have appeared in the Latin America and East Asia scenarios ten years earlier.

Nakumatt, Uchumi, Ukwala and Tuskys – the country's biggest supermarkets in terms of branch network and shopping traffic – have in the past few years expanded generously in a tight race for shoppers that has wound up in areas initially dominated by traditional channels like shops, kiosks and small supermarkets in small towns. In Nairobi, the wars for market share have taken mainstream supermarkets from the usual commercial areas to residential places, where they are squaring off with newer and smaller entrants like Chandarana, Stagematt, Eastmatt and Naivas among others. With Kenya being the more affluent market in East Africa, its retail sector is more developed, but nearly hitting the slow lane, and the big players are looking beyond borders – exporting their wars to neighboring countries. Performance in the Retail Sector has relatively muted in the later part of the decade. Growth in retail trade was limited to less than 1% through 2008.

1.1.4 Supermarkets in Kenya

The first stage in the development of supermarkets in a country is development in the 'richest' country within the region. The second stage involves the flow of foreign direct investment (FDI) from the rich country, leading to the establishment of supermarkets in poorer countries within the region. The third is the extension of the supermarkets into poor neighbourhoods of large cities and towns in all the countries. In East Africa, Kenya continues to play the major role in the spread of supermarkets in the region.

Supermarkets started in upper-income niches in large cities of Kenya (Nairobi and Mombasa) and then spread into middle-class and then poorer consumer markets, and from large cities to secondary cities to towns within Kenya. Supermarkets have then spread from Kenya to 'poorer' and less urbanized countries, like Uganda, Rwanda and South Sudan. Within these countries and also in Kenya, supermarkets are now slowly spreading to secondary cities and small towns. This study concerns itself with the mainstream Supermarkets. The mainstream Supermarkets are defined as those

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supermarkets that employ more than fifty employees in their day to day operations (Njenga, 2006).

Supermarkets have also revolutionized the products they offer and are rapidly penetrating urban food retail in Kenya and spreading well beyond their initial tiny market niche into the food markets of lower-income groups (Kiumbura, 2003). Having penetrated processed and staple food markets much earlier and faster than fresh foods, they have recently begun to make inroads into the fresh fruits and vegetables category. The important changes in their procurement systems bring significant opportunities and challenges for small farmers, and have implications for agricultural diversification and rural development programmes and policies.

In Kenya, supermarkets have grown from a tiny niche at the turn of the millennium to 40% of the urban retail sector in 2010. Supermarket development in Kenya is currently in the medium stage where changes are taking place fast. Kenya is the second most advanced country in terms of presence of supermarkets in sub Saharan Africa, after South Africa. Kenya has over 406 supermarkets and 20 hypermarkets (Economic Survey, 2010). In the last ten years, the formal food and necessities retail sector has undergone massive transformation, with traditional retailers, including small shops and public markets, losing a significant proportion of the market share to supermarkets. There are at least six big Kenyan owned supermarkets, including Nakumatt (which is the largest), Uchumi (which has just come out of receivership), Tuskys, Naivas and Ukwala which is the smallest of the giants. Kenya's advancement in supermarkets is evident from the fact that it's top five cities (Nairobi, Mombasa, Nakuru, Eldoret, and Kisumu) have at least 165 supermarkets and 13 hypermarkets (Economic Survey, 2010).

Supermarkets are quickly diffusing into small towns and secondary cities to target poorer consumers in Kenya, while expanding to other countries within the East African region. Uchumi and Nakumatt are now operating in Tanzania and Uganda in an attempt to broaden their annual turnover. The pattern of expansion in Kenya is similar to that of South Africa (Njenga, 2006). This pattern of first penetrating upper class urban market

and then moving into lower income and rural-town markets shows that there will be a steady and rapid increase in supermarkets in East Africa. There used to be few supermarkets in Kenya, but their number is increasing quickly. All bigger cities and many smaller towns have them. Their quality is usually quite high, and higher than other countries in the region. Next to Kenyan and other regional brands, many Western brands are lining up to compete for the Kenyan market as well. This study therefore aimed at investigating the strategic responses the successful large and medium supermarkets in Kenya are engaging in to counter the challenges brought about by changes in the external environment.

1.2 Statement of the Research Problem

Globally, the environment in the retail industry is facing relentless and rapid change. These circumstances underscore the crucial role of leadership and management in maintaining morale, enhancing productivity, and helping staff at all entity levels cope with momentous and rapid change (Reardon, 2009). Those in retail sector management and leadership positions are finding it essential that they understand shifting demographics, new technologies, changing relationships between the private sector and governments and the move from an industrial to an information society.

Supermarkets in Kenya have generally been enjoying tremendous growth in recent years. In the same vein, the environment has continually changed bringing more and more challenges to the players. Various changes have been witnessed in the legal environment, competitive field, consumer needs and also in the area of technology. Responses have been seen such as acquisitions, competing regionally and changes in culture. In general the retail sector in Kenya has been undergoing significant growth both in countrywide and regional presence. These developments are an indicator that these institutions have engaged in designing strategic responses that are effective in countering the challenges brought about by the external environment.

The genre of strategic management in general and strategic responses in particular has been studied and discussed extensively in recent years. Bryson (1995) and Nutt and

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Backoff (1992) looked at strategic planning processes in the services sector, providing a guide for the practitioner, while Joyce's (2000) study is discursive rather than prescriptive. Maddock (2002) focused on an example of strategic response in one segment of the public sector in European Union countries.

However, it is worth noting that though studies have been done touching on aspects of the supermarkets in Kenya, no specific study has been undertaken to establish the strategic responses employed by Supermarkets in Kenya to counter challenges brought about by changes in external environment. Karemu (1993) studied the state of strategic management practices in retailing sector with a particular focus on supermarkets in Nairobi. Lagat (1995) studied the state of marketing in negligence activities in Kenya retailing sector while Munyoki (1997) did an analysis of the factors affecting pricing strategies of selected consumer goods in the retail market with a specific focus on supermarkets in Nairobi, Kenya. Kiumbura (2003) studied retailer brands & channel conflict of supermarkets in Nairobi while Njenga (2006) investigated the attitudes of selected stakeholders towards growth strategies that were followed by large scale retailers in Kenya. The study was a case of Uchumi Supermarkets. None of these previous studies have investigated the strategic responses that supermarkets employ to cope with environmental changes. This study therefore sought to establish the strategic responses applied by supermarkets in Kenya. It was guided by the following questions:
   i)   What are the challenges facing supermarkets in Kenya that emanate from the external environment
   ii) What strategic responses do these supermarkets employ in countering the challenges that emanate from the changes in external environment

1.3 Objectives of the Study

The objectives of the study were to;
   i)   Determine the challenges facing Supermarkets in Kenya that emanate from the external environment
   ii) Establish strategic responses employed by supermarkets in Kenya to effectively deal with challenges that emanate from the external environment

1.4 Value of the Study

The study is expected to benefit the management of the retail supermarkets, other institutions and also enrich the body of knowledge where the findings can be used as a basis of further analysis and research in scholarship. Management of the retail supermarkets will be able to use the study findings as a management reference point for strategic planning being put in place, both present and future, that will ensure their company's competitiveness in the market place. These are times of rapid change. Will Rogers said, "Even if you're on the right track, you'll get run over if you just sit there." No retail supermarket can remain static for long. Neither can an institution survive for long with knee-jerk responses to change. Findings from this study will therefore benefit management of these supermarkets to engage in strategic planning practices that should minimize crisis-mode decision-making.

