

**STRATEGIC RESPONSES TO CHANGES IN THE  
EXTERNAL ENVIRONMENT: A CASE OF EAST  
AFRICAN BREWERIES LIMITED**

**By**

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# DECLARATION

## DECLARATION BY THE CANDIDATE

This research project is my original work and has not been submitted for the award of a degree in any other university.

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## DECLARATION BY THE SUPERVISOR

This management research project has been submitted for examination with my approval as university supervisor.

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## **DEDICATION**

I dedicate this research project to my dear husband Martin for his love, understanding, encouragement and support while conducting this study and throughout the MBA course.

## **ACKNOWLEDGEMENT**

I am very grateful to the Almighty God for giving me strength to go through this demanding but rewarding exercise. The completion of this study was realized through the will of God and the contribution and support of many people who heartily supported me.

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May the Almighty God bless you all abundantly.

## ABSTRACT

All organizations exist and carry out their activities within the environment. The environment provides the organizations with inputs which they transform to outputs through internal processes and then the outputs are given back to the environment. Therefore in order to survive in the environment, organizations have to pay attention to the environment and match their activities to the environmental conditions.

The environment can be classified into the external and the internal environments. The external environment is made up those factors that are beyond the firm's control but which affect its operations. This environment is made of political, economic, socio-cultural, technological, ecological and legal variables. The internal environment on the other hand consists of factors within the firm's control, which also influence the firm's activities. The internal environment is composed of factors like financial resources, technology, human resources, structures and processes. The environment is dynamic and keeps changing. Since the external environment is uncontrollable, the firm has to match its operations to the external environment in order to survive and succeed.

Strategy is a firm's game plan for surviving in the changing environment. This implies that strategies are not static, they keep changing as the environment changes. For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. This is what is termed as strategic responses, which are the actions that an organization takes to align itself with the environment. Any firm that does not take actions to align itself with the environment cannot survive in the environment and is soon forced out of the market.

This study set out to find out how East African Breweries Limited (EABL) had responded to environmental changes. EABL had been a successful company and even when it was faced by very fierce competition it managed to emerge successful. This study set out to address two main objectives which were to determine the environmental factors

that had affected EABL and to determine the strategic responses that EABL had put in place to address these changes.

In order to address these two objectives the study made use of both primary and secondary data. Primary data was collected through personal interviews with some members of the EABL management team. Secondary data was obtained from EABL's in-house publications, websites and newspapers. A content analysis was then carried out on the data obtained and the findings were presented in form of brief discussions on the environmental changes and key strategic responses identified.

The study found out that EABL carried out annual strategic planning sessions, which were guided by long-term goals the company was pursuing. At the time of the study, the long-term goals were summarized into what the company had termed as Vision 2010 whereby the company was targeting to be the number one drinks company in Eastern Africa. During the annual strategic planning sessions, the company's executives would determine the current environmental conditions affecting the company and expected changes in those conditions. The executives would then determine the actions that could be taken to deal with those changes and from that exercise they would determine the strategic responses to relate the company to the environmental changes.

The study found out that the company did not respond to all the changes in the environmental conditions but to those changes which were deemed to impact on the company's activities to a large extent. The study identified the following factors to have elicited responses from the company. In the political-legal environment the key variable had been changes in taxation. In the technological environment the rates of obsolescence and new technological developments had played a major role. In the economic environment key variables had been the income levels and willingness to spend, cost of factors of production, business cycles and liberalization. In the socio-cultural environment, key variables had been gender, lifestyle changes, income distribution, lobby groups, accident rates and safety concerns. In the physical environment key challenges

had been the weather patterns and in the competitive environment the key challenges had been from exports and illicit brews.

EABL had put in place various strategic responses to address these changes in order for the company to attain its Vision 2010. These responses were market development, product development and modification, vertical integration, information systems change, innovation, product differentiation, outsourcing, shared services centre, culture and structure changes, aggressive marketing campaigns and corporate social responsibility. The study identified that the strategies EABL had employed were consistent with Pearce and Robinson's (1991) grand strategies.

The study therefore concluded that even for a company that was successful strategic responses were still important in order to ensure continued success by aligning the company to the environment it operated in.

