

**STRATEGIC CAPABILITIES FOR COMPETITIVE ADVANTAGE  
AT BRITISH AMERICAN TOBACCO, KENYA**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND  
MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI**

**2022**

## DECLARATION AND APPROVAL

The research project is original work and never has it been presented for any award in any learning institution.



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## SUPERVISOR'S APPROVAL

This research project has been submitted for review with my endorsement as the university supervisor.



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## **DEDICATION**

This Research Project is dedicated to Mrs. Vicki Lydall for her immense support, morally and materially, especially during the Covid period for creating a very conducive environment that has seen its successful completion.

## **ACKNOWLEDGEMENT**

This Project has been accomplished with the support of a number of people to whom am hugely indebted to. My heartfelt gratitude goes to my course mates' class of 2020 with whom we burnt the midnight oil, spent countless days in the library in search of knowledge. We made it!

Special mention is reserved for Mr. Alex Jaleha, my project Supervisor, whose intellectual guidance, steady hand and positive criticism enabled me to accomplish this project within the required time. Thank you *mwalimu* for being patient with me. The many hours spent in reviewing, critiquing and correcting gave me valuable insights in writing a Research Project.

Last but not the least special thanks to my family for their understanding, support and exhortation.

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## **LIST OF ABBREVIATIONS & ACRONMYS**

<b>BAT:</b>	British American Tobacco
<b>DCT:</b>	Dynamic Capabilities Theory
<b>RBV:</b>	Resource-Based View
<b>PLC:</b>	Public Limited Company
<b>SMEs:</b>	Small and Medium Enterprises

## **ABSTRACT**

The global business environment is highly challenging and complex, requiring firms to acquire strategic capabilities that offer a competitive advantage over their rivals. Strategic capabilities are the ability of an organization to harness all its skills and resources aimed at gaining competitive advantage, survival, and improved value over time. The objective of this study was to determine strategic capabilities for competitive advantage at British American Tobacco Kenya. The theoretical foundation of this research was anchored on the Dynamic Capabilities Theory (DCT) and was complimented by the Resource-Based theory. To achieve the objective, the study used a case study research design where primary data was collected and secondary data sources which were used to validate primary data. The findings showed that adoption of strategic capabilities affected the competitive advantage of the company. Technology, market information, resources, skills, and knowledge were found to have significantly contributed to market share, revenues, improved product brand, or sustainability. Generally, the study recommends to BAT top policy makers and those in managerial positions to adopt innovative technology processes as leverage towards enhancing BAT's strategic capabilities for competitive advantage. Specifically, the study recommends that BAT's top management should leverage technological capability to promote its internationalization as it enables the company to form of strategic partnerships, invest in R&D, resource sharing, technology transfer, and achieve economies of scale. The study further recommends that management should continuously train its staff to seamlessly adopt technological capability by developing tacit knowledge, skills, and their competencies as a rule, since to increase exports, BAT should invest in greater technological capabilities. The study further recommends that BAT Kenya should collaborate with the government to first formulate policies that can be used to effectively enforce regulations and anti-dumping measures to enable to continuously leverage their capabilities for competitive advantage. It also recommends that BAT Kenya should realign its policies to involve consumer producers in tackling the problem of dumping counterfeit products and further develop a policy framework of enhancing sustainable practices to ensure that counterfeit products are not bought or purchased by the consumers.

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the study**

The current global business environment is highly challenging and complex, requiring firms to acquire strategic capabilities that offer a competitive advantage over their rivals. Helman (2020) argues that one way of improving competitive advantage is by harnessing strategic capabilities. Johnson et al., (2014), point out that strategic capabilities are vital as they involve harnessing skills, resources, and knowledge to propel an organization's competitive edge. Helman (2020) assert that by focusing on strategic capabilities, an organization is able to bridge the gap between planned strategies and actual results. Walters et al., (2013) posit that organizations that focus on providing competitive products and services are propelled by their internal strength and capabilities. While Segars & Grove (1995) argue that organizations fail to sustain any competitive advantage due to imitation by competitors, Hagoug & Abdalla (2021) point out that for long term success, it is imperative for organizations to capitalize and exploit its abilities to achieve a sustainable competitive advantage.

In this study, the relationship between strategic capabilities and competitive advantage was mainly anchored on the Dynamic Capabilities Theory (DCT) (Teece et al. 1997) and Resource Based theory (Wernerfelt, 1984). The DCT suggests that competitive advantage is achieved when organizations have the capability to make tactical strategic decisions in a dynamic environment, supported by the ability to capitalize on internal capabilities and resources. Resource Based theory suggests that organizations have to reconfigure their internal resources, skills, and knowledge to develop suitable strategic capabilities to overcome intense competition in the market. According to this theory, organizations have

tangible and intangible assets that enhance their capacity and capability to identify and implement strategies.

British American Tobacco Kenya plc (BAT Kenya) is part of the British American Tobacco Group (BAT Group), a leading multi-category consumer goods business. Focusing on a better tomorrow, BAT Kenya is concerned with the wellbeing of its consumers by focusing improving products that safe, less risky and environmentally friendly. BAT Kenya's success has been in cigarettes through its excellence in anticipating and meeting the preferences of its traditional consumers, adult smokers. However, the environment is dynamic; this is because there is emergence of new technologies, changes in preferences and tastes, and complexity in societal attitudes and behaviors. These new changes have provided BAT Kenya with the chance to develop new capabilities to exploit these emerging opportunities and counter threats. Thus, (BAT), being a market leader in cigarette products in the country and globally, has faced continuously improved its market share in today's competitive advantage despite stringent health legislation, declining demand for tobacco products, increased taxation, and fake products. BAT Kenya has continued to develop various mechanisms to remain competitive in the global market (BAT Kenya report 2019). The company has continuously evolved by increasing its transition from cigarette products to alternative and innovative nicotine products. The company's strong brand, stable capital base, loyal customers and supplier development strategies have enabled it to sustain its operations over the years. It is within this context that a study was required to investigate BAT Kenya continued global competitiveness by identifying the strategic capabilities it has leveraged on to lock out the competition in the global tobacco industry.

### **1.1.1. Concept of Strategic Capabilities**

Eisenhardt and Martin (2000) define strategic capabilities as an ability to alter strategic resources aimed at creating value to achieve a competitive advantage. Jenster and Hussey (2001) define strategic capabilities as the ability of an organization to harness all its skills, resources, and capabilities aimed at gaining competitive advantage, survival, and improved value over time. Nwachukwu & Chladkova (2019) define strategic capabilities as a combination of competencies and information that enables organizations to perform their activities. Alexander (2019) defines strategic capabilities as the unified internal strengths that propel an organization to provide unique products and services in the market. Tian, Xu, and Zhao (2021) define strategic capabilities as decisions aimed at transforming an organization to a competitive edge by reorganizing its resources and capabilities. A review of the definitions, guides the study to refer strategic capabilities to those knowledge and skills available in organizations that propel them to use resources with a purpose of achieving competitive advantage.

There are several elements that constitute strategic capabilities in organizations. De Sarbo (2005) classifies strategic capabilities in terms of technology, product development, production processes, marketing, logistics, and managerial skills. Strategic capabilities can be viewed based on the various functions in organizations including; partnership management, sales and marketing, strategic planning, financial management, product development and human resource management (Datta, 2009). Singh & Oberoi (2013) identified strategic capabilities to include human resource, innovation, technological, alliance, research and development and management flexibility. Scholars have described

strategic capabilities in terms of skills, information and resources (Acosta et al., 2018; Nwachukwu et al. 2019; Jenster et al. 2001; Tian, Xu et al. 2021). Alexander (2019) describes strategic capabilities as unique information and technical knowledge controlled by organizations. Despite the various descriptions of strategic capabilities by various scholars, this study did adopt the strategic capabilities indicators to include skills and knowledge, market information, technology and resources.