The findings can also be of importance to government and its policy and regulatory framework. The government will be in a position to put in place effective policies and regulations to help the retail sector in dealing with the challenges and to ensure that the policy and regulatory framework is conducive to the retail sector development in Kenya. This can be achieved by having clearly thought and negotiated regulations and policy to drive growth in the sector. The study findings can be used as input in the policy and regulatory framework design.

The findings also will prove to be important to the academic community. The academic community will have added knowledge which can guide training, policy and further research. This study will fill a gap in knowledge that will give students, faculty and the general academic fraternity added knowledge in the filed of strategic management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter presents literature review on strategy and strategic management and strategic responses that have been applied by businesses globally, regionally and locally. The chapter is organized as follows. First is the discussion of the concept of strategy. Then, strategic management is discussed. Organizations and how they cope with their environments is also discussed and the chapter closes with the responses applied by organizations to cope with their challenges.

2.2 Concept of Strategy

Strategy is a multi dimensional concept and various authors have defined strategy in different ways. Linn (2007) depicted strategy as the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2001). Porter (2005) describes competitive strategy as the search for a favorable competitive position in an industry. According to Porter (2005), competitive strategy is about being different. This means deliberately performing activities differently and in better ways than competitors.

Ansoff (1965) viewed strategy in terms of market and product choices. According to his view, strategy is the "common thread" among an organization's activities and the market. Johnson and Scholes (2002) defined strategy as the direction and scope of an organization that ideally matches the results of its changing environment and in particular its markets and customers so as to meet stakeholder expectation. According to Delmar and Shane (2003), strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

Eisenhardt and Martin (2000) perceive strategy as a pattern or a plan that integrates organization's major goals, policies and action into a cohesive whole. Pearce and Robinson (2001) define strategy as the company's "game plan" which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. This definition of strategy is important in this study as it reflects competitiveness in the environment and the game plan aspects, which organizations put into place to be able to compete effectively. Lambert and Knemeyer (2004) stated that managers develop strategies to guide how an organization conducts its business and how it will achieve its objectives.

2.3 Strategic Management

Strategic management as a discipline originated in the 1950s where Selznick introduced the idea of matching the organization's internal factors with external environmental circumstances (Hamel and Prahalad, 1994). Ansoff (1965) developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges.

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives (Kanter, 2004). Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and executive team. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies (Collins, 2001). Strategic management is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce and Robinson, 2001). According to McNeilly (2001), strategic management focuses on the total enterprise as well as the environment in which it operates; the direction management intends it to head; management's strategic plan for

getting the enterprise moving in that direction; the managerial task of implementing and executing the chosen plan successfully.

According to Pearce and Robinson (2001), strategic management refocuses the management process, dealing rather with the long term issues instead of operational issues. Strategic actions are influenced by the environmental factors. Changes in the environment will lead to changes in objectives and strategy (Pearce and Robinson, 2001). The environment is complex and ever changing and it will continue to change rapidly, radically and unpredictably (Porter, 2005). Therefore managers have to keep reviewing their strategy to match the environmental demand. In order to enhance preparedness in handling surprising events an organization needs to augment the timeliness of managerial response to the surprising changes.

2.4 Organizations and the Environment

One of the primary functions of effective management is to organize and use the available resources in ways which minimize the impact of environmental threats and pressures on the organization (Lambert and Knemeyer, 2004). Organizations must adapt to their environments if they are to remain viable. Welch and Welch (2005) maintain that to maximize long-term effectiveness, organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance. For many organizations crises are unique and rare events. However, in many industries crises may be a regular feature of corporate life. Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but understanding situations where uncertainty can degenerate into a crisis.

Although the external environments of organizations have been conceptualized in various ways (Lane, 2003), several important dimensions have been underscored. Two major dimensions are of concern for this study. These are stability and complexity. The concept of turbulence and its opposite, placidity, are key factors. Turbulence is a measure of change as it occurs in the factors or components of an organization's environment. At one

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end of a continuum of change there is a static environmental state (placidity or no change); at the other end there is a turbulent or dynamic state where all factors are in constant flux (Linn, 2007). The amount of environmental turbulence is closely related to the degree of uncertainty facing an organization.

The rate of change, in addition to the absolute amount of turbulence, is a critical factor. Collins (2001) suggests that the rate of change can be defined by measuring the amount of alteration to major goals in a given period. Andrews (1987) proposes that the higher the change rate in the environment, the higher the number of major organizational goals that must be altered and vice versa. In several studies (Welch and Welch, 2005) the terms discontinuity, dynamism and volatility have been used interchangeably to refer to the rate (or degree) of environmental change.

Complexity is the second critical dimension of the external environment. It refers to the number of factors in the environment that must be taken into consideration by the organization in a decision-making situation (Ansoff, 1965). Scholes and Johnson (2008) defined complexity as the heterogeneity and range of activities relevant to organizational operations. Porter (2005) argues that a simple environment is one in which the external factors with which an organization must deal are few in number and relatively homogeneous. Ansoff and McDonnel (1990) assert that a simple environment frees an organization from the necessities of sophisticated information systems, since there would only be a limited number of information categories to be monitored that would be critical for organizational decision making. Complex environment not only place greater demands on an information system, but also calls for a higher-quality to account for diverse constituencies in the environment (Pearce and Robinson, 2001).

Environmental complexity may be viewed as a function of both the number of environmental variables and constraints important to the organization, and as a function of the diversity, and number of different components, of the environment (e.g. technological, political, and legal) containing important variables or constraints (Collins, 2001). McNeilly (2001) contend that uncertainty and equivocality are two forces

influencing information processing in organizations. During times of rapid technological change and development, within emerging industries, or during the launch of new products, organizations face high uncertainty and high equivocality. The concept of high velocity environments is used to designate those environments which are characterized by rapid and discontinuous changes in demand, competitors, technology, and/or regulation such that information is often inaccurate, unavailable or obsolete (D'Aveni, 2004). This concept implies that there are continuous dynamisms (Linn, 2007) or volatility (Delmar and Shane, 2003), but these are overlaid by sharp, discontinuous change. Dynamism is characterized by the rate of change and innovation in the industry as well as the uncertainty or unpredictability of the actions of customers and competitors (Lane, 2003). Industries operating in high velocity environments, e.g. microcomputers, airlines, and banking, experience such an extreme rate of change that information is often of questionable accuracy and is quickly obsolete (Drejer, 2002).

Universities are both environment serving and dependent. First, universities have not had the autonomy to exercise their vision. They depend on the political system and the commission of higher education to chart the policy which guides their vision and strategies. Government and to some extent external assistance agencies have had a tight control on the running of the higher education. Government have exercised tight control through their funding and at times through more direct politicization and intimidation of institutions. Assistance agencies have also had a distorting effect on the autonomy of the university, particularly when they have made the provision of funds conditional upon the achievement of social or developmental objectives external to the institutions themselves that they might be singularly ill-equipped to achieve (Jowi, 2003). The universities are also tied to the social and economic demands of the citizenry which look up to the higher education for elitist manpower to lead the country.

2.4 Strategic Responses

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 environmental influences may be possible but it may not be of

much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; 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.

Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

Effective strategic responses may enable a business to influence the environment in its favour and even defend itself against competition. Hamel and Prahalad (1994) also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kanter (2004) says that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment. If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its

operations success is dependent on productivity, customer satisfaction and competitor strength.

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. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. 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 environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide. The speed or response time to the environment challenges has been identified (Johnson and Scholes, 2002) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It's thus imperative to quickly adjust and formulate strategic responses so as not to be overtaken by events.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter considers in detail the methods that were used to collect any primary or secondary data required in the study. In this chapter, the researcher discusses the research design, population size and sample that were used. The researcher also discusses how this data was analyzed giving details of any models or programmes that were used in analysis with reasons as to why these particular models or programmes were used.

3.2 Research Design

This research problem was solved through the use of a survey design. This enabled an analysis of the strategic responses employed by the mainstream supermarkets in Nairobi to counter threats emanating from the external environment. According to Doyle (2004), a survey research refers to a body of techniques for collecting data on entity or human characteristics, attitudes, thoughts, and behavior by obtaining responses from a group of entities or individuals to a set of prepared questions.

Cooper and Schindler (2006), defines a survey as a measurement process used to collect information during a highly structured interview – sometimes with a human interviewer and other times without. According to Angus and Katona (1980), the capacity for wide application and broad coverage gives the survey technique its great usefulness. The cross sectional survey was considered appropriate to this study since it enabled a collection of data from a cross section of supermarkets which enriched the amount of information collected. This mitigated the disadvantages of other methods such as case studies where generalization is limited (Doyle, 2004)

3.3 Population

The target population of this study was all the 22 mainstream supermarkets in Nairobi. These were selected according to the number of employees employed in the supermarket. Those supermarkets having more than 50 employees formed the population of this study.

Supermarkets in Nairobi were selected on the basis of convenience and concentration since most of the medium and large supermarkets in Kenya have branches in the city. Due to the small size of the population (22), the researcher did a census all the supermarkets in the target population.

3.4 Data Collection

The study used primary data. Primary data was collected using questionnaires to the operation managers in the targeted supermarkets. The questionnaire was the only primary data collection instrument. The questionnaire was distributed to the senior administrator of each supermarket since they are the ones who must be involved in all strategic issues affecting the supermarkets. This resulted to a total of 22 questionnaires being distributed to all the targeted supermarkets.

The questionnaire was designed to address the research questions. The questionnaire was divided into three sections; A, B and C. Section A addressed the general information about the supermarket. Section B addressed the environmental challenges that the supermarkets had encountered in the past while section C dealt with strategic responses these supermarkets have employed to counter challenges emanating from the external environment. The questionnaire consisted of both open and close-ended questions. Close-ended questions included likert type questions that were intended at weighing perceptions of respondents on the factors under study.

After designing the questionnaire, the researcher tested the effectiveness of the questionnaire on 3 senior employees from Nakumatt Supermarkets Ltd. Respondents were required to critique the questionnaire on content, design and validity. This pretest was done to detect and correct any weaknesses in the questionnaire. After the pretest, the researcher made amendments to the questionnaire as it was deemed necessary.

3.5 Data Analysis

The data and information obtained through the questionnaire was first checked for completeness. The questionnaires found correctly filled and fit for analysis were coded

and all the data entered into statistical package for social sciences and analyzed based on descriptive statistics. The descriptive statistics that were used included mean scores, percentages and ratios. These were used to illustrate the challenges and strategic responses that were employed by the supermarkets surveyed.

Percentages were used to determine the most common environmental challenges encountered by the supermarkets. Ratios were used to establish the level of strategic involvement in the response decision. Mean scores were computed to establish the strategic responses commonly applied. The results from the analysis were then presented using tables and pie charts for easier interpretation.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter considers the results and findings from the questionnaire survey. The findings of the study are presented according to the research questions. There were 22 questionnaires distributed to the selected senior employees in the supermarkets in Nairobi city and in Nairobi suburbs and residential areas. The analysis of findings is according to the returned questionnaires from the 22 supermarkets. Of the 22 questionnaires sent to the sampled subjects, all were filled and returned which translated to 100% response rate. This high response rate was achieved by the great cooperation between the researcher and the respondents. All the returned questionnaires were found to be correctly filled and fit for analysis.

4.2 General Information

The study sought to establish the level of education of respondents to establish their competence in answering the questions. Findings are presented in table 4.1.

Table 4.1: Respondents' Level of Education

Education level	Frequency	Percent
Secondary	0	0
College Diploma	6	27
University 1st degree	10	46
Postgraduate degree	6	27
Total	**22**	**100**

Findings presented in table 4.1 indicate that no respondent had secondary level of education. Six (27%) of the respondents had college diplomas, 10 (46%) had university first degrees while 6 (27%) had postgraduate degrees. This distribution of respondents in relation to their education indicated that they were competent enough to respond to the questions.

The study sought to establish the number of years the supermarkets had operated in the industry. Findings are presented in table 4.2.

Table 4.2: Years of Operation of the Supermarkets

Number of years	Frequency	Percent
Below 10 years	3	14
10 - 15 years	6	27
16 - 20 years	7	32
Above 21 years	6	27
Total	**22**	**100**

Findings presented in table 4.2 indicate that 3 (14%) of the supermarkets had been operating for less than 10 years while 6 (27%) indicated to have been in operation for between 10 and 15 years. Seven (32%) of the supermarkets had been in the business for between 16 and 20 years while 6 (27%) of the supermarkets had been in the business for above 20 years. This is an indication that most of these supermarkets had been in the business for long to have a good understanding of the external environment.

The study sought to find out the branch network of the supermarkets. This was with a view to find out the need for a system to manage diversity and complex environment. Results are presented in figure 4.1 and table 4.3.

Figure 4.1: Number of Branches of the Supermarkets
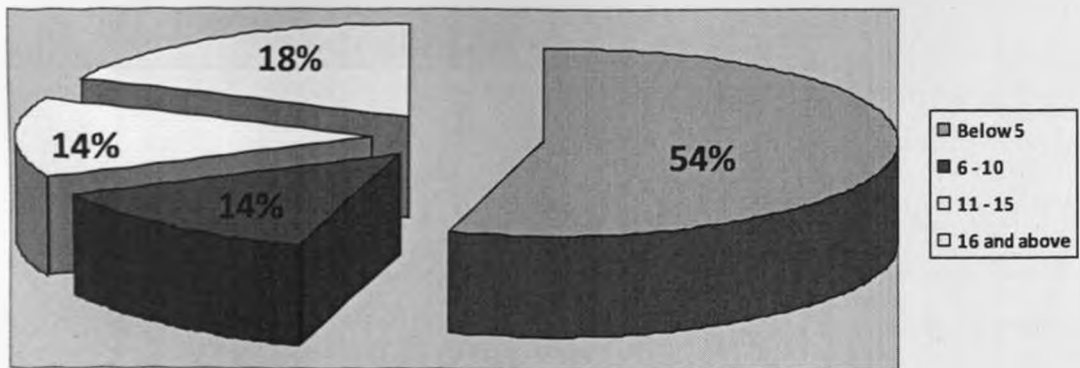
Table 4.3: Number of Branches of the Supermarkets

Number of Branches	Frequency	Percent
Below 5	12	54
6 - 10	3	14
11 - 15	3	14
16 and above	4	18
Total	**22**	**100**

Results presented in figure 4.1 and table 4.3 indicate that 12 (54%) of the supermarkets had below 5 branches while those with between 6 to 10 branches and those with between 11 and 15 branches were 3 (14%) apiece. Those supermarkets with over 16 branches were 4 (18%) and were the dominant in the big Kenyan towns.