# TABLE OF CONTENTS

<b>Declaration</b> .....	<b>I</b>
<b>Dedication</b> .....	<b>II</b>
<b>Acknowledgement</b> .....	<b>III</b>
<b>Abstract</b> .....	<b>IV</b>
<b>List of Figures</b> .....	<b>IX</b>
<b>List of Abbreviations</b> .....	<b>X</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background.....	1
1.1.1 Strategic Responses .....	1
1.1.2 Environment.....	6
1.2 East African Breweries Limited.....	8
1.3 Research Problem .....	9
1.4 Research Objectives.....	11
1.5 Scope of the Study .....	11
1.6 Importance of the Study.....	12
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>13</b>
2.1 Strategic Responses .....	13
2.1.1 Origin of Strategy .....	15
2.1.2 Characteristics of Strategy .....	18
2.1.3 Levels of Strategy .....	19
2.1.4 Development of Strategic Responses.....	20
2.1.5 Generic Strategic Responses.....	21
2.2 The Strategic Success Hypothesis .....	25
2.3 External Environment .....	26
2.3.1 Operating and Remote Environment .....	26
2.3.2 Competitive Environment.....	29
2.3.3 Environmental Turbulence.....	33
2.4 Internal Environment .....	35
2.5 Summary.....	38
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	<b>39</b>
3.1 Research Design.....	39
3.2 Data Collection .....	39
3.3 Data Analysis.....	40
<b>CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS.</b>	<b>41</b>
4.1 Strategic Planning.....	41
4.2 Environmental Changes.....	42
4.3 Strategic Responses .....	43



4.3.1	Market Development .....	43
4.3.2	Information Systems Change.....	43
4.3.3	Vertical Integration .....	44
4.3.4	Innovation .....	45
4.3.5	Product Differentiation .....	45
4.3.6	Product Development and Modification.....	46
4.3.7	Outsourcing.....	47
4.3.8	Shared Services Centre .....	47
4.3.9	Culture and Structure Changes .....	48
4.3.10	Aggressive Marketing Campaigns.....	48
4.3.11	Corporate Social Responsibility .....	49
5.1	Summary of Findings.....	51
5.2	Conclusion .....	52
5.3	Recommendations.....	52
5.4	Limitations of the Study.....	53
5.5	Suggestions for Further Study .....	53
<b>REFERENCES.....</b>		<b>55</b>
<b>INTERVIEW GUIDE.....</b>		<b>60</b>

## LIST OF FIGURES

Figure 2.1.1: Evolution of Management Systems.....	17
Figure 2.1.2: Strategy Development Routes .....	21
Figure 2.2.1: Matching Aggressiveness And Responsiveness With Turbulence .	26
Figure 2.3.1: The Firm's External Environment.....	27
Figure 2.3.2: Forces Driving Industry Competition.....	30
Figure 2.3.3: Turbulence Scale .....	34
Figure 2.5.1: Relationship between the Environment, Internal Capability and Strategic Responses .....	38

## **LIST OF ABBREVIATIONS**

CBKL: Castle Breweries Kenya Limited

CGI: Central Glass Industries Limited

EABL: East African Breweries Limited

EAML: East African Maltings Limited

IDU: International Distillers Uganda Limited

KBK: Kenya Breweries Limited

NABAK: National Alcoholic Beverages Association in Kenya

NACADA: National Agency for the Campaign Against Drug Abuse

P4G: Partners For Growth

SABI: South African Breweries International Limited

SAP: Systems Application and Products in data processing

SBU: Strategic Business Unit

TBL: Tanzania Breweries Limited

UBL: Uganda Breweries Limited

UDV: United Distillers and Vintners Limited

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

### 1.1.1 Strategic Responses

Strategic responses are the decisions that are made by a firm in order to align the firm to environmental changes. According to Pearce and Robinson (1988) strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. In achieving the firm's objectives, management is faced by a complex and changing environment which impacts heavily on the firm. To ensure continued survival, management has to come up with a game plan in response to environmental changes which is the firm's strategy.

According to Byars (1991), strategic responses are different from operational responses. Operational responses are concerned with efficiency of operations. Strategic responses on the other hand affect several areas of operation, require top management decisions and large amounts of money, are future-oriented and affect long-term prosperity of the firm and most importantly are dependent on the environment. Therefore each firm adopts strategies that match its environment and that are supported by the firm's internal capability.

