

**STRATEGIC RESPONSES OF RWATHIA GROUP OF BUSINESSES TO  
ENVIRONMENTAL CHANGES**

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# DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

This project has been submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

I dedicate this project to my parents, Wanjiku and Githii, and my fiancé Muthoni, for their unwavering support and encouragement.

## **ACKNOWLEDGEMENT**

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# TABLE OF CONTENTS

Declaration .....	ii
Dedication.....	iii
Acknowledgement.....	iv
Table of Contents .....	v
Abstract.....	vii
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>1</b>
1.1 Background.....	1
1.1.1 Business and Environment.....	1
1.1.2 Small Businesses.....	3
1.1.3 Rwathia Group of Businesses.....	6
1.2 Problem Statement.....	8
1.3 Research Objectives.....	9
1.4 Value of the Study .....	9
<b>CHAPTER 2: LITERATURE REVIEW.....</b>	<b>11</b>
2.1 Strategy .....	11
2.2 Strategic Management .....	12
2.3 Environment and Organizations.....	13
2.4 Strategic Response .....	16
<b>CHAPTER 3: RESEARCH METHODOLOGY.....</b>	<b>19</b>
3.1 Research Design.....	19
3.2 Data Collection .....	19
3.3 Data Analysis .....	20
<b>CHAPTER 4: DATA ANALYSIS AND FINDINGS .....</b>	<b>21</b>
4.1 Environmental Changes and Challenges.....	21
4.2 Strategic Responses .....	23
4.2.1 Differentiation .....	23
4.2.2 Diversification .....	24
4.2.3 Modernization of facilities.....	25
4.2.4 Price Adjustments .....	26

4.2.5 Training and Development.....26

4.2.6 Other Responses .....27

**CHAPTER 5: SUMMARY AND CONCLUSION .....29**

5.1 Summary.....29

5.2 Limitations of the study.....29

5.3 Conclusion .....30

5.4 Recommendations for further study.....31

**REFERENCES..... 32**

**APPENDICES..... 35**

Appendix 1: Introduction Letter .....35

Appendix 2: Interview Guide .....36

## **ABSTRACT**

A business does not function in a vacuum. It has to act and react to what happens outside the factory and office walls. The changes taking place outside the business will affect its main functions and possibly its objectives and strategies. As business environment changes, it is becoming increasingly important that business engage in innovation to make most of their own unique strengths and to develop new markets.

Businesses have to be flexible and respond quickly to keep up with the changes, else they will find it harder to survive. How a business responds to changes within its environment determines its success in the industry and constitutes its strategic responses. Rwathia group of businesses have been faced by several environmental changes such as increased competition, changing customer demands, increased government regulations and bylaws among others.

The research was a in-depth case study about strategic responses of Rwathia group of businesses to environmental changes. The objective of the study was to document strategic responses that the group businesses have undertaken faced by changes in the environment. The study was conducted by carrying out in-depth interviews with ten respondents namely two owners, chairman of the board and seven units' managers.

The study established a number of strategic responses by the group to the changes in the environment these include price adjustments, modernization of their facilities, training, differentiation and diversification. Regardless of the advancement in technology there is

very minimal movement towards this advancement more so in the businesses where this is expected to have an impact on their efficiency, case in point being Rwathia Distributor Limited. These strategic responses are discussed in the ensuing sections in detail.

During data collection I had to translate most of my questions to Kikuyu language, which the two owners could easily understand, this was not always easy and at times I needed a third party to help in translation. Other than the translation the time for the study was also short.

The group businesses are not confined in Nairobi, a number are located in Thika, Muranga, Nakuru and Nyahururu. Similar study could be conducted to identify how other businesses of the group are responding to changes in the environment. Also, given that the remaining owners are getting incapable of running the business due to their age, a study could be conducted to establish the impact of generation transition that the group is going through.



## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background**

#### **1.1.1 Business and Environment**

Business environment consist of variables that form the context within which firms exist (Hunger and Wheelen, 1999). An organization's external environment goes beyond the firm's operating environment and comprises economic forces, socio-cultural, demographic, political and technological forces. While the internal environment, include organization culture, policies, systems and resources capabilities. Businesses are open systems that get inputs from the environment and after transformation they take their outputs back to the very environment. This implies that business will affect or be affected by the environment, since it depends on the environment to provide its inputs and the very environment determines the extent to which its products succeed. Environment presents businesses with opportunities, threats and constraints and it is upon the manger to anticipate, monitor, assess and incorporate this in decision- making (Porter, 1985).