The study sought to find out the number of employees the supermarkets had. The number of employees indicates the importance of strategic planning to give direction if the number of employees is large. Results are presented in figure 4.2.

Figure 4.2: Number of Employees in Supermarkets
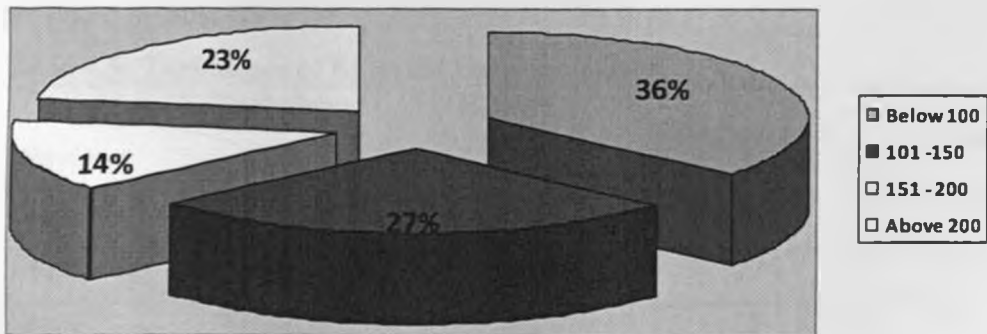
Table 4.4: Number of Employees in the Supermarkets

Number of Employees	Frequency	Percent
Below 100	8	36
101 - 150	6	27
151 - 200	3	14
201 and above	5	23
Total	**22**	**100**

Results presented in figure 4.2 and table 4.4 indicate that 8 (36%) of the supermarkets had below 100 employees while those with between 101 and 150 employees were 6 (27%). Those supermarkets with between 151 and 200 employees were 3 (14%) and those with over 200 employees were 5 (23%). The findings show a strong correlation between the number of branches and the number of employees which is expected.

4.3 Challenges From External Environment

On challenges from the external environment, the first question to the respondents was on the level of turbulence in the external environment. Level of turbulence dictates how flexible and dynamic the strategic responses by an organization need to be. Results are presented in table 4.5

Table 4.5: Turbulence of External Environment

Turbulence / Environ	High (%)	Medium (%)	Low (%)
Political	18	36	46
Economic	50	27	23
Social	9	27	64
Technological	32	41	27
Average	**27**	**33**	**40**

Findings presented in table 4.5 indicate that most respondents considered political environment being of low turbulence (46%). However 50% of the respondents considered economic environment being of high turbulence. Sixty four percent indicated that social environment was of low turbulence while 41% indicated technological environment

being of medium turbulence. On average, turbulence in the external environment was considered medium and low. Economic and technological environments however were the ones indicated to be having high turbulence in the retail industry.

The study found that the retail sector today is all about being better, faster, and leaner. The retail industry is faced by various challenges that the players must surmount to survive and thrive in the industry. Respondents indicated that the retail industry faces challenges similar to those in other industries. What's different is that they combine together to put a great deal of pressure on retailers in today's modern economy. With a fast-paced society and faster-paced technological changes, customers want new, different, and customized goods now, and they're not willing to wait. At the same time, respondents indicated that pressures on the backend are mounting, too. Larger retailers, with their efficiencies of scale and national scope, are pushing prices down and slashing margins which puts pressure on small retailers and competition intensifies.

4.3.1 Environmental Threats to the supermarket

The study further sought to establish the environmental forces exerting the biggest pressure on the supermarket. This was to establish those forces that required strategic responses most. Results are presented in table 4.6.

Table 4.6: Forces exerting greatest pressure on the supermarket

Force	Frequency	Percent
Buyer Power	0	0
Supplier power	4	18
Threat of new entrants	5	23
Threat of substitutes	8	36
Rivalry in the industry	5	23
Total	22	100

The most important external environment force in the retail industry was threat of substitutes mentioned as the greatest by 36% of the respondents. Threat of new entrants

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and rivalry in the industry were the second force that exerted the greatest pressure in the industry. These were mentioned by 23% of the respondents each. Supplier power was mentioned as an important competitive force by 18% of the respondents. Buyer power was not considered as a big competitive force in the retail industry.

4.3.2 Rating of Environmental forces in Retail Industry

The study sought to establish the specific elements in the supermarkets' operating environment that were complex and dynamic making it necessary for the supermarket to design and continually monitor strategic responses. Statements aimed at weighing the complexity and/or dynamism of environmental forces were rated on a scale of 1 to 5 and mean scores were computed on the statements to determine their weight. Results are presented in table 4.7.

Table 4.7: Rating on Environmental Forces in Retail Industry

Statement	Mean scores	Std Deviation
The environment under which the supermarket operates is highly turbulent with a lot of changes that affect our plans	2.72	1.32
There is limited talented pool of managers and staff to provide the supermarket with requisite skills to steer it forward	1.22	0.87
Government usually bring policies and regulations which are costly to cope with	2.21	0.88
The retail market is continually changing necessitating the supermarket to continually transform itself and provide value	2.97	1.12
The supermarket faces challenges of inadequate financing to take up the investments that can enhance its growth	4.21	0.71
The retail sector is usually affected by political unrest and uncertainty	1.17	0.64
There are limited locations in the country for expansion of the supermarket	3.92	1.26
Competition in the industry is cutthroat	4.16	1.04
Grand mean	**3.29**	

Findings presented in table 4.7 indicate that the retail environment is not very turbulent (2.72). The results also indicate that supermarkets have enough human resources to steer them forward (1.22). The forces that were indicated to be challenging in the environment were challenges of inadequate financing to take up the investments that can enhance the

supermarkets' growth (4.21), limited locations in the country for expansion of the supermarkets (3.92) and Competition in the industry (4.16).

Further, the researcher inquired about the major threats facing the supermarket from the external environment. Responses indicated that competition, changing customer needs, turbulent economic conditions and technology were the major threats in the industry. Competition in the Kenya supermarket industry has never been greater. In addition to traditional grocers, there are now dozens of different types of retailers attempting to gain their share of the retail wallet. The conventional supermarket and food/consumables combination stores typically associated with grocery shopping have lost a great part of their market share to retailers like Nakumatt, Tuskys, Naivas and Ukwala which are the major supermarket giants in Kenya. To medium retailers, these are the biggest challenge.

A factor analysis was performed to establish the most important factors in the external environment that should be considered in the retail industry. Results of the analysis are presented in table 4.8.

Table 4.8: Factor Analysis of Environmental Challenges

Challenge	Factor Loadings		
	1	2	3
Competition in the industry	.203	.916	.035
Limited locations in the country for expansion	.311	.789	.914
Inadequate financing	.981	.950	-.314
Highly turbulent environment	.791	-.022	.975
Limited pool of experienced staff	.940	.428	-.048
Rules and regulations	.608	.739	.681
Political instability	.598	.033	.281
Turbulent retail market	.235	.902	.582

A factor analysis of the challenges in the external environment extracted there underlying factors. The first factor was interpreted to be composed of inadequate financing (0.981) and limited pool of experienced staff (0.940). This factor was interpreted to be the internal organizational factors that influence specific supermarkets. The second factor was interpreted to be composed of competition in the industry (0.916), inadequate

financing (0.950) and turbulent retail market (0.902). This factor was translated to be the operating environment of the supermarkets. The third factor was composed of highly turbulent environment (0.975) and limited locations for expansion (0.914) which was interpreted to include the economic and general business environment.