Strategic responses are the strategies that firms take that are triggered by environmental changes. Johnson and Scholes (1997) defined strategy as 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 meet the needs of markets and to fulfill stakeholder expectations. This, they argued, involves matching of an organization's activities to the environment in which it operates. In addition, they argued that strategy can also be seen as building on or stretching an organization's resources and competences to create opportunities or capitalize on them. This idea, they argued, does not just imply ensuring resources are available or can be availed to take advantage of new

opportunities in the environment but it means identifying existing resources and competences which might be a basis for creating new opportunities in the market place.

Pearce and Robinson (1991) argued that, “By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Thus, a strategy represents a firm’s game plan. Although it does not precisely detail all future deployments (people, financial and material), it does provide a framework for managerial decisions. The firm’s game plan in response to environmental changes constitutes its strategic response. A strategy reflects a company’s awareness of how to compete, against whom, when, where and for what.”

According to Mintzberg, Quinn and Ghoshal (1998), there are five main and interrelated definitions of strategy which are in terms of strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a consciously intended course of action that is designed in advance of the actions it governs. As a ploy it is a specific maneuver intended to outwit competitors. As a pattern it emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception. As a position it is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world.

For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. Consequently they need strategies to focus on their customers and deal with the emerging environmental challenges. Organizations therefore have to constantly scan their environments to identify the trends and conditions that may eventually affect the industry and adapt to them (Thompson and Strickland, 1993). Aosa (1992) argued that a mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem.

According to Ansoff and McDonnell (1990), it is through strategic management that a firm will be able to relate itself to the environment to ensure its success and also to secure itself from surprises brought about by a changing environment. They argued that this is done by positioning the firm through strategy and capability planning, real time strategic response through issue management and systematic management of resistance during strategy implementation.

Porter (1980) concurred that the essence of strategy formulation is to relate a company to its environment. He however argued that although the relevant environment to a company is very broad, the key aspect of the environment is the industry in which it operates. He said that an industry structure has a very strong influence on strategies made by industry players. He defined an industry as a group of firms producing products that are close substitutes of each other and argued that strategies are formulated in line with the competitive forces in a given industry.

Porter (1980) identified five competitive forces in an industry namely threat of new entrants, threat of substitution, bargaining power of suppliers, bargaining power of buyers and rivalry among existing industry players which he explains as follows. New entrants he said bring in new capacity, desire to gain market share and often substantial resources. Rivalry among existing industry players occurs as each of the players tries to improve their positions and profitability using tactics like price competitions, advertisements, product innovations and better customer service. Substitutes on the other hand limit the potential returns to the industry by placing a ceiling on the prices that players can charge. Buyers force down prices and bargain for higher quality and services thus limiting profits and also playing competing firms against each other. Suppliers can squeeze profits out of an industry by threatening to raise prices or reduce quality of purchased inputs.

Abbot (2007) argued that sometimes what is so much referred to as strategy is usually an operational plan involving some wishful thinking and a projection of existing status quo into the future and adjusting by a given percentage. He argued that hard analysis and ruthless questioning of fundamental assumptions is usually lacking in such plans. He

went ahead to define strategy as the unique and distinctive actions a company takes to achieve a competitive advantage that will contribute to greater net profitability. He disputed the generic strategies by Porter (1980) arguing that there were many companies combining the strategies. He further suggested that strategy is all about creating a distinctive approach to a customer differentiated value proposition. He concurred that having a strategy is important and cited the case of Safaricom's entry in Kenya where it focused on the mass market as opposed to its competitors whose focus was on the high and middle income earners and made a record breaking pre-tax profit of 17.79 billion.

Ross, Hitchin and Worley (1996) argued that for organizations to remain truly competitive over time as the environment changes, they had to learn, adapt and reorient themselves to the changing environment. This process has to be deliberate and coordinated leading to gradual or radical systemic realignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness. This adaptation forms the strategic responses.

Ansoff and McDonnell (1990) advanced what they termed as the strategic success hypothesis which states that strategy must match the environment and that internal capability must match strategy. This is because the environment is dynamic and keeps changing. Therefore, strategy has to keep being altered to match the changes in the environment. This altering of strategy to match environmental changes becomes a strategic response. If strategy changes and internal capability remains unchanged there is likely to be a capability gap and therefore a change in strategy necessitates a change in internal capability.