How a business aligns itself to the changes in the environment determines its success. Ansoff and McDonnell (1990) noted that successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect their operations. It is therefore essential for managers to understand the environment as it affects them and that the environment changes as influence of the constituent parts changes. The organization can influence events, and should seek to do so in order to achieve favorable results, but not everything can be influenced or forecasted. Hence organizations must be flexible enough to adapt and change as necessary in the face of external discontinuities.

Contemporary business environment is characterized by ever-increasing uncertainty. Government regulations, disruptive changes in technology, uncertain customer demand, competition, unemployment, economic growth, population growth, more informed customer, and common markets are some of the forces that are changing business' faces and continue to threaten their existences (Wairegi, 2004; Mpungu, 2005). In order to survive, business must respond to these environment changes that are unpredictable and fast paced.

Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives (Pearce and Robinson 1997). Several studies have been carried out to demonstrate the response of various organizations to the changing environment. Mugambi (2003) revealed that tourist hotels responded to changes by using restructuring, selective shrinking, marketing and cost management. Mpungu (2005) found that AAR responded to changes in its environment by introducing new products, restructuring and enhancing its technology. Njau (2000) revealed that East Africa Breweries Limited had made various changes in its principal brewing and bottling technology by investing in new equipment so as to produce competitive products. University of Nairobi has introduced new programs in response to changes in the environment (Mutua, 2004).

### **1.1.2 Small Businesses**

There is no universally agreed definition of small businesses (SBs), and there may be no single definition that can capture all the dimensions of a small or medium-sized business, or cannot be expected to reflect the differences between firms, sectors, or countries at different levels of development. Most definitions based on size use measures such as number of employees, balance sheet total or annual turnover. However none of these measures apply well across national borders, a point Goh and Holt (2006) reckon with. Wheelen and Hunger (1999) noted that the most commonly accepted definition of a small firm is one that employs fewer than 500 people and generates sales of less than \$20 million annually. According to the United State Small Business Administration a small business is one which is independently owned and operated, and which is not dominant in its field of operation. Micro and Small Enterprises Baseline Survey (1999) classify small-scale firms in Kenya as those employing eleven to fifty (11-50) workers, category which Rwathia group of businesses falls under.

Regardless of this difficulty in definition, SBs can be found in every industry around the globe and each and every year, thousands new ones are formed. SBs perform vital services such as providing jobs, contributing to gross national product and providing a living for their owners. However their failure rate is higher than that of the larger companies (Anderson and Dunkelberg 1993). Muthanga (2003) found major characteristics of small business enterprises. Which were, ease of entry and exit, low capital requirements, dependence on local resources, family ownership, employment of simple technologies

those that are easy to adopt, low cost skills acquisition, and ability to operate under highly competitive market conditions.

In Kenya, small and medium businesses are in every sector of the economy (table 1) and support a large proportion of the population through employment (table 2). In Kenya, as is the case in many countries and mostly the developing countries, small businesses (SBs) cannot be wished away. They account for a large share of gross national product and employ a greater proportion of the population, micro, small and medium-sized enterprises account for close to ninety two percent (92%) of jobs created annually since year 2000 in Kenya (Daily nation 14<sup>th</sup> September 2006). These businesses are being started every year and others expand, but a large number also fail and die.

Table 1. Sectorial and urban-rural distribution of medium-small enterprises

<b>Sector</b>	<b>Urban</b>	<b>Rural</b>
Manufacturing	45,019	127,745
Trade	273,738	552,410
Bar/Hotel/Restaurant	24,888	51,789
Services	92,937	98,398
Construction	6,551	15,537
<b>Total</b>	<b>443,133</b>	<b>845,879</b>

Source: *National MSE Baseline Survey 1999* (CBS, K-Rep and ICEG)

Table 2. Percentage Distribution of MSE employment types.

<b>Stratum</b>	<b>Working proprietors</b>	<b>Family members</b>	<b>Hired regulars</b>	<b>Apprentices</b>	<b>Part time</b>	<b>Casual</b>
<b>Nairobi &amp; Mombasa</b>	56.6	7.7	26.9	1.4	0.4	7.0
<b>Other major cities</b>	65.5	8.5	17.5	2.2	0.3	6.4

Source: *National MSE Baseline Survey 1999* (CBS, K-Rep and ICEG)

Small businesses as Johnson and Scholes (2003) recognizes are likely to be operating in a single market or a limited number of markets, probably with a limited range of products or services and are also likely to be private. The implication is that they are inhibited to pursue certain strategies, as is the case with their counterparts- large corporations. Nevertheless the survival and success of SBs is not purely as a result of lack rather it is rooted in the coherent way they do their business and respond to the changing environment - to them this is the strategy. Predictions that small business sector will eventually die in the long run is now debatable, given their place in the economy today, in fact researchers and educationists are now turning to these units of production for their work.