Further, the study established that the supermarket industry is faced with the challenges of maintaining market share and profits while attempting new concepts and store formats in an effort to differentiate themselves from other types of retailers. Major demographic and consumer lifestyle changes were also reported to affect not only how consumers shop, but also where they choose to shop. Traditional supermarkets have seen a decline in how much shoppers spend and how frequently they shop in a particular store. The study established that, while some supermarket operators continue to attempt to cut costs so they can offer reduced everyday prices, they find this to be a tough approach when competing with low cost operators like Naivas in the Kenya case.

Controlling operational costs is certainly another challenge put forth by respondents that the supermarkets surveyed in Kenya are facing. Since supermarkets typically run on extremely low profit margins, the need for a lean and efficient operation is critical. Labour costs are the single greatest controllable expense according to the responses. Some supermarkets were reported to have a tendency to cut labour during tough times. If labour cost reduction is not managed properly, respondents indicated that customer service and store conditions may suffer. This, of course, results in lost customers and sales. Lack of good training in employees was another major challenge mentioned by respondents. Retailers that do not properly budget for necessary training programs usually report increased employee turnover, which becomes very costly over time, as well as reduced customer service, due to a lack of training.

Competition has raised the bar for supermarket retailers in Kenya according to the survey. Some responses indicated that supermarkets in Kenya have almost simply lost sight of what the customers need and want. Regardless, today's customers have less time, and are more intelligent, than ever before. Supermarket retailers reported to continue to

face increasing survival pressures. Consolidation in the market space will continue to affect existing supermarket chains, both large and small. The top-tier supermarket chains like Nakumatt, that have increased the size of their store base through recent acquisitions are struggling to absorb what they have bought while trying to defend market share against the low-cost operators like Naivas. Those chains that remain standing will be the ones that learn how to reinvent themselves. Those are the chains that will effectively respond to any environmental pressure in the industry.

Another challenge mentioned was technology. Generally speaking, most supermarket retailers have added technology at a conservative pace over the years, mainly due to stringent return on investment requirements. The retail industry was reported to run on razor thin margins. The big supermarkets were faced with the challenge of finding new solutions that demonstrate quick payback through increased sales and profits, and/or reduced costs to the operation. Technologies designed to improve the customer's experience in the store, such as faster checkout, or ways to provide additional information to the customer are sometimes difficult to justify when chains are focused on their bottom line. The impact of new system deployment, training, maintenance, and support can add to a retailer's reluctance to simply accept the next new thing. As technology has evolved over the years, most retailers have created a patchwork of disparate systems on different platforms throughout the store. This was brought to bring another challenge due to integration problems. Other technological problems mentioned by respondents included the increase in amount of hardware include servers, PCs, printers, and wireless handheld devices. Further, respondents indicated that many systems either do not connect, or are connected in a cumbersome manner that requires manual processes. Information is difficult to retrieve, and new releases are resource-intensive to manage. Some applications purchased through software vendors lack consistency in capability, have overlapping scopes, and are rarely integrated in terms of function or data. Many older applications are based on outdated architecture and are inflexible, making it difficult to change processes and business rules, add new devices, and so on, without touching the source code. This was reported to present a competitive disadvantage for supermarkets as new innovations are made available over time.

4.4 Strategic Responses to Environmental Challenges

The study was aimed at establishing the strategic responses employed by supermarkets in Kenya to counter threats from the environment. This section provides the analysis of different responses from questions directed to respondents to find out how supermarkets respond to environmental threats. The first question inquired on whether the supermarket had in any way responded to the changes to the external environment mentioned. All replies indicated that the supermarkets employed certain responses.

4.4.1 Ways of responding to environmental changes

The study sought to establish the systems, processes and resources put in place to respond to external environmental threats and changes. Likert type questions with statements were to be rated on a scale of 1-5 by respondents to state their extent of agreement on how they deal with environmental changes and threats. Analysis was done through mean scores with the findings as indicated in table 4.6. Statements with mean scores more than 3.00 were regarded as great extent of agreement while those with less than three were regarded generally as low extent of agreement. Results in table 4.6 can be generally indicated to mean that there is a strategic approach to responses to major challenges facing the supermarkets (4.72). The results also indicate that top management in the supermarkets provides the leadership and direction required in formulating strategic responses (4.22). Strategic plans by the supermarkets were also indicated to be fine-tuned along the way to fit to environmental changes (4.78). Lastly, the respondents indicated that the supermarket always ensures that there is a strategic fit between the strategies and the environment (4.02).

Table 4.9: Rating on Strategic Responses

Statement	Mean scores	Std Deviation
There is a strategic approach to responses to our major challenges	4.72	1.32
Top Management provides the leadership and direction in formulating strategic responses	4.22	0.87
All stakeholders more so employees are consulted in the designing strategic responses	2.21	0.88
There is top management support and commitment to the process of designing and implementing strategic responses	2.97	1.12
The supermarket is fast in responding to environmental threats	3.21	0.71
Top Management give resources to formulate and implement strategic responses successfully	3.17	0.64
The supermarket usually follows the actions of the others in the sector	3.22	1.26
The supermarket usually monitors the environment continually to establish threats and act on them on a timely manner	3.16	1.04
Our strategic plans are altered along the way to fit to environmental changes	4.78	1.32
The supermarket always ensures that there is a strategic fit between the strategies and the environment	4.02	0.90
Grand mean	**3.59**	

Further, a factors analysis to reduce the strategic responses was carried out which came up with three main underlying factors affecting strategic responses.

Table 4.10: Factor Analysis of Strategic Responses

Strategic Responses	Factor loadings		
	1	2	3
There is a strategic approach to responses to our major challenges	.698	.631	.978
Top Management provides the leadership and direction in formulating strategic responses	.962	.571	-.142
All stakeholders more so employees are consulted in the designing strategic responses	.770	-.252	-.464
There is top management support and commitment to the process of designing and implementing strategic responses	.978	-.388	-.117
The supermarket is fast in responding to environmental threats	.735	.930	-.282
Top Management give resources to formulate and implement strategic responses successfully	.950	-.054	.653
The supermarket usually follows the actions of the others in the sector	.890	.973	.298
The supermarket usually monitors the environment continually to establish threats and act on them on a timely manner	.255	.931	.552
Our strategic plans are altered along the way to fit to environmental changes	.490	.410	.906
The supermarket always ensures that there is a strategic fit between the strategies and the environment	.848	-.211	.933

Further analysis of strategic responses indicated that three major factors affected how supermarkets responded to environmental threats. The first factor was a combination of Top Management provides the leadership and direction in formulating strategic responses (.962), top management support and commitment to the process of designing and implementing strategic responses (0.978) and top Management giving resources to formulate and implement strategic responses successfully (0.950). The underlying factor was interpreted to be the organizational management commitment to a strategic approach to threats. The second factor was composed of responding fast to threats (0.930), following the actions of others (0.973) and the supermarket usually monitoring the

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environment continually to establish threats and act on them on a timely manner (0.931). These components were interpreted to the monitoring and evaluation of environment to design strategic responses. The third factor was seen to be composed of strategic approach to responses (0.978), altering responses to fit the environment (0.906) and a strategic fit to the environment (0.933). These factors were translated to represent the strategic formulation and implementation environment of the supermarkets.