Various authors have suggested some strategic responses that firms can adopt in matching the environmental changes. To cope with the five forces of the competitive environment, Porter (1980) advanced three generic strategies that firms can use to succeed in an industry. The three generic strategies are overall cost leadership, differentiation and focus. Overall cost leadership involves aggressive minimization of costs with tactics like construction of efficient-scale facilities, tight cost and overhead

control, avoiding marginal customer accounts and low research and development, advertising and service costs. Differentiation involves creating something that is viewed industry-wide as being unique and includes tactics like design and brand image, added features, technology and customer service. Focus strategy involves narrowing down to a particular buyer, segment of product line, market segment or even geographical area and using the cost or differentiation strategy for the narrowed down segment. As opposed to targeting the whole industry with cost or differentiation strategy, the focus strategy rests on the idea that the firm is able to serve the narrower target more effectively or efficiently. He further argued that any firm that does not pursue any of these strategies is 'stuck in the middle' which is an extremely poor strategic position which almost guarantees low profitability.

Ghemawat (2007) proposed what he termed as the AAA triangle framework. The idea behind this framework is that the world has become a global village. Therefore firms have to develop global strategies in order to compete effectively. The AAA triangle framework is made of three distinct global strategies namely adaptation, aggregation and arbitrage. Adaptation he said seeks to boost revenues and market share by maximizing local relevance. Aggregation attempts to deliver economies of scale by creating regional or even global operations which involves standardization. Arbitrage involves exploitation of differences between national or regional markets by locating separate parts of the supply chain in different locations.

Pearce and Robinson (1991) proposed the grand strategies for surviving in the environment. A grand strategy is a comprehensive, general plan of major actions through which an organization will achieve its objectives in a dynamic environment. The grand strategies indicate how the business objectives are to be achieved. The grand strategies include concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation.



### 1.1.2 Environment

All organizations, regardless of the nature of their business, are always in constant interaction with the environment. The organizations depend on the environment for their continued survival. This means that an organization operates as an open system. At the very basic level of this interaction is the idea that the organizations derive their inputs from the environment and give their output to the environment. The inputs are usually in the form of raw materials, labour, capital and skills. The firm then engages internal processes to convert the inputs to outputs which are fed back to the environment. The outputs are usually products, by-products and waste products. The environment will then give feedback to the organizations which the organizations use to improve their products.

The environment can be classified into the internal and external environment. The external environment refers to those factors that are outside the organization's influence but which affect the organization's operations. The external environment presents opportunities which the firm can exploit and poses threats which can hinder the organization's activities. The internal environment refers to factors within the organization which the organization exercises a great deal of control over and which affect the organization's operations. The internal environment therefore constitutes an organization's internal capability which is essential in addressing the external environment. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment.

According to Johnson, Scholes and Whittington (2005), an organization exists in the context of a complex political, economic, social, technological, environmental and legal world. The environment changes and affects different organizations differently. They argued that how this affects the organization includes an understanding of historical and environmental effects as well as expected or potential changes in the environmental variables. Many of these variables give rise to opportunities and others exact threats on the organization or both.

“Firms operate in changing and at times hostile business environments. The environment does not always accommodate the interests of the firm. An organization in its environment might be likened to a ship at sea. Sometimes the sea is rough and the ship has difficulty in making progress on its journey, sometimes it is calm and the weather is clear so that the ship can make steady progress. Sometimes the weather is malevolent. There are thick fogs and icebergs which create risk for the very survival of the ship. Organizational environments present the same kinds of opportunities and threats for the organization as the sea does for the ship. Organizations need to respond and adapt to changing environmental conditions if they intend to survive (Proctor, 2000).

Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Organizations have to cope with pressures of globalization, changes in technology, rise of e-commerce, situations where customers and suppliers can be both competitors and allies and a change in emphasis from quantity to quality and from products to services. “Today’s corporate elephants need to learn to dance as nimbly and speedily as mice if they are to survive in our increasingly competitive and rapidly changing world” (Kanter, 1989).

Ansoff and McDonnell (1990) explained the changes in the environment in terms of turbulence. Environmental turbulence they argued is a combined measure of the changeability and the predictability of the environment. Changeability is characterized by the complexity of the environment and the relative novelty of the successive challenges an organization encounters in the environment. Predictability is characterized by the rapidity of the change and visibility of the future. Visibility shows the adequacy and timeliness of information about the future. They further argued that a firm’s performance is optimum when the aggressiveness of the firm’s strategic behaviour matches environmental turbulence, responsiveness of the firm’s capability matches the aggressiveness of its strategy and the components of the firm’s capability support each other.