The Kenyan business environment has been undergoing drastic changes, which has affected most industries especially since 1990s. Government policy on liberalization outlined the reform measures to be undertaken in all sectors of the economy in order to accelerate growth and development. These changes include privatization and commercialization of the public sector, increased competition as well as rapid technological advancement (Mpungu, 2005). There have also been government legislations and city council by laws that has been introduced in the recent past, for example the ban on smoking in the public areas and use of plastic bags. People lifestyles have also changed we are having conscious and informed shoppers. All these changes have affected and continue to affect how businesses operate regardless of the sector or the size and will require them to respond accordingly.

### **1.1.3 Rwathia Group of Businesses**

The group was founded in 1949 in a village called Rwathia (Murang'a) when a group of fifteen men met and agreed to contribute a shilling each to purely facilitate a football game that cultivated a feeling of unity among them, but after the game's expenses they were left with excess money. The men resulted to an investment group. In 1950s they established a tea and mandazi kiosk in Thika as their first investment. The business did so well and they managed to open a hotel in Murang'a town called Mahesh.

In 1960 they opened another hotel (Nyadarua) in Thika. By early 60s the existing shareholders were trying to lure more into joining the group and in 1961 they had reached 26 in number. At this juncture they were able to buy a building in Nairobi called Njogu-ini

and there they started a bar and a hotel, which marked the beginning of their current dominance of the downtown. The membership was closed with the 26 marks. Later the group purchased a number of buildings where they started hotels and restaurants. These include Gloria (Nairobi), Rwambogo (Thika), Brilliant (Ngara), Kirinyaga (Nairobi), Goodwill (Pangani), Rwathia beer distributor (Nairobi), Magomano bar and hotel, New Kinangop bar and hotel, Amar hotel, Milano bar and hotel, Nyanza house, Timboroa, Alfa bar and hotel, Sabina joy, and Eureka high-rise among others. All these businesses are registered as limited companies. The highest decision making body of the group is the ten board of directors who meet monthly while the running of businesses is left to the seven unit managers who are answerable to the board. One manager oversees a single unit with an average of 43 employees.

As Mutua (2004) noted organizations exist in a complex commercial, economic, political, technological, cultural and social environment. This environment changes and it is more complex to some organizations than for others. Rwathia group of businesses cannot be exempted from changes in the environment and they have had their share. News rules by the government have been the greatest change the group has to contend with, Kenya Revenue Authority (KRA) for example has required every business to install cash register this have affected how the businesses price their products. The recent bans on smoking and plastic bags in the city were unexpected changes that hit the group. Kenyan lifestyle have also changed tremendously, this have affected their expectation, shopping lifestyle, and taste and preference, a fact that business people must recognize and put up with or be faced out.

## **1.2 Statement of the Problem**

In a fast changing world where businesses are buffeted by external forces, managers need to be nimble to respond capably, to keep the company on track and to meet its objectives. They must be outwardly focused, aware of important trends that will impact on business. As mentioned earlier business environment is uncertain, new organizations enter and exit and supply of resources become more or less scarce. When environment change, organizations face the prospect of either not surviving or of changing their activities in response to those factors (Porter 1980). Hence for organization to survive and become effective it must be capable of making adaptations to the changing situations, otherwise it will be faced out.

When the external environment changes organization are expected to adapt their operations. How an organization responds to these changes constitutes its strategic response to changes in the environment. As noted earlier Kenyan business environment has been undergoing drastic changes, which has affected most if not all businesses. Rwathia group of businesses operates within this environment where they have to compete to survive. Given the fact that they have survived so far they must be responding to this changes on a continually basis and it cannot be by sheer luck that they are still in business.

Several studies have been carried out on strategic response of firms to the changes in the environment (Wairegi, 2004; Mitra, 2001; Okanda, 2004; Mugambi, 2003 and Okoko, 2004). These studies agree that firms faced by changes in the environment made adjustment to their strategic variables to ensure survival. However, no study has been



carried out on strategic responses of Rwathia Group of businesses. The group's businesses must be under pressure to adapt to the changes that have taken place in the environment.

How has Rwathia group responded to these external changes?

### **1.3 Research Objective**

The objective of the study was to establish strategic responses of Rwathia group of businesses to environmental changes.

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

The study is of great significance to various stakeholders. First the academicians and scholars, the study adds to the body of strategic management knowledge as far as small business is concerned and how they respond to changes in the environment. Researchers have ignored small businesses for a long time, though now they are turning to them; this study was one of its kinds.