4.4.2 Strategic Responses to Environmental Changes

The study sought to establish what strategic responses the supermarkets applied to deal with the challenges, changes and threats in the external environment. Various specific responses applied by retail outlets were mentioned where the respondents were required to indicate the extent to which the supermarket applied that strategic response. Rating was on a scale of 1-5 where 1 represented very low extent while 5 represented very great extent. Findings are presented in table 4.7. Those responses with a mean score above 3.00 were translated to be used greatly while those with a mean score below 3 were translated to be used on a low extent. These findings indicate that increasing the number of products on offer (4.06), starting satellite branches in the residential areas (4.28), opening outlets on high demand areas (prime areas) (4.35) and offering loyalty programs to build customer loyalty (4.46) were the major strategic responses employed by the surveyed supermarkets. Other strategic responses that supermarkets largely applied include competitive hiring of management staff (4.45), aggressive marketing and advertising to fend off competition (4.11) and upgrading of IT systems in the supermarket for efficiency and improved customer service (4.42).

Table 4.11: Strategic Responses to Environmental Changes

Strategic Responses	Mean Scores	Std Deviation
Increasing the number of products on offer	4.06	1.12
Starting satellite branches in the residential areas	4.28	0.87
Acquiring or taking over an existing supermarket or store	1.34	0.96
Opening an outlet on a high demand area (prime area)	4.35	1.04
Starting 24hr services in some outlets	2.57	0.64
Offering loyalty programs to build customer loyalty	4.46	0.59
Opening branches in neighboring countries	2.14	1.24
Competitive hiring of management staff	4.45	1.11
Aggressive marketing and advertising	4.11	0.75
Selling at discounted prices	3.04	1.18
Upgrading IT systems in the supermarket for efficiency and improved customer service	4.42	0.74
Grand Mean	3.30	

Table 4.12: Factor analysis on Specific Strategic Responses

Component	Factor Loading		
	1	2	3
Increasing the number of products on offer	.975	.323	.430
Starting satellite branches in the residential areas	.823	.069	.419
Acquiring or taking over an existing supermarket or store	-.537	-.551	.311
Opening an outlet on a high demand area (prime area)	.954	.623	-.113
Starting 24hr services in some outlets	.793	.394	.142
Offering loyalty programs to build customer loyalty	-.183	-.393	.969
Opening branches in neighboring countries	.951	-.071	.068
Competitive hiring of management staff	.894	.957	.755
Aggressive marketing and advertising	.423	.512	.955
Selling at discounted prices	.664	-.093	.413
Upgrading IT systems in the supermarket for efficiency and improved customer service	.540	.937	-.385

Factor analysis reduced the number of factors to three. The first factor was affected by increasing the number of products on offer (0.975), opening an outlet on a high demand area prime area (0.954) and opening branches in neighboring countries (0.951). These components were related mostly to expansion. The other important components were competitive hiring of management staff (0.957) and Upgrading IT systems in the supermarket for efficiency and improved customer service (0.937). These factors were related mostly to improving the competitiveness of the supermarket. Other factors which were seen as important included offering loyalty programs to build customer loyalty (0.969) and aggressive marketing and advertising (0.955). These factors were related to marketing and customer relationship management.

On the query about the strategic responses that the surveyed supermarkets used to counter challenges and threats, answers were varied but themes were clear. Most responses indicated that establishing clear points of differentiation is the best offense for a highly competitive price/value-based environment. Most responses further indicated that focusing on their primary shoppers and offering products that the shoppers want to buy, at fair prices, and treating these customers with lots of tender, loving care is the key to survival and successful in the supermarket industry. To find a niche, some supermarkets were reported to be experimenting with diverse "neighbourhood markets," and/or up-scale stores offering more natural, ethnic, and organic foods and commodities. Supermarkets were also reported by the respondents to be engaging in establishing destination stores. This was explained by the fact that many shoppers are turning to "destination stores" in search of a different shopping experience. These specialty stores offer more personalized service, higher-quality fresh products, expanded wine and cheese selections, and takeaway foods. Shoppers are encouraged to "hang out," eat, and have fun. The supermarkets to encourage this are setting up in malls where there are spacious places to relax, eat and have fun. There was a reported trend in conventional supermarket store formats that reflect a shift in merchandising approach. The respondents also indicated that centre store aisles, where canned goods, detergents, and other household products now offered by other competitive outlets at deep discount prices are found, are shrinking in size. This floor space is being replaced with larger fresh perimeter

departments, such as bakery, deli, produce, and service meat, poultry, and seafood counters. Supermarkets have increased their offerings of fully prepared foods, semi-prepared foods, and food service operations.

On strategic responses, the study found that supermarkets were employing varied responses to threats but there were major similarities to the strategic responses applied. Most responses indicated that establishing clear points of differentiation is the best offense for a highly competitive price/value-based environment. Further, focusing on the primary shoppers and offering products that the shoppers want to buy, at fair prices, and excellent customer service were major responses applied. Some supermarkets were reported to be experimenting with diverse neighbourhood markets, and/or up-scale stores offering more natural, ethnic, and organic foods and commodities. These findings agree with both theory and earlier empirical studies. Effective strategic responses may enable a business to influence the environment in its favour and even defend itself against competition. Hamel and Prahalad (1994) posit that given the current focus in business, there is need to understand the environment and competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kanter (2004) further supports responses by saying that to adapt to environmental changes, firms require effective leadership. This was depicted by supermarkets who indicated that top management led design and implementation of strategic responses.

4.4.3 Correlation of responses with Supermarket Size

The study correlated the strategic responses of the supermarkets with the size of the supermarkets. This was to establish whether there was any relation between the strategies and the supermarkets size. Size was measured in terms of branch network and age was measured by the number of years of operation. Results are presented in table 4.13. The correlation matrix indicates that the usage of the major strategic responses was positively related to age and size of the supermarkets. However those responses that were highly related to age included increasing of products on offer (0.589), opening satellite branches (0.738), opening of new outlets (0.628) and upgrading IT (0.501). Those responses that

were highly correlated to size include increase products on offer (0.623), opening satellite branches (0.773), opening new outlets in high demand areas (0.580) and upgrading IT (0.506).

Table 4.13: Correlations of supermarket age and Size with Strategic Responses

	Age	Size	Prod	SatBr	New Out	Loy Prog	Comp hire	Mkng	IT
Age	1								
Size	.666	1							
Prod	.589	.623	1						
SatBr	.738	.773	.364	1					
New Out	.628	.580	.315	.474	1				
LoyProg	.219	.367	.317	.029	.005	1			
Comphire	.219	.364	-.336	.219	-.314	.336	1		
Marketing	.364	.264	.144	.532	-.294	.264	.144	1	
Upgrading IT	.501	.506	.493	.593	.086	.085	.211	-.101	1

4.4.4 Effectiveness of applied Strategic Responses

The study further sought to establish whether the applied strategic responses had been helpful in assisting the supermarket cope with its challenges. Strategic responses are aimed at strengthening the position of the supermarkets in taking opportunities and/or dealing with threats in the environment. Effectiveness of the applied strategic responses is critical if the organization needs to position itself well in the market. The findings on the effectiveness of strategic responses are presented in figure 4.3. Results indicate that 14 (64%) of the supermarkets indicated their responses to be effective while 8 (36%) indicated that the applied responses were not effective. This can be related to the dynamism and complexity of the external environment which sometimes renders strategic responses ineffective due to the turbulent changes.