Studies have sought to explain the association between strategic capabilities and competitive advantage. Most studies have established a positive association between strategic capabilities and competitive advantage include (Nwachukwu et al. 2019; Tian, Xu, and Zhao 2021; Chepkole and Deya, 2019). However, other study findings have shown a negative relationship between strategic capabilities and competitive advantage (Aboelimged, 2018; Ravichandran, 2018).

### **1.1.2. Concept of Competitive Advantage**

Several scholars have proffered their own definitions of competitive advantage. According to Porter (1985), competitive advantage is defined as the earnings above the industry average that accrue to a firm. Barney (1991) expresses competitive advantage as a means in which value is created via sustainable strategies. Sigalas (2015) defines it as those factors that enable an organization to produce goods and services better than its competitors. While Flint (2000) defines it as those attributes that enable an organization to outperform its competitors, Christensen (2001) comprehensively defines it as the attributes, strengths, and factors that propel an organization to provide more affordable and quality services and products than its rivals. According to Johnson et al. (2014), it is the factor that makes a

firm dominant in the market. Maury (2018) defines it as the advantage that a firm gains over its rivals by offering its customers goods and services of greater value, either by charging lower prices or providing extra expected benefits. The definition advanced by this study was that competitive advantage is an attribute that enables an organization to achieve superior margins compared to its competition.

Strategic capabilities are guided by internal factors and forces including human resources, organization structures, financial and physical assets (Hofer and Schendel, 1980). Porter (1985) outlines two competitive advantage approaches that can primarily be applied in organization these include; doing product differentiation or cost minimizations these enables the business to offer value to its customers. Flint (2000) states that competitive advantage also entails attributes that comprise the firm's vision, brand, organizational culture, image, and market position. According to Sigalas (2015), competitive advantage entails factors such as a large capital base, technology, competent staff, and established networks. Christensen (2001) and Maury (2018) state that competitive advantage comprises of better pricing, quality goods and services, after-sale services, and expertise advisory services. Therefore, it is imperative to measure competitive advantage based on attributes such as better prices, quality products and services, and other extra services offered by the company to its customers.

Studies have empirically shown that the outcome of competitive advantage in organizations is attributed to the harnessing of strategic capabilities (Jenster & Hussey, 2001). Lorenzo et al., (2018) found that competitive advantage in business is dependent on strategic decisions that managers use in harnessing their capabilities and strengths. Thus, proving that proper utilization of capabilities enables the firm to position itself competitively in the

market. Tresna and Raharja (2019) further support that the positioning of the organization as a leader in the market depends on the unique decisions made to capitalize on available resources, skills, information, and knowledge. On the other hand, thus, competitive advantage is empirically achieved by capitalizing on strategic capabilities.

### **1.1.3. British American Tobacco Kenya**

Under the global BAT group, BAT Kenya has become a global consumer company with operations across several countries, and was subsequently listed on the Nairobi Securities Exchange in 1969 (BAT, 2019; NSE, 2019). Since its incorporation in Kenya, BAT Kenya has been able to build a good heritage through selling its products, namely cigarettes. But in recent times, new changes in the business environment, including societal attitudes, new legislation, and changes in consumer tastes and preferences, have brought new challenges to the company (BAT, 2021). The business environment and socio-cultural factors affecting negatively BAT competitive advantage are further compounded with the emergence of other competitive players in the industry. These competitors have widened their market penetration to capture thirty three percent of Kenya's market share, previously controlled by BAT Kenya Limited. This forced BAT to unveil a new strategy and purpose that focuses on alternative non-nicotine cigarette substitutes for traditional tobacco. This gives consumers a better choice and safer products for their health. Another long term health strategy utilized by the company is to focus on non-cigarette products to gradually replace combustible tobacco.

In recent times, a number of factors including public health awareness, societal changes, and technological have influenced BAT to relook at its strategy for its products. The focus

has been to offer products that are less risky, less combusive, lack tobacco and generally environmentally friendly. These after the backdrop of complaints of its products being contributors of health concerns. Introduction of modern oral nicotine pouches was a strategic change that the company undertook to address a gap in the market on nicotine free products. Since its introduction, the product has endeared itself to many consumers for its innovative and less risky contribution to health. This is a demonstration of BAT's ability to focus on its capabilities to ensure that it remains relevant in the East African region (BAT Kenya Annual Report 2021).

## **1.2. Research Problem**

Strategic capabilities enable organizations to gain a competitive advantage by utilizing skills, increasing value, and capitalizing on opportunities. A study by Salunke et al., (2019) established that knowledge capability plays a central role in enhancing competitive advantage among service industry firms. The study however focused on knowledge capability as the only element of strategic capability, thus raising a conceptual gap. A study by Ferreira et al. (2020) on strategic capabilities and competitive advantage established a positive and significant influence. The study however, focused on the moderating role of entrepreneurial orientation in the relationship, thus a conceptual and methodological gap. A study by Aboelmaged (2018) established that strategic capabilities did not significantly contribute to competitive advantage due to rapid changing business environmental factors. Unlike this present study, the study only focused on technology capability, hence a conceptual gap. On the contrary, Ravichandran (2018) found a negative relationship between strategic capabilities and competitive advantage because of management not effectively capitalizing on strategic capabilities. A study conducted by Imbambi (2018)

established a positive linkage between competitive advantage and strategic capabilities among sugar companies. However, this study was conducted in the sugar sector unlike this present study that will focus in the tobacco sector, thus a contextual gap.

BAT Kenya's strategic focus on making a better future is tied to improving product portfolio development and ensuring sustainable competitive advantage. This focus is aimed at conducting a responsible marketing process and ensuring that consumer anticipation and satisfaction are met. The company's strategic goal is guided by the action of utilizing innovation capabilities and investing in processes to achieve competitive advantage. Within the value for money segment (VFM), a strong global brand for Rothmans has been developed to capitalize on available capabilities within the company. Other strategic initiatives to improve product development include seeking feedback from customers via virtual engagements. In 2020, BAT Kenya upgraded to a more health and customer friendly products in a bid to comply with global requirements and standardization. It was expected that to achieve such a transformation to enable BAT Kenya in establishing a competitive advantage both locally and globally.

Various global, regional, and local studies on the link between strategic capabilities and competitive advantage have provided insightful findings but also pointed out a number of gaps that need to be addressed. A study by Jean and Tan (2019) on the effect of institutional capabilities on e-business firms' competitive advantage found a positive relationship between the study variables. However, the study has a contextual gap as it only surveyed e-businesses. A study by Nwachukwu & Chladkova (2019) established that organization structure positively moderated the relationship between strategic capabilities and

performance. A methodological gap emerges as the study focused on the moderating effect of structure on capabilities and performance.

A study by Chepkole & Deya (2019) found out that strategic capabilities had a positive influence on competitive advantage among IT firms in Nairobi County. However, the study's focus in the sector led creates a contextual gap. Kiseli et al., (2016) on the effect of knowledge management capabilities on the competitive advantage of five star hotels in Kenya, established that knowledge management capabilities positively and significantly influenced their competitive advantage. A study by Awino (2020) on the influence of corporate culture on operational performance of multi-national companies in Kenya, asserted that adhocracy and bureaucratic culture had a positive and significant influence on operational performance

Murugi and Kariuki (2021) study also established that knowledge capabilities determined how leather business operates in Kenya. However, the two cited studies focused on knowledge capability as the only element of strategic capabilities. Makanga's (2011) cross sectional study of Nairobi, Kenya's five star hotels, found a positive link between competitive advantage and strategic capabilities. The study differs with the current study as it focused on more than one organization, adopted a cross sectional research design and in the hospitality sector. This provides the basis of this study to address the methodological and contextual gaps highlighted in the study.