The study also benefits the policy maker, for it focuses on the small businesses sector, which is currently getting recognition from the government for its tremendous contribution to the country's economic growth. Policy maker need consider this sector and actually take it seriously so as to foster even more economic growth. They need to come up with policies that are favourable for small businesses so that they can compete equally with their formal counter parts on an even footing.

Potential entrepreneurs will gain a greater appreciation of the opportunities facing the sector but more importantly, they will be able to see some of the strategic responses that the group has used to survive for over fifty years. Finally the study will help the group in understanding better their strategic management practices and probable pitfalls, this in turn will help them to better manage their businesses.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Strategy

There is no one universal definition of the concept of strategy. It is dynamic. It is inclusive. It embraces all the key aspects and activities of the organization (Khalid 2004). There are many definitions as there are strategic scholars. Mintzberg (1994) sees strategy as a plan, a ploy, a pattern, a position and a perspective. According to Hill and Jones (2001) strategy is an action a company takes to attain one or more of its goals. Precisely it is an action that a company takes to attain superior performance. Strategy derives from Greek word *strategia*, meaning 'generalship' itself formed from *stratos*, meaning 'army' and *-go*, to 'lead'. Strategy is the overall plan for deploying resources to establish a favorable position.

Grant (1998) says strategy is about winning; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization. According to Johnson and Scholes (2003) strategy is the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment to fulfill stakeholder expectations.

To Pearce and Robinson (1997), strategy reflects a company's awareness of how, when and where it should compete; against whom and for what purpose. Strategy can also be said to be the way an organization responds to changes in the environment. It is the game plan that the firm has in order to acquire competitive edge in the market arena.

We live in a world of change. Organizational success is hugely dependent on how well an organization is able to predict and respond to changes in the environment and the requirements of industrial and consumer-buyers alike. Those organizations that are able to accommodate such changes are likely to prosper. Organizations that fail to recognize or respond in an appropriate manner to changes that occur in both the technology and the market place may well lose a large share of their sales volumes and in the worst case scenario may be forced out of business (Johnson and Scholes 2003).

## **2.2 Strategic Management**

Strategic management can be defined as a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objective. Thus, it is that set of managerial decision and actions that determine the long-run performance of a firm. It includes, environmental scanning, strategy formulation, strategy implementation and, evaluation and control. Therefore strategic management entails monitoring and evaluating environmental opportunities and threats in light of the firm's strength and weakness (Pearce and Robinson, 1997).

Strategic management involves; understanding the strategic position of the firm, strategic choices for future and turning strategy into actions (Johnson and Scholes, 2003). Strategic management consists of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantages. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow. General Electric is one company that is credited with practice of strategic management.

### **2.3 Environment and Organizations**

Organizations are affected by host of internal and external environmental factors ranging from ethical behaviour of employees to competitors' new technologically sophisticated product (Ivancevich, Lorenzi, Skinner and Crosby 1997). Primarily there are five most significant environmental forces that manager face in making decisions and they include social-cultural, economic, technological, political, legal and ecological forces (Johnson and Scholes 2003). Yabs (2007) identified historical factors, stages of economic development, state of the country's economy, political development, national culture and relationship between business and the government as some of the forces that influence business conduct in Kenya.

Managers in seizing the opportunities must analyze as many external forces as possible to be able to develop a sustainable competitive advantage. This process is called environmental analysis and is designed to determine the source of a firm's opportunities and threats. Environmental diagnosis according to Ivancevich et al. (1997) is the process of making managerial and strategic decisions by assessing the significance of the data (opportunities and threats) in the environmental analysis and all this is the work of a manager. Some forces that shape how a company and its resources are managed can't be controlled. Managers must learn to adapt to these uncontrollable external environmental forces as they plan, organize, control and direct strategies, workers and resources. At times unexpected events require business to radically change the way they operates. Business environment can thus be categorized into two, internal and external environment.

Besides external forces, internal forces exist in every firm. Internal environment refers to the factors within an enterprise that immediately influence how work is done and how goals are accomplished. Factors that make up the internal environment include employees, workflow, office/plant layout, management style, and reward system (Ivancevich et al. 1997). Totality of all these factors can be summarized as organization's culture.

Organization internal culture and subcultures isn't managers' only challenge. They must deal with external environmental factors. Each external factors is important and is often in a state of change, in addition to change the external environment consist of largely uncontrollable factors that influence an organization directly or indirectly in any noticeable way. External environment will ultimately influence the organization's internal culture. Some of the factors under this category are outlined below.