Supermarkets were also reported by the respondents to be engaging in establishing destination stores. This was explained by the fact that many shoppers are turning to "destination stores" in search of a different shopping experience. These specialty stores offer more personalized service, higher-quality fresh products, expanded wine and cheese selections, and takeaway foods. Shoppers are encouraged to "hang out," eat, and have

fun. The supermarkets to encourage this are setting up in malls where there are spacious places to relax, eat and have fun. There was a reported trend in conventional supermarket store formats that reflect a shift in merchandising approach. The respondents also indicated that centre store aisles, where canned goods, detergents, and other household products now offered by other competitive outlets at deep discount prices are found, are shrinking in size. This floor space is being replaced with larger fresh perimeter departments, such as bakery, deli, produce, and service meat, poultry, and seafood counters. Supermarkets have increased their offerings of fully prepared foods, semi-prepared foods, and food service operations. These findings agree with those of Kanter (2004) that while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment. If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength.

4.5 Summary of Findings

This study was aimed at establishing the challenges and strategic responses to these challenges by supermarkets in Kenya. The study established that economic and technological challenges were top on the list of major challenges facing the industry. With inflation being high, interest rates rising and technological advancement demanding newer technology everyday, supermarkets are forced to respond to these changes which jeopardize their profitability and even survival. These findings concur with the findings of a study by Reardon (2009) which was carried on supermarkets in Urban Kenya. This study indicated that fast paced technological changes, changing consumer preferences and rising cost of living were the major challenges that supermarkets in Kenya are forced to deal with on a daily basis. These findings also agree with those from a study by Njenga (2006) which indicated that in the current retail environment there is simply no place to hide. There is a huge confusion in the retail sector and within their supply chains

due to the rising commodity prices. There is confusion for management teams, confusion for the customers and confusion for the partners. The Kenyan retailing industry is becoming intensely competitive, as more and more players are vying for the same set of customers. Retailing is one of the biggest sectors and it is witnessing revolution in Kenya. There are new entrants in retailing in Kenya which signifies the beginning of retail revolution. There are many challenges in the Kenyan retail sector including the challenge of facing the unorganized sector. Developed supply chain and integrated IT management is absent in retail sector with an exception of a few big supermarkets. This makes the medium supermarkets to struggle to catch up in the technology race. Some supermarkets also face lack of trained work force, low skill level for retailing management and the biggest challenge being intrinsic complexity of retailing which is characterized by rapid price changes, threat of product obsolescence and low margins. Further, the cost of doing business in Kenya is very high. Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay this explains why the supermarkets have to respond to threats.

CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

This study had two twin objectives: to establish the challenges affecting supermarkets in Kenya that emanate from the external environment and to establish the strategic responses these supermarkets devise to counter these challenges. This study was necessitated by the continued developments in the retail industry and the external environments of economic, social and technological.

The study established that the retail sector today is all about being better, faster, and leaner. The retail industry is faced by various challenges that the players must surmount to survive and thrive in the industry. Major challenges mentioned include competition, changing customer needs, turbulent economic conditions and technology. Competition in the Kenya supermarket industry has never been greater. Further, the study established that the supermarket industry is faced with the challenge of maintaining market share and profits while attempting new concepts and store formats in an effort to differentiate themselves from other types of retailers. Major demographic and consumer lifestyle changes were also reported to affect not only how consumers shop, but also where they choose to shop. Controlling operational costs is certainly another challenge put forth by respondents that the supermarkets surveyed in Kenya are facing. Since supermarkets typically run on extremely low profit margins, the need for a lean and efficient operation is critical. Changing customer needs and preferences is another major challenge. Some responses indicated that supermarkets in Kenya have almost simply lost sight of what the customers need and want. Regardless, today's customers have less time, and are more intelligent, than ever before. The last big challenge mentioned was technology. Supermarkets are faced with the challenge of finding new solutions that demonstrate quick payback through increased sales and profits, and/or reduced costs to the operation. Technologies designed to improve the customer's experience in the store, such as faster checkout, or ways to provide additional information to the customer are sometimes difficult to justify when chains are focused on their bottom line. The impact of new system deployment, training, maintenance, and support can add to a retailer's reluctance

to simply accept the next new thing. As technology has evolved over the years, most retailers have created a patchwork of disparate systems on different platforms throughout the store. This was brought to bring another challenge due to integration problems. Other technological problems mentioned by respondents included the increase in amount of hardware include servers, PCs, printers, and wireless handheld devices. Further, respondents indicated that many systems either do not connect, or are connected in a cumbersome manner that requires manual processes.

On strategic responses, the study established that all the supermarkets had a strategic approach to responses. Results also indicate that top management in the supermarkets provides the leadership and direction required in formulating strategic responses (4.22). Strategic plans by the supermarkets were also indicated to be fine-tuned along the way to fit to environmental changes (4.78). Lastly, the respondents indicated that the supermarket always ensures that there is a strategic fit between the strategies and the environment (4.02). specific strategic responses included increasing the number of products on offer (4.06), starting satellite branches in the residential areas (4.28), opening outlets on high demand areas (prime areas) (4.35) and offering loyalty programs to build customer loyalty (4.46) were the major strategic responses employed by the surveyed supermarkets. Other strategic responses that supermarkets largely applied include competitive hiring of management staff (4.45), aggressive marketing and advertising to fend off competition (4.11) and upgrading of IT systems in the supermarket for efficiency and improved customer service (4.42). Other strategic responses included establishing clear points of differentiation, focusing on the primary shoppers and offering products that the shoppers want to buy, at fair prices, and treating these customers with respect. The study also established that opening satellite branches in residential areas, establishing destination stores were other responses adopted though by the big supermarkets.

5.2 Conclusions

From the study findings, the study can make the following conclusions. First, economic and technological challenges were top on the list of major challenges facing the retail industry in Kenya. With inflation being high, interest rates rising and technological

advancement demanding newer technology everyday, supermarkets are forced to respond to these changes which jeopardize their profitability and even survival. There is a huge confusion in the retail sector and within their supply chains due to the rising commodity prices. There is confusion for management teams, confusion for the customers and confusion for the partners. The Kenyan retailing industry is also becoming intensely competitive, as more and more players are vying for the same set of customers. There are new entrants in retailing in Kenya which signifies the beginning of retail revolution. Developed supply chain and integrated IT management is absent in retail sector with an exception of a few big supermarkets. This makes the medium supermarkets to struggle to catch up in the technology race. Some supermarkets also face lack of trained work force, low skill level for retailing management and the biggest challenge being intrinsic complexity of retailing which is characterized by rapid price changes, threat of product obsolescence and low margins. Further, the cost of doing business in Kenya is very high.