These studies, though insightful, provide conceptual, contextual and methodological research gaps that the current study will seek to fill. Some of the studies have not directly linked the concept of strategic capabilities to competitive advantage. Furthermore, different

research designs and target population have been used, raising methodological gaps. The inconclusive findings on the relationship between strategic capabilities and competitive advantage justify the need to conduct the study. To address the gaps, the study did seek to address the following research question: What are the strategic capabilities adopted as a source of competitive advantage by British American Tobacco in Kenya?

### **1.3. Objective of the Study**

The objective of this study was to determine strategic capabilities for competitive advantage at British American Tobacco, Kenya.

### **1.4. Value of the Study**

This research on strategic capabilities and competitive advantage is hoped to make a significant contribution to the field of strategic management. In respect to knowledge and theory, researchers and academicians will use the findings to identify research gaps which will form the basis for future research. This study will contribute to theory building on the prevailing theoretical frameworks such as the Resource Based View and Dynamic Capabilities theories and enriching the understanding of the various dimensions of strategic capabilities and the possible influence that each capability could have on competitive advantage.

The findings are expected to be useful in the area of practice where management practitioners and consultants will use the findings to improve on organization's strategic capabilities and thus competitive advantage. The study findings expected to guide management practices by diagnosing strategic capabilities as the first step to capitalizing them effectively in instances where innovation, production and technological capabilities

that can be being carried out by the organization. Management consultants are expected to benefit from the findings by recommending sustainable strategic capabilities that can be adopted by MNCs strategic for competitive advantage.

Regarding policy formulation, the study is expected to inform BAT Kenya's organizational policy development on issues such as innovation, production, technological and marketing capabilities for competitive advantage. The study findings are expected to help the government and senior executives of BAT Kenya to formulate policies to comply with the legislative framework on the harmful effect of cigarettes. Such policies are expected to aid in fostering the growth of BAT Kenya and allow it to capitalize on its strategic capabilities for competitive advantage.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This section outlined a review of theoretical and empirical studies from credible secondary sources guided by the purpose of the study. These studies seek to establish the association that exists between competitive advantage and strategic capabilities. The chapter is organized into terms of theoretical foundation, empirical review of literature and lastly, based on the reviews, the research will provide a summary of knowledge gaps.

### **2.2 Theoretical Foundation**

The theoretical foundation of this research was anchored on the Dynamic Capabilities Theory (DCT) and complimented by the Resource-Based theory. As the main theory, DCT posit that to achieve a competitive advantage, an organization must have the capability to address the dynamic environment by capitalizing on the strategic resources which are found externally and internally in the business. The RBV suggests that a linkage between capabilities and strategic resources that enable the firm to remain competitive.

#### **2.2.1. Dynamic Capabilities Theory (DCT)**

The Dynamic Capabilities Theory (DCT), (Teece et al. 1997) suggests that competitive advantage is achieved when organizations have the ability to make tactical strategic decisions in a dynamic environment by capitalizing on its internal capabilities and resources. Capabilities are unified patterns of learned behaviors that are organizations can use to propel them in a better position than other competitors (Winter, 2003). DCT explains reasons that bind organizations to merge and redesign their capabilities found externally

and internally to ensure they are able to merge new competitive situations that are found in a dynamic environment (Miles, 2012). The theory postulates that organizations have to capitalize on internal and external sources of environment so as to remain relevant in a competitive industry.

According to the Wernerfelt (1984), firms need to concentration on its capacities for this will cushion them from external threats, maintain competitiveness and open up new opportunities in the long-term. Organization capabilities represent a scenario in which a firm exploits its strengths and minimizes its weakness while the dynamic capabilities refer implementation and exploration of new opportunities (March, 1991). The theory avers that competitive advantage occurs when resources or capabilities are scarce, but are available to the organization and not the competition. While DCT has been criticized for being tautological and impossible to operationalize, organizations must still be able to reinvent and match their strategic capabilities with the demands of their changing environment to attain a competitive advantage.

### **2.2.2. Resource-Based Theory**

Developed by Wernerfelt (1984), the RBV theory suggests that organizations reconfigure their internal resources, skills, and knowledge to develop suitable strategies to overcome intense competition in the market. Barney (1991) asserts that managers have the capacity to evaluate their internal resources to establish their strengths and weakness in order to formulate strategic choices. Wernerfelt (1984) postulates that the organization will be competitive and perform better if it makes suitable choices based on internal resources, knowledge and skills. Hence, different configurations can generate the same value for these firms.

The theory postulates conditions that organizations can capitalize and maintain in a competitive environment. The theory affirms that organizations need to evaluate their internal resource capabilities to sustain or enhance their competitive advantage (Miles, 2012). Wernerfelt (1984) points out that the ideal position that propels the organization to utilize its resources and make it more competitive in the industry. A comparison between two firms is based on the extent to which each outshines the other in capitalizing on its resource capabilities. An organization can be regarded as a competitive advantage when its making profits, consumers are satisfied and it applied value addition strategies (Barney, 1991). If other organizations lack the means and the strategy to capitalize on their resources they remain behind, and therefore making the other competitive firm to have a sustainable competitive advantage (SCA). Criticisms have been pointed at the theory, that it focuses on capitalizing resources but it does not provide the methods in which they would be sourced. Notwithstanding the criticism, organizations need to capitalize on their resources and integrate them in their strategies to ensure a competitive advantage.

### **2.3 Strategic Capabilities and Competitive Advantage**

A number of global, regional, and local related empirical studies have been conducted seeking to explain the relationship between strategic capabilities and competitive advantage. Ferreira et al (2020) conducted a study among Portuguese big multinationals, established that dynamic, creativity, and innovation capabilities had a positive and significant influence on the performance of the multinationals. The study differs from this current study because it used a descriptive research design, hence a methodological gap that this study will address by adopting an in depth case study design. Vishnu et al., (2019) Meta analytical review of empirical literature, found out that flexibility, reliability,

resilience, robustness, agility, adaptability, alignment and responsiveness capabilities are useful in reducing risks in supply chain. Hence, business firms need to adopt these capabilities in reducing the magnitude of losses along the supply chain, this will increase the firm's competitive advantage. The gap in this study is that it did not link strategic capabilities to attainment of competitive advantage, thus a conceptual gap.

A study by Cao et al., (2019) established that information processing capability enhanced competitive advantage in international markets through improved brand and market share. This study differs from the current study because it only used secondary data for data analysis, hence a methodological gap. Le & Lei (2018) sought to find the effect of innovation, speed and quality capabilities on low-cost competitive advantage in Chinese firms. They established that Chinese organizations focused on primarily exploiting their internal capabilities to produce quality-differentiated products for competitive advantage. Le et al. (2018) found that Chinese firms that competed locally and internationally mostly focused on innovation, speed and quality capabilities to enhance their competitive edge in the market. The study was conducted on Chinese manufacturing firms, hence a contextual gap.

Nusair et al. (2021) descriptive study on strategic capabilities and firm performance in Omani Manufacturing and Service SMEs, established that marketing and management capabilities positively and significantly influenced productivity of SMEs. The methodological and conceptual gap in the study is that it employed a descriptive research design and its dependent variable was performance, which differ from those that will be employed by the current study. A study by Quaye & Mensah (2019) established that SMEs in Ghana's manufacturing industry adopted marketing capabilities by integrating resources

to sustain and improve their competitive advantage. This finding illustrates the importance of capitalizing capabilities to propel organizations' competitive edge among SMEs in manufacturing firms. This study differs with the current one because its unit of study was SMEs, whereas the study focused on one multinational company, thus a methodological and contextual gap.