Social-cultural factors include institutions, people, their values and the norms of behaviour. It is important for managers to take into consideration the present and anticipated social structure and culture, trends must be examined and forecast be made. Johnson and Scholes (2003) in this category added population demographics, income distribution, lifestyle change and level of education. All these factors dictate the direction toward which the business should be moving.

Another factor that influences management decisions is economic environment. Where an economy is expanding, there is likelihood that demand of commodity will increase, workforce need to be expanded or new shifts created. In contrast where economy is

shrinking, layouts, restructuring and downsizing are likely to be common. Hence managers need to monitor economic uncertainty and changes, interpret them thereby making profound decisions. Factors under economic environment include interest rates, Gross Domestic Product (GDP), unemployment level, inflation rates, and money supply.

The cutting edge in business world today is technological innovations. Issue of obsolescence need to be taken care off by managers, now and often we are seeing certain gadgets or systems being overtaken by events or new efficient one coming up. Banks in Kenya are continually investing heavily in technology in response to changes in the environment such as need for integrated services and quick services by their customers (Kiptugen, 2003).

Political factors on the other hand relate to the political stability in a country in a given period. Where there is instability, business existence is as well threatened and in fact the costs of doing business shoot up due to insecurity issue. Legal factor basically cover the government legislations and rules, which have a bearing on the operations of the business.

Finally, deregulation and liberalizations that Kenya has witnessed in the recent past has heightened competition in every sector (Mpungu, 2005). This coupled by the fact that the number of licenses needed for one to start operating a business has reduced drastically has led to ease of entry by new businesses meaning competition have increased.

## **2.4 Strategic Responses**

Ansoff and McDonnell (1990) argued that strategic response entails change in organizational behaviour and could take many forms depending with organizational capability and environment in which it operates. Thus it is a reaction of what is happening in the environment. Well-formulated and targeted strategic response forms formidable weapons for a firm acquiring sustainable competitive advantage.

Different organizations will react differently given the changes in the above environmental factors in their quest to align themselves with the environment. How organizations respond to environmental changes is their strategic response. Strategic response being the set of actions and decisions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Firms adopt different response to changes in the environment.

Mugambi (2003) noted that there are various actions tourist hotels are resulting to in response to environmental changes, and these include restructuring, which he noted involved re-organizing the organization structures so as to cater for the new changes in the environment. Customer desk concept for example has been taken by most organization an example of some of the structure changes that are being incorporated to respond to changes in the environment. Shrinking selectively, marketing and cost cutting are other responses that Mugambi noted.



Okoko (2004) noted banks in Kenya for example are pursuing diversification strategy so as to spread risk and cut cost, also they are adding to their business portfolio new lines of business and even venturing into other services that are not essentially of financial in nature. Similarly divestiture is also being witnessed in some sectors when the changes turn out to be too harsh. Other strategic responses that firm are undertaking include outsourcing of non-core services, introducing new business line, acquiring other business (acquisitions), strategic alliance, lowering prices and staff cut among others. Mutugi (2006) found that segmentation, price, delivery, distribution, products, promotion and staff cut are some of the strategic response that banks are using to respond to environmental fluidity.

Okanda (2004) argued that strategy is everywhere from largest to the smallest enterprises. Okanda noted most micro-enterprises regardless of their sizes have responded well to the environment changes and in fact some of the strategies they have adopted can be compared to those adopted by larger organizations. Diversification, where one seller would sell second hand clothes and groceries at the same kiosk, was a good example that Okanda gave. The other responses that she noted include convenience location, customer focus mimicking a competitor and differentiation.

Githendu (2004) found that pharmaceutical firms faced by changes in their environment have responded by use of such strategies as differentiation, strategic alliance and mergers, innovative/exclusive products and offering wide range of products. Firms also adopt

differentiation, focus, marketing mix variables, improvement in quality products and services among others.

New products, performances measure for marketers, increased public relations and restructuring Mpungu (2005) noted as some of AAR response to changes in the environment. Mutua (2004) revealed that University of Nairobi have introduced new programs based on the needs of the stakeholders, ensuring staff had skills and conducting of performance review in response to changes in the environment.

The four generic strategies that Porter (1985) suggested that could be adopted by organization in order to gain a competitive advantage can as well be traced through the above findings. For example differentiation which Okanda (2004), Okoko (2004) and Mutugi (2006) noted to be one of the strategic response firms are using when faced by changes in the environment. Banks are also using differentiation focus and cost focus.