On strategic responses, the study concludes that supermarkets are employing varied responses to cope with environmental threats. Establishing clear points of differentiation, focusing on the primary shoppers and offering products that the shoppers want to buy with excellent customer service were the major responses. , at fair prices, and excellent customer service were major responses applied. Opening new branches to increase market share, upgrading IT systems and cost control were other responses which were designed to cope with environmental threats.

5.3 Recommendations

5.3.1 Recommendations for Policy and Practice

The study was aimed at establishing the external environment challenges facing supermarkets in Kenya and the strategic responses that have been employed thereof. There were major challenges in the economic front from inflation and depreciation of the shilling. For policy, the study recommends that the government through its finance docket should check on inflation, depreciating shilling, interest rates and other forces in

the economic environment which were mentioned as major forces threatening the retail industry.

5.3.2 Recommendations to Supermarkets

The study established that mainstream supermarkets engage in formal strategic approach to responding to challenges. However, there were major weaknesses in the processes due to not following the best practices. The study therefore recommends to the mainstream supermarkets to adhere to the best practices such as having a visible and effective communication process spearheaded by an experienced person that ensures that information on strategic responses is timely communicated across the organization. Another improvement would be to embrace technology in the planning models which can enhance inclusivity of the process where many stakeholders are consulted and incorporated in the process.

5.3.3 Recommendations for Further Research

The study was aimed at establishing the challenges facing supermarkets in Kenya and the responses they employ to counter the threats. The study focused on the medium and large supermarkets in Kenya. This excluded the small and medium sized supermarkets which are a major contributor in the industry and also in the economy. There are about 400 supermarkets in the country whereas this study only focused on the biggest 22 which employ more than 50 employees. For further research on strategic responses employed by supermarkets, the researcher recommends another study that will include the small and medium sized companies to establish their mode of responding to environmental challenges and threats. This study should have a sample from all the 400 supermarkets in Kenya today not just the 22 medium and large supermarkets.

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APPENDICES

Appendix I: Questionnaire to senior Supermarket administrators

SECTION A: GENERAL INFORMATION

(Kindly [√] tick as appropriate or put your response on the space provided)

1. Job Title ....

2. What is your highest level of education

Secondary	[ ]
College Diploma	[ ]
University 1st degree	[ ]
Postgraduate degree	[ ]

3. When did the supermarket start?

5 yrs ago	[ ]
5-10 yrs	[ ]
11-15 yrs	[ ]
16 -20 yrs	[ ]
21 yrs and earlier	[ ]

4. How many outlets does this supermarket have?

Lest than 5	[ ]
5-10	[ ]
11-20	[ ]
Above 20	[ ]

5. How many employees does the supermarket have currently?................... ...

Lest than 100	[ ]
101-150	[ ]
151-200	[ ]
Above 200	[ ]

SECTION B: CHALLENGES FROM EXTERNAL ENVIRONMENT

1. What is the level of turbulence in the external environment?

	High	Medium	Low
Political	[ ]	[ ]	[ ]
Economic	[ ]	[ ]	[ ]
Social	[ ]	[ ]	[ ]
Technological	[ ]	[ ]	[ ]

2. How is your organization affected by the changes in the external environment?

	Positively	Negatively
Political	[ ]	[ ]
Economic	[ ]	[ ]
Social	[ ]	[ ]
Technological	[ ]	[ ]

3. Which environmental force exerts the greatest pressure to the supermarket?

Buyer Power	[ ]
Supplier power	[ ]
Threat of new entrants	[ ]
Threat of substitutes	[ ]
Rivalry in the industry	[ ]

4. State the extent to which you agree with the statements below (tick appropriately)

Very Great Extent [5]   Great extent   [4]   Moderate Extent [3]

Low Extent   [2]   Very Low Extent   [1]

Low Extent	Response Ratings				
	1	2	3	4	5
The environment under which the supermarket operates is highly turbulent with a lot of changes that affect our plans					
There is limited talented pool of managers and staff to provide the supermarket with requisite skills to steer it forward					
Government usually bring policies and regulations which are costly to cope with					
The job market is continually changing necessitating the supermarket to continually transform itself and provide value					
The supermarket faces challenges of inadequate financing to take up the investments that can enhance its growth					
The retail sector is usually affected by political unrest and uncertainty					
There are limited locations in the country for expansion of the supermarket					
Competition in the industry is cutthroat					

5. In your view, of the above mentioned challenges, what can you tell as the major threats facing the supermarket from the external environment (political, economic, social and technological)?

....

....

....

....

SECTION C: STRATEGIC RESPONSES TO ENVIRONMENTAL CHALLENGES

1. Has your organization responded to the changes to the external environment mentioned in section I?

     Yes   [ ]

     No   [ ]

2. State the extent to which you agree with the statements below (tick appropriately)

Very Great Extent [5]   Great extent   [4]   Moderate Extent [3]

Low Extent   [2]   Very Low Extent   [1]

Statement	Response Ratings				
	1	2	3	4	5
There is a strategic approach to responses to our major challenges					
Top Management provides the leadership and direction in formulating strategic responses					
All stakeholders more so employees and staff are consulted in the designing strategic responses					
There is top management support and commitment to the process of designing and implementing strategic responses					
The supermarket is fast in responding to environmental threats					
Top Management give resources to formulate and implement strategic responses successfully					
The supermarket usually follows the actions of the others in the sector					
The supermarket usually monitors the environment continually to establish threats and act on them on a timely manner					
Our strategic plans are altered along the way to fit to environmental changes					
The supermarket always ensures that there is a strategic fit					

between the strategies and the environment					

3. State the extent to which this supermarket have applied the stated response to cope with environmental changes

Very Great Extent [5]   Great extent   [4]   Moderate Extent [3]

Low Extent   [2]   Very Low Extent   [1]

Statement	Response Ratings				
	1	2	3	4	5
Increasing the number of products on offer					
Starting satellite branches in the residential areas					
Acquiring or taking over an existing supermarket or store					
Opening an outlet on a high demand area (prime area)					
Starting 24hr services in some outlets					
Offering loyalty programs to build customer loyalty					
Opening branches in neighboring countries					
Competitive hiring of management staff					
Aggressive marketing and advertising					
Selling at discounted prices					
Upgrading IT systems in the supermarket for efficiency and improved customer service					

5. Has the applied strategic responses been helpful in helping the supermarket cope with its challenges?

        Yes   [ ]

        No   [ ]

Thank you for your participation

Appendix II: List of Medium and large supermarkets in Kenya

1. Nakumatt Holdings Ltd
2. Tuskys Supermarket
3. Ukwala Supermarket
4. Uchumi supermarkets
5. Naivas Supermarket
6. Nova Supermarket Ltd
7. Armed Forces Canteen Organization
8. Builders Supermarket Ltd
9. Buru Buru Mini Market
10. Cash & Carry Ltd Supermarkets
11. Chandarana Supermarkets Ltd
12. Clean Way Ltd Supermarkets
13. Continental Supermarket Ltd
14. Deepak Cash & Carry Ltd Supermarkets
15. EastMatt Supermarket Ltd
16. Ebrahim & Co Ltd Supermarkets
17. Fairdeal Shop & Save Ltd Supermarkets
18. Jack & Jill Ltd Supermarkets
19. Karen Supermarket
20. Mesora Supermarket Ltd
21. Metro Cash & Carry (K) Ltd Supermarkets
22. Muthaiga Mini Market Ltd