A descriptive study was conducted by Tundui (2020) on strategic capabilities and performance of higher learning institutions in Tanzania, found a positive, significant relationship between technical capability and competitive advantage. This indicates that technical capability is essential in improving the competitive advantage. A case by Salunke, Weerawardena, and McColl-Kennedy (2019), established that by investing heavily in knowledge management systems and developing innovative systems improved a company's mining capability, thus enhancing its competitive edge. This study differs from this present study as it focused on one aspect of strategic capability, knowledge integration capability, thus a conceptual gap. A study by Imbambi (2018), on the influence of strategic capabilities on the competitive advantage of sugar companies found in Western Kenya, established a positive, significant relationship existed between technology, material capabilities, and competitive advantage. The study unlike the present study differs in the units of the study and research designs employed. Makanga (2021), sought to establish the effect of strategic capabilities as a source of competitive advantage among the five-star hotels in Nairobi, Kenya. The survey study found that strategic capabilities contribute to the achievement of competitive advantage among five-star hotels. The contextual gap in this study is that it surveyed several five-star hotels, unlike the present study whose focus is on one organization. Kamau's (2020) study of commercial banks in Kenya, sought to

establish the effect of organizational strategic capabilities, compliance with regulations, on competitive advantage, established that information capability, knowledge management capability, organizational agility, and market capitalization influenced competitive advantage. Commercial banks need to exploit organization agility and market capitalization to increase the brand and acceptability of their products in the market.

A descriptive research design study was conducted by Kamau, Senaji, Eng and Nzioki (2019) that sought to find the significant relationship between competitive advantage and strategic capabilities in 39 operational commercial banks in Kenya. Some of the strategic capabilities information technology, knowledge management, operational agility and marketing capitalizing are mentioned by the study which contributes to competitive advantage of commercial banks in Kenya. The design employed by this study provides the methodological gap in which the current researcher will seek to fulfil.

#### **2.4. Summary of the Knowledge Gaps**

The studies reviewed have showed a number of methodological, conceptual, and theoretical gaps. Studies by Imbambi (2018), Makanga (2021) and Kamau (2020) found a positive relationship between strategic capabilities and competitive advantage, but these studies differed from the current study as they focused in the sugar and hospitality sector and adopted a descriptive research design, thus a contextual and methodological gap. The studies focused on several institutions as compared to the one organization that will be used in the current study. While studies by Murugi and Kariuki (2021) and Kiseli, Senaji, and Eng (2016) found that knowledge capability positively influenced competitive advantage, they differ with the present study in terms of conceptualization of the independent variable.

Studies by Cao, Duan, and Cadden (2019) and Ferreira et al., (2020) adopted different conceptual relationships and contexts in which they were conducted.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter pointed out the methodology utilized by the study which is organized chronologically from research design, data collection and analysis of data.

### **3.2 Research Design**

According to Bougie and Sekaran (2019), a research design presents a scientific plan used to guide the study methodology. The study used a case study research design. Kothari (2004) describe case study as a detailed analysis of a given phenomenon, object, location, or organization to obtain the required inferences. The case study was a relevant research design that provided a comprehensive, and in depth analysis of the specific phenomena that was investigated. In reference to a case, the design sought to evaluate meanings, descriptions and inferences to a particular aim (Yin, 2009). According to Kothari (2004) the design was useful in providing a comprehensive analysis of a specific area of study. This study with therefore sought to analyze a specific multinational (BAT) covering the relation between strategic capabilities and competitive advantage.

Various scholars have successfully applied case study design to address their study objectives. Hoti (2019) did a case study on strategic capability of manager in Spectra international company. Cao et al., (2019) did a case study on Frater communication firm to find the association between information processing capabilities and competitive advantage. A study by Hautala (2021) conducted a study in Bentram inc. aimed at finding transforming strategic capabilities by co-creating an updated leadership development plan.

The studies cited above justify the choice of the case study because the research seeks to conduct an in-depth analysis to obtain information from the unit of the study.

### **3.3 Data Collection**

Data collected in this study came from primary and secondary sources. Primary data was collected with aid of an interview schedule that was administered to the interviewees. An interview schedule was deemed a suitable research instrument as it gave the Interviewees a wider scope to respond to a given set of questions (Mohajan, 2018). The instrument did have open-ended questions as per study objectives. Interviewees included the managing director, external services and trade, human resources and marketing. Secondary data was obtained from BAT annual reports, minutes of meetings and strategic plan. The secondary data was used to validate or confirm primary data in the analysis.

The process of collecting data began by obtaining a letter of transmittal from the sponsoring institution. This was followed by seeking authorization from the company where the study was conducted. Once all these had been achieved, a pre-visit was conducted to book and agree on the dates to conduct the various interviews. The interview process was scheduled to take a period of 2 weeks, and each interview was slotted for a 40-minute period. Interviews were conducted by the researcher, and to ensure that every detail was captured, an audio-visual recording was made, but only after seeking their consent. Data collected thereafter was stored ready for analysis and reporting.

### **3.4 Data Analysis**

Data collected and stored were organized into various themes of the study. Content and thematic methods of analysis were used in this study. Primary data was analyzed using content analysis while secondary data was analyzed using thematic analysis. Gaur and Kumar (2018) define content analysis as a method where various qualitative data sets are filtered, categorized, and presented in a logical sentence. Content analysis as cited by Bougie and Sekaran (2019) was appropriate for analyzing qualitative data which required logical arrangement of responses. Content analysis according to Kumar (2018) poses the following benefits of using content analysis; it increases validity and relevancy of the study data and presents a logical flow of literature review. Secondary data was analyzed using a systematized process and therefore thematic analysis was used.

Several studies have provided justifications on the use of thematic and content analysis involving data that is qualitative in nature. Cohen (2013); Nayak and Singh (2016) and Wanjohi (2014) did studies successful to indicate that thematic and content analysis are useful in analyzing qualitative data. This is because it provides a logical and systematic sequence of analysis of open spaced data. These types of analysis involved the following sequential steps: formulating themes, arranging various responses according to the themes, and reporting the various responses in the form of logical statements. A final report will be written to document and present the analyzed data.

## **CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION**

### **4.1. Introduction**

The chapter presents data analysis, findings and discussion. The study focused on general information of the company, strategic capabilities and discussion of findings. The study interviewed the managing director (1), heads of external services (2), human resources (3), marketing (4) and trade (5) respectively. This was aimed at addressing the research objective of determining strategic capabilities for competitive advantage at British American Tobacco, Kenya.

### **4.2. General information**

The general information included the number of years in the company, some of the strategic decisions formulated by the company, and views on the global and regional markets for the company's products.

#### **4.2.1. Number of years in the company**

Interviewees were asked to state the number of years they had been with the company. Interviewees 1, 3, and 4 had worked for the company for a period more than 10 years, while respondent 2 stayed for a period of 5 years. Only respondent 5 have been in the company for a period of 2 years. This shows a large number of the Interviewees have the required experience, having stayed in the organization for a longer period. This was validated by BAT (2021) annual report that indicated the appointment of the head of trade at the end of 2021 (Appendix iii).

### **4.2.2. Company strategic decisions**

The study sought to establish from the Interviewees' mention some of the strategic decisions made by the company. The interviewees gave the following responses:

"The company is focused on strategies for high growth of consumer goods, global marketing, developing a multi-category product portfolio, and maintaining market sustainability." Managing director.

"the company strategic decisions revolve on stronger global brands, responsible marketing, environmental sustainability, remarkable technological innovations, and portfolio transformations." Head of trade.

These interview findings were supported by the company's 2020-2023 strategic plan (Appendix vi), which showed the company's strategic focus was on manufacturing multi-categorical portfolio of non-combustible products, innovative technologies, environmental sustainability, responsible marketing and developing new ethos for the company. These strategic decisions were aimed at meeting the needs of the adult consumers and gaining a competitive advantage in the industry.

### **4.2.3. Global and regional markets**

The Interviewees were asked to indicate their view on the global and regional markets for the company's products. The interviewee gave the following response;

"The regional market is affected negatively by illegal trade, health restrictions and legislation, and new excise duties imposed on local products which affects the company products." Head of trade.