Despite the different approaches by the above authors, the dominant idea is that an organization has to respond to changes in the environment. This is because the environment it operates in dictates the responses the organization puts in place to guide managerial decision making. The environment by extension also dictates the capabilities the organization should have in place to support chosen strategies.

## **1.2 East African Breweries Limited**

EABL is a company cross-listed in the Nairobi Stock Exchange, the Uganda Stock Exchange and the Dar-es-salaam Stock Exchange (Mwangi, 2005). EABL has an annual turnover of Kshs 30 Billion and it has the largest share of the beer industry in the region. EABL is the holding company for KBL, UBL, UDV, IDU, CGI and EAML (Mogusu, 2007; Waithaka, 2007). KBL and UBL are the beer brewing subsidiaries, UDV and IDU are the spirits distilling subsidiaries, CGI manufactures glass bottles and EAML produces barley. EABL's core business is in beer brewing and spirits distillation with the other subsidiaries supporting these core operations.

EABL was started in 1914 and was first incorporated as a private company in 1922, trading under the name Kenya Breweries Limited. It was listed on the Nairobi Stock Exchange for the first time in 1954 (Mwangi, 2005). In 1972, the company completed the largest public share issue in Kenya's history raising the number of shareholders to more than 23,000. In 1990, the company held its first ever strategic planning session at the Aberdares Country Club which laid the groundwork for a major restructuring of the company.

In the year 2002, EABL signed license agreements with SABI and agreed terms for share exchanges in KBL and TBL. In the agreement SABI closed its brewing operation, CBKL at Thika, Kenya and retained its investment in Kenya by taking a 20% shareholding in KBL. On the other hand, EABL closed its Kibo Brewery in Moshi, Tanzania and retained its investment in that country by acquiring a 20% shareholding in TBL. CBKL was EABL's biggest competitor for its brewing operations thus its closure left EABL as the

only beer brewing operation in Kenya. The rest of the beer brands in the country were imported brands (Njuri, 2002; Munaita, 2004).

### **1.3 Research Problem**

The environment is dynamic and keeps changing and more often than not an organization finds itself facing different circumstances at different times. Following the strategic success hypothesis advanced by Ansoff and McDonnell (1990), it means then that the organization's strategy and internal capability keeps changing to match the environmental conditions. Strategy is therefore not static and it keeps changing even within an organization.

Various studies have been carried out to determine how different organizations have responded to changes in the environment. Kathuku (2005) carried out a study on strategic responses by Cooperative Bank of Kenya. Lalampaa (2006) studied the responses by the Higher Education Loans Board to environmental challenges in financing higher education in Kenya. Mulema (2004) carried out a study of responses to the environment in the service industry focusing on the Teachers Service Commission. Mwarania (2003) focused his study on the insurance industry specifically Kenya Re. Kandie (2001) focused his study on Telkom Kenya Limited. Migunde (2003) carried out his research on the Kenya Broadcasting Corporation and Mwanthi (2003) studied the British American Tobacco Kenya Limited.

Njau (2000) carried out a research on EABL's response to the changing competitive environment occasioned by liberalization of the Kenyan economy at the time and linked the company's competitive environment to Porter's (1980) five forces model. He concluded that following the liberalization, EABL was facing stiff competition from a new entrant namely CBKL and imported beers. At the time of his study, CBKL which had set up a brewing factory in Thika was the biggest threat to EABL. According to Njau (2000), CBKL was a strong force since it had vast resources derived from its holding

company, South African Breweries International (SABI) which was already a global player.

In 2002, EABL signed a license agreement with SABI and agreed terms for a share exchange in KBL and TBL. In the agreement, SABI closed CBKL and retained investments in Kenya by taking 20% shareholding in KBL. EABL on the other hand closed its Kibo Brewery in Moshi, Tanzania and retained its operations in Tanzania by acquiring a 20% shareholding in TBL (Njuri, 2002 and Munaita, 2004). This meant that EABL's biggest threat according to Njau (2000) was eliminated, thus altering the competitive environment. To date, no other direct competitor has set up operations within the country.