Okanda (2004) argued that there is no business whether small, medium or large that can claim to operate in an environment that is static. The survival of any organization is pegged on how well and fast it responds to the changes that are taking place within its environment. Findings from the above studies carried in Kenya show that different firms faced by changing environment will respond differently given their uniqueness. Thus it is expected that Rwathia group of businesses similarly have responded to the changes.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The research was a case study on strategic responses of Rwathia group of businesses that are based in Nairobi to changes in the environment. A case study involves a careful and complete observation of a solid unit such as a person, institution, and family, cultural group or entire community and emphasizes depth rather than the breadth of a study (Kothari 1990). Case study provides a systematic way of looking at events, collecting data, analyzing information and reporting the results. The case study was chosen so as to provide an indepth data collection regarding how the group has responded to changes in its environment.

### **3.2 Data Collection**

The data was collected through personal interviews. Personal interviews targeted ten respondents: two owners, chairman of the board and seven unit managers so as to get the in-depth information regarding the group, all of these respondents responded. Tape recorder was of great help as far as conducting the personal interview was concerned since it facilitated easier retrieval of information.

During the personal interviews, an interview guide (see Appendix I) was used. The researcher interviewed ten respondents who constituted two founder members (owners), chairman of the board and seven unit managers.

### **3.3 Data Analysis**

The data on strategic responses of Rwathia group of businesses was analyzed using content analysis, since it was the most appropriate tool for analyzing in-depth qualitative data that was collected. This type of analysis has been used in similar studies in the past including Mutugi (2006), Bett (1995), Njau (2000), and Kandie (2001).

## **CHAPTER FOUR: DATA ANALYSIS AND FINDINGS**

### **4.1 Environmental Changes and Challenges**

One of the changes that are taking place in the business environment of the group is competition. The competition the group is facing is skewed to hotels and bars. Respondents concurred that there has been an increase of new entrants into the hotel and bar industry in Nairobi and this has changed the way they used to operate due to the fact that there is scramble for customers. Fast foods and fancy pubs are being established along many streets of Nairobi. This increase in the number of hotels and pubs, which for a long time has been the core business of the group, has pushed them to the wall and has created the need for them to change in the way they do business.

Today's customer is more informed and choosy. Customer taste and preference change as the fashion changes. These have affected the way they shop, why they shop, where they shop and when. There are a good number of young shoppers in Nairobi whom business people cannot ignore, which means businesspeople have to change with the changes depicted or anticipated from these shoppers. This composition has complicated decisions that are being undertaken by businessmen, since what appeals to the youth may not necessarily appeal to the older generation. Some customers are becoming health conscious and are conscious of what goes down their throats. This category is now moving back towards the traditional and herbal food.

Since Rwathia group is more in hotels and pubs, this has affected them and the group can no longer assume that customers' demands stay the same over time. This has been a major

change the group has to deal with on a continuous basis. This came out from the respondent, and as one unit manger responded;

*“We as business people can no longer stay at the peripherals and wish that the changes will not affect us. Rather we have to change in line with these changes since this is the only way out for us to survive as businessmen and women.”*

As indicated by the respondent, there is a clear acknowledgement of serious and drastic changes and the effects the same could have on the survival of the business.

More than ever before, government and local councils are passing laws and by-laws that businesspeople have to comply with or otherwise face heavy penalty or closure of their business altogether. Soon after the current government (National Rainbow Coalition) took power in 2002 there have been certain measures and policies that have been implemented that indeed affects the way businesses used to operate. Kenya Revenue Authority (KRA) which is the tax- collecting agent of the government has insisted that all business install cash registers so as to improve its efficiency as far as tax collection is concerned. This requirement did not go well with most businesspeople, and indeed some went to court of law to challenge it, but finally they had to comply with the requirement.

The temporary ban on the use of plastic paper bags by the city council and later postponement of the implementation had a drift on hotels where they use such for their customers. Nevertheless, there have also been positive policies that have come to the business people. There has been tremendous reduction of business licenses that are now required by the city council and this has received praises from every corner.

Nevertheless security in the country is wanting, as the respondents noted that regardless of the size or type of the business, issue of security is a reality that they have to contend with. If it does not pose a threat to the business assets, it does to the employees. Security has been mentioned as one of the great challenges that businesses dealing with huge sum of cash on daily basis have to contend with. Rwathia distributor Limited from time to time has been faced with cash theft in their main office and also while on transit and the managing director of this unit contends that security has been a burden to the company.

Finally the growth in our economy has been a positive change that businesses have to respond to. This was clearly noticed by units such as Rwathia Distributor who agree that the same have led to an increase in beer uptake and indeed have enabled them to access more finance from financial institutions. This is a sentiment that is shared by Modern Green unit, who agree that the growth has had positive impacts, for they are able to expand given the easy access to finance that have come along with the growth in our economy.