Furthermore, on the global and regional market the following were the additional response,

"The global and regional market is full of opportunities in which is available for the company to exploit and there is expectation that the revenue will be increasing each quarter of the year." Head of external services.

These findings were supported by the Minutes of a stakeholders meeting held in 2019 (appendix v) which revealed that the balanced revenue streams stood at 55% for domestic revenue and 45% for export revenue. Furthermore, supporting evidence was shown in the BAT strategic plan of 2020-2023(Appendix ix), which ascertains the findings of the interviews by stating that the objective of the company is to try to mitigate the negative effects brought on by illegal trade which affects its domestic or regional market. Additionally, the company is strategically mitigating the effect brought by the institution of local health legislation. More in support, the company's financial results for 2021 (appendix vi), showed that the company developed strategies that is used to focus on the global market by building a stronger global brand.

#### **4.2.4. Company strategic capabilities**

The study asked the Interviewees to highlight the strategic capabilities of BAT Kenya. The findings from a interviewee was as follows;

“BAT is focused on skills and knowledge by enhancing organization culture and talent, and building the capacity of various stakeholders through training and extension services.” Human resources.

More on the question on strategic capabilities found in the company interviewee’s responses was as follows:

"The company is capitalizing on marketing data to develop innovative health products that meet the needs of consumers." Head of trade. "Focus is on the use of its technology capacity to reduce costs and linking the company with the global market." Head of trade.

These findings are supported by the BAT annual report of 2021 (Appendix iii). This is by justifying that the company is utilizing marketing information, resources, technology, skills, and knowledge to propel its position and sustain its operations globally and regionally. These capabilities include initiatives such as remarkable technological innovations, talent and culture, portfolio transformation, and inspirational foresights based on marketing data.

### **4.3. Strategic capabilities and market position**

A company's marketing position consists of information relating to its products, image, market share, and quality, making it distinctive in the market. There are a number of strategic capabilities that contribute to the market position of the company. The Interviewees were asked in order of importance to explain the strategic capabilities that are more significant to BAT's Kenya market share. The interviewees gave a number of responses as follows.

"The company uses its skills and knowledge capabilities to conduct responsive marketing, create consumer awareness, develop new product categories, and retain skilled and talented employees." Head of external services.

The response by the head of external services is documented in the the BAT annual report of 2021 (appendix iii). The report outlines that the company is using skills and knowledge

capability in the industry to develop a leading non-combustible cigarette brand, which has enabled them to control 59% of the entire local market. Furthermore, the companies have a work plan to enhance talent and culture, which enables the company to attract and maintain the best talent and become an attractive employer in the country. Furthermore, an interviewee gave additional responses on strategic capabilities as follows;

“The company is utilizing marketing information capability. This capability has propelled the company's product image and brand through consumer-powerful analytics and data.” Head of marketing.

The BAT annual report of 2021 (appendix iii) affirms the use of marketing information capability by outlining how it has enhanced the company's supply chain and growth segments, leading to a stronger global and local brand. The report shows that migration into global strategic value brands on product portfolios has led to 100% retention of existing volume and franchise and an increasing product growth rate by 2%.

Additionally, on the company strategic capabilities the response of another interviewee was as follows;

“The company use of market information capability has enabled the company to prioritize markets and ensure product categorization. Furthermore, it has enabled the company to offer a range of responsible and viable products that impact positively on the image and brand of the products in the cigarette industry.” Head of trade.

These findings were supported by BAT's annual report of 2021 (appendix iii), which showed that the market brand regionally had improved due to the new product categorization.

#### **4.4. Strategic capabilities on product quality and productivity**

The study sought to establish from the Interviewees' to identify which strategic capabilities that have enabled BATs, Kenya to enhance their product quality and productivity. Product quality and productivity can be achieved by developing effective products and setting relevant prices that are competitive with those of their competitors. The Interviewees were asked to indicate whether strategic capabilities in product quality and productivity. The response from an interviewee was as follows;

“The company has been using the technological capability in enhancing product quality and productivity. This has been used in creating awareness and developing a multi-category portfolio of non-combustible products. This was achieved by relying on a global network of digital hubs and innovation super centers.”

Managing director.

The BAT strategic plan for 2020–2023 (appendix iv) confirms the responses of the managing director. This is by indicating that the company utilizes a new global SAP system and target operating model (TAM). This enables the company to check visibility of the current and future material requirements, leading to increased product quality and productivity. Also, the annual report of 2021 (appendix iii) showed that unlocking commercial value through trade digitalization, which leverages digital web solutions, has helped competitively to order and fulfill the needs of the traders. Technological capability

usage has been able to diversify consumer distribution to 13 markets in Africa, increasing the organization's brand. The manufacturing hub, aided by technological innovation, has resulted in output growing at 3% and the value of exports growing by 1%. This financial result was reported via minutes of stakeholders meetings in the year 2020 (appendix v).

More on the use of strategic capabilities on quality and product interviewee the response were as follows;

‘The company uses skills and knowledge capability in availing to adult consumers less risky products that are enjoyable by clearing combustible cigarettes and building capacity on safer products.’” Managing director.

This response by the managing director is supported by the annual stakeholders meeting minutes of the year 2020 (appendix v), which outlined the use of new knowledge in the industry to encourage smokers to adopt scientifically sub-standard and reduced-risk alternatives. This initiative has enabled the company to dominate the market and control a brand in the provision of combustible cigarettes. Moreover, the BAT annual report of 2021 (appendix iii) showed that the market share had increased by 2.7% due to the new portfolio of new products. Furthermore, another interviewee provided additional responses on the capabilities as follows;

"The company is using its knowledge and skills of the industry to communicate about new product categorization by building capacity targeting trade outlets."  
Head of trade.

The response by the head of trade is revealed by BAT strategic plan 2020–2023 (appendix iv). The strategic plan outlines knowledge and skills of the industry which aids in creating

consumer awareness of the new tobacco-free oral nicotine products and their availability. According to the plan, the capability was aimed at making Kenyan adults make informed choices to switch away from smoky cigarettes. Lastly, more on the strategic capability another interviewee response was as follows;

"The company uses marketing information in controlling the nature of trade. To curb illegal trading in the region or local market, the company is utilizing marketing information to mitigate illegal trade. This is done by increasing control and monitoring units along the supply chain." Head of external services.

The effects caused by illegal trade as outlined by the interviewee response are documented in the BAT 2021 annual report (appendix iii). The report showed that illicit trade is a major detriment to the performance of the company in the local market. It indicated that the total production of cigarettes locally had reduced by 4.5% due to shrinking demand occasioned by heightened levels of illicit trade in cigarettes. Therefore, the company is focused on monitoring export volumes and increasing controls on product manufacturing processes.

#### **4.5. Strategic capabilities on financial positions**

The study sought to establish which strategic capabilities have a major impact on BAT's Kenya revenues. Interviewees were to state the types of financial options that have helped BAT, Kenya, address its financial sustainability, and strategic capabilities contributing to better pricing than those of their competitors. Responses on strategic capabilities having a major impact on BAT's Kenya revenue from interviewee were as follows:

"The company uses technology capability by using a simplified set of integrated business model processes and the application of powerful data analytics. This has helped the company to cut down on logistic and storage costs." Head of trade.

The responses by the head of trade were outlined in the BAT annual report of 2021 (appendix iii). The report shows that the use of supply chain management applications helped to optimize stock levels. This report showed that this applications it has enabled cost-efficiency by digitally transforming businesses and enhancing company revenues. The report additionally showed that the company's gross revenue had increased by 3% to Ksh40 billion, which was driven by pricing benefits following excise-led price increases in the domestic market. Interviewee response on financial options helping the company to achieve financial sustainability was as follows:

"The company employs technology to enhance its financial health. This is by the use of the Target operating model (TOM) which have enabled the company to share more and reallocate resources, reducing operational costs." Head of external services.

Additionally response on strategic capability on financial options was as follows,

"The company focusses on leveraging on the product to manage costs. This is achieved by minimizing the cost of production by focusing on variety reduction by producing fewer and stronger brands." Head of marketing.

BAT's annual report of 2021 (appendix iii) showed that new products are achieved using world-class research and development laboratories. There have been fruitful external partnerships and corporate ventures with like-minded global firms, increasing global penetration and financial capacity.

The interviewees were asked whether the several strategic capabilities that have contributed to better pricing than those of the competitors. The response of the interviewee was follows;

“The company ensures that it is a price leader in the industry. This is by offering a range of distinctive, responsive, and viable marketable products, propelling it from the competitors.” Head of trade.

In support to the response by the head of trade the 2019 stakeholder annual meeting (appendix v) showed that unique products have made the company a high-growth consumer goods company, being a price leader in the market.

#### **4.6. Strategic capabilities on sustainability issues**

The company is focused on sustaining its operations for the benefit of various stakeholders. Several capabilities have been employed by BAT, Kenya aimed at sustaining various functions and activities. The company's strategic plan 2020–2023 (appendix iv) showed that it intended to sustain environmental aspects, stakeholder returns, and the organization's reputation. Also, BAT's annual report 2021 (appendix iii) showed that earnings per share were up by 18%, reflecting a higher profitability. This is in line with the commitment to deliver sustainable shareholder value.

On strategic capabilities in the environment, the interviewee response was as follows; "The

Company is using its knowledge and skills to ensure conservation and protection of the environment. This was done by utilizing modern strategies that ensure operations and products are environmentally friendly.” Managing director.

BAT's strategic plan 2020–2023 (appendix ix) ascertains this finding by stating that the company is seeking to achieve carbon neutrality in all operations by eliminating unnecessary single-use plastics or employing re-usable packaging. Furthermore, the strategic plan pointed that the company aims to achieve 100% renewable electricity in its operations sites by 2030. This response were further pointed by the BAT annual report 2021(appendix iii) showed that the company is amongst the only institutions certified as energy compliant by Energy and Petroleum regulatory authority for its energy sustainable initiatives.

Also, one interviewee gave responses on the company utilizing its strategic capabilities on sustainability as follows;

"The company uses its resource capabilities to sustain its image and brand by employing a programme on the youth and farmers. This is done by ensuring that the company is socially responsible for the needs of the stakeholders." Head of external services.

The response of the head of external services is vindicated by the company's annual report of 2021 (appendix iii), which outlines that youth access prevention is in place to ensure youth do not engage in smoking. Additionally, the report indicates a partnership with contracted tobacco farmers. This is done through the provision of extension services, cheap loans, and certified seeds aimed at enhancing livelihoods and driving sustainable agricultural practices in tobacco farming. Furthermore, to prove the company's financial capability, as reported in the BAT annual report of 2021 (appendix iii), the company has invested \$2.5 billion in manufacturing tobacco-free modern oral nicotine products, which is the first of its kind in Africa.

On strategic capabilities enhancing organizational culture sustainability, the interviewee response was as follows:

"The Company is sustaining organizational culture by cultivating ethos responsible to change. This is through disability inclusivity, fostering inclusivity in human resource programs, and creating career-progressive opportunities for the employees." Head of human resources.

The strategic goal of sustaining organization culture, as per the annual report 2021 (appendix iii), was to increase representation of persons with disabilities in the company's employee population by 5% by the year 2025 and ensure 50% female representation in the workforce. Furthermore, the company is seeking to change its ethos to meet global standards and requirements by employee inclusivity and complying with all applicable tax legislation.

#### **4.7. Discussion**

The study established concurrence of the company strategy capabilities with the theory of Dynamic Capabilities Theory (DCT). The DCT suggests that competitive advantage is achieved when organizations have the capability to make tactical strategic decisions in a dynamic environment, supported by the ability to capitalize on internal capabilities and resources. This was empirically illustrated in the study, as BAT management had to make decisions to capitalize on its internal capabilities and resources. The company was able to use knowledge and skills, technological and marketing information to achieve a global and local brand product and price leadership. Furthermore, the findings of the study were in line with application of the Resource Based Theory. Resource Based Theory suggests that organizations have to reconfigure their internal resources, skills, and knowledge to develop

suitable strategic capabilities to overcome intense competition in the market. This was empirically proven in company BAT strategic plan 2020-2023 and Financial results 2021 where it mentions use of current human resources, technology and market share to enhance its brand visibility and presence in the industry.

The study found that strategic capabilities employed by company revolve around the development of a new portfolio of products, embracing innovative technologies in operations, focusing on sustainability, responsive marketing, and health considerations. The strategic capabilities established by the study which are employed by the company is supported by Makanga (2021) who states that recently the majority of the companies are focused on issues related to technology, sustainability, quality and meeting consumer needs.

The study established that building a strong global and local market brand is the primary priority of the company. Furthermore, the study established that BAT Kenya is employing the following capabilities to enhance its competitive advantage, including skills and knowledge, marketing information, technology, and resources. These capabilities are applied through the following strategies: technological innovations, talent and culture, portfolio transformation, and use of consumer data analytics. These findings agree with Tundui (2020) study that indicated that technological innovation, talent and organization culture, use of consumer data analytics and portfolio transformation were critical strategic capabilities that enhanced an organizations competitive advantage in the global and local markets.

Findings on strategic capabilities on market image and brand at the company shows that knowledge and skills capability were used to develop and produce a brand that enhanced

the company's market share in the industry. This capability was used to develop non-combustible cigarettes, which is a unique brand in the market. The same information is supported by a study by Cao et al. (2019), which established that information processing, knowledge, and skills capabilities are suitable ingredients for competitive advantage advancements in international markets. Furthermore, the company is using its organizational culture and ethos to attract and maintain competitive staff. The use of marketing information capability enabled the company to develop a stronger global and local brand. The use of marketing information technology capability is supported by a study by Salunke et al. (2019), who agree that investing in knowledge management systems is a useful capability in enhancing competitive advantage.

On the strategic capabilities of product quality and productivity, the study found that technical capability has enabled the company to develop quality products that meet consumer needs. Indambi's (2018) study supports this finding by stating that there is a significant relationship existing between technology and competitive advantage. The study established that the company is using skills and knowledge in developing non-combustible cigarettes, which makes them dominate the market. Kamau (2022) in support of the finding found that information and knowledge capabilities influence market capitalization, increasing brand and acceptability of the products. Furthermore, marketing information capability is to reduce the risks of illegal trading of cigarettes found in the market.

For the strategic capabilities on financial position, the study found that marketing information is used by the company through the use of consumer data to set prices, which has increased gross revenues. Quaye and Mensah (2019) support the finding by stating that marketing information is used to improve and sustain business operations, thus minimizing

costs. The company's use of technological applications has enhanced efficiency in operations, reducing costs and optimizing stock levels, thus increasing revenues. Le et al. (2018) found that there is a positive relationship between marketing information capabilities and revenue generation in organizations. Therefore, strategic capabilities are able to enhance financial positions.

The company is using its knowledge and skills in energy conservation and its resources to ensure that operations are aimed at conserving and protecting the environment. The resource capability has enabled the company to sustain its operations by maintaining earnings per share. This is in line with the commitment of the company to deliver sustainable shareholder value. This finding goes in agreement with the study by Quaye and Mensah (2019), who stated that strategic capabilities are useful elements in organizations to enhance sustainable practices.

Several studies disagreed on the relationship between strategic capabilities and competitive advantage. Studies by Salunke et al. (2019) and Ferreira et al. (2020) agreed that a positive relationship exists between the variables, while Ravichandran (2018) and Aboelmaged (2018) studies agreed on a negative relationship between the variables. Empirically, the current study has ascertained a positive relationship between strategic capabilities and competitive advantage.