## **4.2 Strategic Responses**

### **4.2.1 Differentiation**

Differentiation, which is the provision of a product or services, regarded by the user as different from and of higher perceived value than the competitors. Faced with stiff competition, the group has responded by differentiating some of their businesses. It has set aside Magomano and New Kinangop hotels to specialize in real African foods. This has shelved them from competition of the existing and new entrants as well as being able to

attract those customers that are now turning to traditional and herbal food. Respondents agreed that most hotels are involved in offering contemporary services that are common, and very few have tried to offer something different. For this reason, they have decided to offer different menus inclined to traditional foods.

Other than hotels, the group has bars in their three units, which they have deliberately decided not to radically change, but rather to maintain the traditional look so as to retain and attract those customers that are conservative and elderly. Most of these bars are found in the downtown and they are meant to resonate with the customers in those respective locations. The bars they operate in this category are Njogu-ini, Timboroa, Amar, and Kirinyaga bar.

#### **4.2.2 Diversification**

The group is not only differentiating its businesses, it is also investing in diverse businesses to shelter them from risk that may emanate from investing in one industry. Due to the increased competition, the group is moving slowly from the three traditional businesses namely bars, hotels and lodgings to other businesses. They have added to their portfolio the shopping malls in their two units: Magomano and Eureka.

The great demand for conference and meeting halls has not by passed the group and they have started conference halls in four of their units: Eureka high-rise, Njogu-ini, Timboroa and Magomano to cater for this demand. This strategy when compared to that of big corporations can be said to be the concentric diversification. The group has also ventured



into real estates. The group has also started butcheries, which target those customers who buy meat to take home. Finally, though not in Nairobi, they have ventured into schools: Nyahururu.

#### **4.2.3 Modernization of facilities**

Modernization of facilities and ambiance has been undertaken by the group and is still being undertaken in response to the changes that customers are exhibiting, in their careful selection of where they shop and also due to the need for more space. The group has converted some of their traditional hotels to modern fast foods (Gloria, Indo, Milano, Eureka and Balliso) to cater for the youth and the trend that is growing among the population of taking food away. Similarly the group has embarked on an expensive modernization of some of their pubs. This has required change of ambiance to reflect the modern trends and installation of DSTV and GTV equipments. This can be seen in their businesses that are close to the central business district. In fact in some cases they have opened a modern pub beside the traditional ones.

Lodging facilities of the group have been expanded and given a new look as noted in Modern Green and Goodwill in Pangani. This is to enable them to compete and charge better prices for the use of the facilities. Finally under this response, units such as Rwathia Distributor had to relocate to a new modern facility so as to meet the need of growing demand, which required more storage space.

#### **4.2.4 Price Adjustments**

The group has responded to government regulations and council by-laws not only by implementing the laws and regulations but also by adjusting their prices in order to cater for the additional costs. Most hit by the by-laws and government policies were hotels. These entities had to install the KRA required tax registers, which had a negative impact on their profit margin. Adjusting their prices upward has arrested the issue. In units where modernization of facilities was done, there has been price adjustment as well.

#### **4.2.5 Training and Development**

Though most small businesses tend to ignore this aspect, it is very important and crucial in changing the mindset in any organization. Where the staffs are well trained they tend to be flexible to changes. This in turn helps the organization in responding to changes. Most respondents recognized this, but managing director of Rwathia Distributor Limited, who noted that the distributor needs aggressive sales force to be able to meet internal and external targets, emphasized the importance of training. For the unit to be able to achieve this, they have an agreement with the East Africa Breweries where they collaborate to train the sales force occasionally.

In addition, the group has realized the importance of educated and trained workforce and they have a program to ensure that those in the management levels have necessary skills and experience to be able to handle their job well. The respondents are in agreement that there is need to hasten and enhance decision-making, which has been lacking in the group

for a long time. As indicated by the comment of one unit manager who doubles as one of the owners,

*“We need fresh ideas, people who are forward looking, educated and professionals to steer this group to greater heights. For if this was there from the start we could probably be bigger and in different businesses altogether. Lack of education is what made us to stick to what we could easily manage- hotels and bars.”*

#### **4.2.6 Other Responses**

The issue of security, that forms the environment upon which the business operates, cannot be ignored by any business. The group and more so Rwathia Distributor has been faced by insecurity and has responded by outsourcing transportation of their cash and investing more on enhancing security within its depot. This has increased their operation costs.