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMEDATIONS**

### **5.1. Introduction**

This chapter presents summary of findings, conclusions made as per the findings and the study's recommendation for policy and practice. Further it gives suggestions for further research and the study's contributions to the body of Knowledge. The chapter is divided into various sections. Section 5.1 presents the introduction; section 5.2 provides summary of findings; section 5.3 presents the conclusion and recommendations of the study and finally, section 5.4 provides suggestions for further research.

### **5.2. Summary of the Findings**

Qualitative findings revealed that the company is focused on being competitive by revolving its decisions around developing new portfolio products, utilizing innovative technologies, advocating sustainability in operations, and conducting responsible marketing. Some of the strategic capabilities for competitive advantage utilized by the company as outlined in their various documents include: skills and knowledge, marketing information, technology, and resources. These strategic capabilities were employed by the company through talent and culture, portfolio transformation, using consumer data analytics, and environmental and financial sustainability.

Strategic capabilities of the company were assessed to establish on their contribution towards market image and brand. Secondary data from BAT annual report showed that knowledge and skillsets are used to maintain a market share. Also, use of talent and culture capitalizing enables the company to attract and maintain a more competitive staff. Qualitative findings from the interviewees indicated that marketing information

capabilities enabled the company to develop a stronger global and local brand which positions the company's products competitiveness in the market.

The company strategic capabilities focusing on product quality and productivity were assessed and reported by the study. Minutes of stakeholder meeting of the company in 2021 revealed that technological capabilities have enabled the company to develop quality products that meet consumer needs. According to the interviewees responses is through employment of skills and knowledge in developing non-combustible cigarettes, which has enabled the company to control its productivity and dominate the market. Furthermore, financial results of 2021 revealing that marketing information capabilities aid in reducing risks found in the market. This marketing information capability is used in tackling illegal trading in local trade by building a strong global market brand through employment of technological capabilities such as data analytics to track products.

The company strategic capabilities on the financial position revealed that marketing information enabled the company to use consumer data to set prices this was revealed through the company annual report. As a result of this strategic capability employment the company has been able to increase its gross revenues. Furthermore, interviewee responses showed that technologically related applications have enabled the company to conduct efficient operations, which have helped to reduce costs and optimize stock levels, leading to increased company revenues. Notably, the financial results of 2021 for the company revealed that use of resources has enabled the company to offer a productive range of distinctive responsive needs to the consumer, shaking off competition.

The company strategic capabilities on the sustainability of the company's operations were revealed by the study. Strategic plan 2020-2023 revealed that the company is using

knowledge and skills in energy conservation by devising environmentally friendly operations. While the annual report of the company use of resource capacity have enabled the company maintain its earnings per share for its shareholders. This is in line with the commitment to deliver sustainable shareholder value. Responses from the interviewees showed that the company uses marketing information and resources to sustain its organizational culture and cultivate a distinctive ethos within the company.

## **5.2. Conclusion**

A number of studies have differed on the association between strategic capabilities and competitive advantage the current study conclusively makes a declarative Strategic capabilities employed by the company contribute to competitive advantage. Knowledge and skills capabilities are effective ways of maintaining a market share and developing environmentally friendly species and products. BAT. utilized knowledge and skills such as safeguarding human health in developing non-combustible cigarettes unique in the market. Marketing information capabilities are primary important ingredients in developing stronger global brand and reducing risks found in the market. BAT with capitalization of the resources and capabilities have developed e-cigarettes which are accepted in the international market.

Gap existed on studies that explain influence of culture capabilities on competitive advantage. The use of cultural capabilities is observed to define sustainable shareholder value by developing effective ethos that attract and maintain competitive staff. Technological capabilities have been used by the company since the year 2010, the use of consumer data analytics and technological applications. These capabilities have enabled the company to reduce costs and optimize stock levels. BAT uses consumer data to set

competitive prices which have increased the gross revenues of the company. These capabilities, including technological, skills, and knowledge, have contributed to the development of strong and quality products dominating the market.

### **5.3. Recommendations**

The study recommends to BAT's top management to leverage technological capability to promote its internationalization as it enables BAT to form strategic partnerships, invest in R&D, resource sharing, technology transfer, and achieve economies of scale. The study further recommends that management should continuously train its staff to seamlessly adopt technological capability by developing tacit knowledge, skills, and their competencies as a rule, since to increase exports, BAT should invest in greater technological capabilities.

The study recommends that BAT Kenya should collaborate with the government to first formulate policies that can be used to effectively enforce regulations and anti-dumping measures to enable to continuously leverage their capabilities for competitive advantage. Secondly, the study recommends that BAT Kenya should realign its policies to involve consumer producers in tackling the problem of dumping counterfeit products and further develop a policy framework of enhancing sustainable practices to ensure that counterfeit products are not bought or purchased by the consumers.

### **5.4. Limitations of the Study**

The study was tied on the conceptual, methodological and context limitations. But these limitations were mitigated ensuring that they did not have any impact on the final outcome of the study. On the conceptual limitation, the study limited itself on a few dominant

strategic capabilities in organization including; skills and knowledge, marketing information, technology, and resources but in business environment there are numerous capabilities. The study utilized competitive advantage instead of performance this is because the competitive advantage can be easily be linked with strategic capabilities.

On the methodological limitations the study employed a case study and qualitative data from interviews and secondary data. The case study usage does not bring the broad picture of the issues affecting the cigarette industry. The qualitative data was appropriate in gathering more data within a short period of time. Contextually, the study was limited to one organization not selecting other cigarette manufactures locally, regionally or globally. The study sought to find an in depth analysis of specific organization.

### **5.5. Suggestion for further studies**

The study suggests for another empirical research to investigate other strategic capabilities which were not investigated in the current study. A study can also be done to establish the influence of strategic capabilities and performance of multinational companies dealing with cigarette manufacture regionally or globally. The study suggests that a survey design be used by other researchers to validate the results of this present study and to mitigate the limitations of the case study. Thus, to obtain a comprehensive understanding establishing the effect of strategic capabilities on performance of cigarette manufactures in East Africa/Africa, a longitudinal study should be adopted



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## Appendix i: Letter of Transmittal



### **FACULTY OF BUSINESS & MANAGEMENT SCIENCES KISUMU CAMPUS**

Telegrams: "Varsity" Nairobi  
Fax: 4181650  
Kisumu, Kenya  
Telex: 22095Varsity  
Mobile: 0720348080  
Email: [sobkisumu@uonbi.ac.ke](mailto:sobkisumu@uonbi.ac.ke)

P.O Box 825-40100  
Kisumu, Kenya

**Date: 13<sup>TH</sup> JULY, 2022**

**REF: UON/CHSS/SOB – KSM/ D61/188860/2016**

#### **TO WHOM IT MAY CONCERN**

The bearer of this MARTIN AMOLLO  
REGISTRATION NO: D61/188860/2016

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is expected to carry out a research project study on **"Strategic Capabilities for Competitive Advantage at British American Tobacco, Kenya."**

He has identified your organization for that purpose. This is to kindly request your assistance to enable the student complete the research study. The exercise is strictly for academic purposes. The student is expected to strictly adhere to all guiding principles for ethical research. Your assistance will be greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nixon Omoro'.

**DR NIXON OMORO**

**COORDINATOR, FoB&MS, KISUMU CAMPUS**



13/7/2022

## **Appendix ii: Interview Schedule**

The interview is scheduled for a period between 30-45 minutes, the respondent is free to consent and responses will for academic purposes.

### **General questions:**

1. How long have you been working with BAT Kenya?
2. How are strategic decisions formulated and implemented in your company?
3. What is your view on the global and regional market for the company's products?

### **Questions on capabilities and competitive advantage,**

4. Highlight the strategic capabilities BAT Kenya poses
5. In order of importance, explain the capabilities that are the most significant to BAT, Kenya's market share and competitiveness
6. Which strategic capability has a major impact on BAT's revenues?
7. Which strategic capability has influenced the company's market position?
8. Which strategic capability has enhanced the company's image?
9. Which strategic capability BAT possesses that has contributed to better pricing than competitors?
10. Which strategic capability has enhanced BAT Kenya enhanced product quality?
11. How do BAT Kenya employees enhance the company's brand image?
12. Which type of financing options has helped BAT in addressing its financial sustainability?
13. Explain the technologies that have aided BAT, Kenya to enhance its market share
14. What strategic capabilities have enabled BAT Kenya to enhance product quality and productivity?
15. What strategic capabilities have enabled BAT Kenya to conserve and protect its environment?

## Appendix iii (BAT Annual report (2021))

11 February 2022 – PRESS RELEASE / PRELIMINARY RESULTS

BRITISH AMERICAN TOBACCO p.l.c.

YEAR ENDED 31 DECEMBER 2021

2021 – A PIVOTAL YEAR DELIVERED; BUYBACK ANNOUNCED



PERFORMANCE HIGHLIGHTS	REPORTED		ADJUSTED	
	Current rates	Vs 2020 (current)	Current Rates	Vs 2020 (constant)
Cigarette and THP volume share		+10 bps		
Cigarette and THP value share		+20 bps		
Non-Combustibles consumers <sup>1</sup>	18.3m	+4.8m		
Revenue (£m)	£25,684m	-0.4%	£25,684m	+6.9%
Revenue from New Categories (£m)	£2,054m	+42.4%	£2,054m	+50.9%
Profit from operations (£m)	£10,234m	+2.7%	£11,150m	+5.2%
Operating margin (%)	39.8%	+120 bps	43.4%	-70 bps
Diluted EPS (pence)	295.6p	+6.0%	329.0p	+6.6%
Net cash generated from operating activities (£m)	£9,717m	-0.7%		
Free cash flow after dividends (£m)			£2,543m	-0.3%
Cash conversion (%) <sup>2</sup>	95.0%	-320 bps	103.6%	+60 bps
Borrowings <sup>3</sup> (£m)	£39,658m	-9.8%		
Adjusted Net Debt (£m)			£35,548m	-11.1%
Dividend per share (pence)	217.8p	+1.0%		

The use of non-GAAP measures, including adjusting items and constant currencies, are further discussed on pages 46 to 51, with reconciliations from the most comparable IFRS measure provided. Note – 1. Internal estimate. 2. Movement in adjusted operating margin free cash flow after dividends and operating cash conversion are provided at current rates. 3. Includes lease liabilities.

Faster Transformation	Strong FY Results
<ul style="list-style-type: none"> <li>New Categories revenue up 51% to £2,178m*</li> <li>Non-combustible product** consumer acquisition +4.8m to 18.3m</li> <li>Vapour revenue up 59%*</li> <li>glo revenue up 46%*</li> <li>Modern Oral revenue up 41%*</li> <li>Full Year New Category losses reduced by 9% (c.£100m)</li> <li>Operating cash flow conversion of 104%</li> <li>Leverage down to 3x adj net debt / adj. EBITDA</li> <li>£2 billion 2022 buyback announced</li> </ul>	<ul style="list-style-type: none"> <li>Revenue up 6.9%* led by pricing and New Category growth</li> <li>Combustible revenue up 4.0%* with price/mix of 4.3%, reflecting Emerging Market (EM) performance and COVID-19 recovery</li> <li>Cigarette value share up 10 bps</li> <li>Further £595m cost savings, driven by Quantum</li> <li>Adjusted profit from operations up 5.2%* includes a negative transactional FX impact of 1.7%</li> <li>Adjusted operating margin down 70 bps</li> <li>Adjusted diluted EPS up 6.6%*</li> </ul>

\* at constant rates of exchange\*\* These products are not risk free and are addictive.

**Jack Bowles, Chief Executive:** "In 2021 the business delivered on our transformation journey to build A Better Tomorrow. It has been a pivotal year: we accelerated New Category revenue, with growth of over 50%\* and reached a total of 18.3m consumers (up 4.8m) of our non-combustible products. New Category losses reduced for the first time, contributing to earnings growth, and we reduced leverage to c.3x, while at the same time delivering strong financial results: 2021 has been a pivotal year.

Putting ESG at the heart of our strategy and corporate purpose is delivering sustainable growth, encouraging more consumers to transition to reduced risk products and reducing the health impact of our business. We are also on track to achieve our other ESG targets, including carbon neutrality from our operations by 2030.

These strong foundations enable us to embark on the next phase of our journey - Faster Transformation - towards A Better Tomorrow. We are on a path to deliver £5bn of revenue and profitability\* from New Categories by 2025 and are developing opportunities Beyond Nicotine, leveraging our knowledge and capabilities from New Categories.

These foundations also provide the financial flexibility to be more active in our capital allocation to deliver sustainable long-term value for shareholders. With leverage within our target range and expectations for c.£40bn of free cash flow before dividends over the next five years we will continue to invest in a faster transformation and deliver strong returns to shareholders. In addition to maintaining a growing dividend the Board has approved a £2bn share repurchase programme for 2022.

I would like to thank all our people and partners for their continued focus and commitment in delivering our strong results throughout this difficult COVID-19 period. The BAT of tomorrow will be a high-growth, consumer centric, multi-category consumer goods company. We are confident in delivering a Faster Transformation, continued robust financial performance and superior cash returns to shareholders. We are confident of delivering A Better Tomorrow."

### 2022 outlook:

- Global tobacco industry volume expected to be down c.2.5%.
- Constant currency revenue growth of 3%-5%.
- Strong New Category revenue growth and further reduction in losses.
- High-single figure constant currency adjusted EPS growth, with growth second half weighted.
- Translational foreign exchange is expected to be broadly neutral on full year adjusted EPS growth.
- Operating cash flow conversion in excess of 90%.

\* Based upon Category Contribution - defined as profit from the sale of brands after directly attributable costs (including marketing expenses) and before the allocation of overheads

## Appendix iv BAT strategic plan 2020/2023



STRATEGIC PLAN 2020/2021 – 2022/2023

JANUARY 2021



Kenya National  
Highways Authority

## Appendix v: BAT stakeholders meeting (2020)

### BRITISH AMERICAN TOBACCO KENYA PLC (the Company)

**MINUTES OF THE 68<sup>TH</sup> ANNUAL GENERAL MEETING OF THE COMPANY HELD ELECTRONICALLY AT BAT KENYA OFFICES, LIKONI ROAD, NAIROBI ON WEDNESDAY, 24 JUNE 2020 AT 9:00A.M.**

**Present:**

Mr. G. Maina	-	Chairman
Mrs. B. Spencer-Obatoyinbo	-	Managing Director
Mr. S. Wafula	-	Finance Director
Mr. P. Kipkemoi	-	Executive Director
Ms. C. Musyoka	-	Non-Executive Director
Mr. P. Mwangi	-	Non-Executive Director
Dr. M. Oduor-Otieno	-	Non-Executive Director
Dr. M. Irungu	-	Non-Executive Director
Mr. S. Onyango	-	Non-Executive Director
Ms. M. Gathoga-Mwangi	-	Non-Executive Director
Mr. A. Willem Joubert	-	Non-Executive Director
Ms. W. Ngea	-	Company Secretary

**In Attendance:**

Mr. E. Aholi	-	KPMG Kenya, External Auditor-Engagement Partner
Mr. L. Kibet	-	Image Registrars Limited, Company Share Registrars
Ms. V. Cherotich	-	Image Registrars Limited, Company Share Registrars
Ms. C. Musakali	-	Dorion Associates, Governance Auditor
Mr. P. Riungu	-	PricewaterhouseCoopers, Vote verifier
Mr. L. Akindele	-	PricewaterhouseCoopers, Vote verifier

Shareholders who registered to attend the AGM: 857 (62.23% of shareholders)

**Appendix vi: BAT financial results 2021**