Furthermore, the group has responded to competition by mimicking its competitors. Some of the ways in which it has responded is absolutely similar to those businesses around them and those that they compete with. Njogu-ini Annex; for example, is a replica of Rocks pub which is directly opposite. The group’s move of establishing fast food restaurants is also a replica of its competitors, for most of these restaurants are found where similar businesses are great in number.

Finally, one unique way the group has been responding to the change in the environment is operating only from their buildings. Respondents did note that all of their businesses are

operated in buildings that the group owns. This is meant to shelve the group from unpredictable hike of rents by the landlords, which was a big problem in the past years.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

The research was a case study of strategic responses of Rwathia group of businesses in Nairobi. Case study was chosen so as to get in-depth information regarding how the group has responded to environmental changes. The environment within which the business operates has been changing constantly, the changes have been fast paced and complex than ever before. The changes that the group has witnessed, from the findings, include increased competition, changing customer demands and government regulations and bylaws. The group had to adapt to these changes in order to survive.

For business to survival it must adapt to changes taking place within its environment, Rwathia group businesses are not an exception. They have undertaken several strategic responses to counter the environment changes, which include differentiation, training, diversification, modernization of facilities and ambiance, and price adjustments.

### **5.2 Limitations of study**

The environment is still changing and the group is still responding to these changes. This means that if some of the responses stated prove unsuccessful, the group might do some adjustment. Also the findings from the study cannot be generalized and hence they may not apply to other small businesses. During data collection there was need to translate some of the questions to kikuyu language for the two owners to understand, this was not an easy

task bearing in mind the meaning needed not to be altered. Finally the time for the study was also limited.

### **5.3 Conclusion**

The group has witnessed tremendous improvement in their businesses due to the responses they have undertaken and this can be witnessed by the growth and expansion of the group businesses. Nevertheless, certain units such as Rwathia distributor Limited have not embraced technology, which is expected to impact positively on efficiency.

From the findings, it is clear that any business entity faced with environmental discontinuity will adjust its operations in line with the changes within its environment. Strategic responses that the group has undertaken can be compared to a few that big corporations pursue such as differentiation and diversification. This signifies that strategy is indeed important to every business regardless of its size.

The findings from this study concur with some of the strategies other researchers have found to be used in different organizations or sectors. Okanda (2004) found micro-enterprises to be pursuing diversification. This is also true with the Rwathia group of businesses whereby they are investing in different though related lines of businesses. Githendu (2004) also identified differentiation as one of the strategy that firms faced with environmental changes result to. The group, from the findings, is pursuing the strategy, whereby they are setting themselves aside from the rest of the service provider more so in hotels industry. Similar strategy such as price adjustment was noted. Other researches have

also found that indeed this has been one way businesses have responded to changes in their environment.

#### **5.4 Recommendations for further study**

It is recommended that a similar study be conducted to find out how the other group's businesses not located in Nairobi are responding to the changes in the environment. Also a study could be conducted to establish the impact of generation transition that is being witnessed in the group.

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## APPENDICES

### Appendix 1: Introduction Letter

Githii Stephen Kagwathi  
Po box 8579 00300  
Nairobi  
Tel. 0722614782

To the Respondent:

REF: **INTRODUCTION LETTER:**

My name is Githii Stephen Kagwathi, an MBA finalist with University of Nairobi (Strategic Management). Having completed part I of the course it is required by the university that a part II of the course be undertaken as a research project for one to be considered for graduation.

Given this fact and my keen interest in the Group, I have narrowed down to do research in your businesses to establish the strategic response that has been undertaken given the environmental fluidity that has existed in the recent past and continues to be felt even today. A copy of the final writer-up can be availed to you on request.

I would therefore highly appreciate your willingness to help in terms of information that will be critical to the completion of the project. The information will be sought inform personal interview due to the nature of study. The information obtained will be treated with great confidentiality and only used for research purposes.

Allow me to thank you in advance as I look forward to mingle with you during my research duration, which will be short enough.

Yours truly,

Kagwathi Githii.

## **Appendix 2: Interview Guide**

**These questions are intended to obtain information regarding the strategic response that the group has used in the face of environmental changes.**

1. What is your job title?
2. Which activities are the businesses licensed to transact?
3. How would you describe business for the last decade?
4. Which changes have your businesses witnessed in the past years under this category?

Economic

Social-cultural

Regulations & Legislations

Competition

Technological

Informed customer

5. How have you responded to the above changes?

Economic

Social-cultural

Regulations & Legislations

Competition

Technological

Informed Customers

6. How would you describe competition in your industry?

**Thanks for your help,  
Githii Kagwathi.**