Despite having many studies in this area, the results obtained cannot be applied to any other company due to contextual differences. Even if the companies are in the same country, they would still have different strategies due to the differences in industry and internal factors. Ansoff and McDonnell (1990) argued that parts of the challenge agenda faced by different industries are different. As a result it would no longer be possible to devise a single prescription for response to challenges which would apply to all industries and firms. Therefore to gain an understanding of how a given company is responding to environmental challenges, a study has to be carried out on that company. The study aimed at gaining such an understanding on EABL. In addition, with CBKL's closure, the biggest threat for EABL according to Njau (2000) was eliminated. Did the closure of CBKL then mean the end of strategy for EABL or is strategy is still important even for a company that has managed to beat the strongest competition?

Apart from the competitive environment as identified by Porter (1980), Pearce and Robinson (1991) identified other environmental variables which they collectively referred to as the remote environment consisting of the economic, political, social and technological environment. They argued that these factors originate beyond the firm and are usually irrespective of any single firm's operating situation. Following this argument, EABL still faces a great challenge from the remote environment which it has to respond

to in order to remain successful. The study by Njau (2000) did not cover the remote environment but recommended this as an area for further research. The study therefore aimed at answering the following questions. What changes in the remote environment have posed a challenge to EABL and how has EABL responded to such changes in the remote environment?

EABL has various subsidiaries with different product lines. Therefore, the company faces different environmental conditions even among its own subsidiaries. In accordance with Porter (1980) the different subsidiaries are in different industries and therefore face different competitive forces. What environmental factors have affected strategies in some of EABL's subsidiaries and not the others?

#### **1.4 Research Objectives**

The study aimed at establishing the changes in the environment that affect EABL and the strategic responses by the company to these changes. The study therefore aimed at addressing the following objectives.

1. To determine changes in the external environment that affect East African Breweries Limited
2. To determine the strategic responses by East African Breweries Limited to these external environmental changes

#### **1.5 Scope of the Study**

The study was carried out in form of a case study on EABL. It covered the various aspects of the business including the various subsidiaries as well as the different functional areas.

## 1.6 Importance of the Study

This study will benefit a number of interest groups starting with the management of EABL as a reference point as well as for recommendations on areas they can improve on. The study will also benefit managers of other firms where they can draw learnings from the EABL case on how they can respond to environmental changes. For academicians, this study will form a foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the company and its strategic position within the environment, which can assist them in determining the viability of their investments.

Suppliers can benefit from this study in knowing the strategic direction of the company in order for them to improve their relations with the company. In addition they can determine how given strategies will impact on them and threats posed to them like in the case of backward integration. The government can also use the results to monitor how the company is performing to determine its incomes in form of taxes as well as ensuring the company's activities are being carried out in accordance with the legal framework.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Strategic Responses

According to Pearce and Robinson (1988) strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. Byars (1991) differentiated strategic responses from operational responses as follows. Operational responses are concerned with efficiency of operations. Strategic responses on the other hand affect several areas of operation, require top management decisions and large amounts of money, are future-oriented and affect long-term prosperity of the firm and most importantly are dependent on the environment. Strategic responses are thus the strategies adopted by organizations in response to changes in the environmental conditions. Faced with the increasingly complex environment, a firm needs to develop strategic responses (Johnson et al, 2005).

Various authors define strategy in different ways. According to Johnson and Scholes (1997), "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 meet the needs of markets and to fulfill stakeholder expectations." Ansoff and McDonnell (1990) defined strategy basically as a set of decision-making rules for guidance of organizational behaviour. They further added that there are four distinct types of such rules as follows. The first is yardsticks by which present and future performance of the firm is measured. The quality of yardsticks they say are called objectives and the desired quantity are goals. The second type is rules for developing the firm's relationship with its external environment which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called the operating policies.

Aosa (1992) argued that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. He defined a



strategic problem as a mismatch between internal characteristics of an organization and its external environment. The match is achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats. Chandler (1962) viewed strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals.

Henderson (1979) defined strategy as a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. According to him, this search is an iterative process that begins with recognition of where the firm is currently and what it has. Ohmae (1979) argued that beating the competition is not really what strategy is about. This is because when strategy is focused on beating the competition, then the strategy is defined primarily in terms of the competition. This he said should not come first in making strategy, although it is important. He suggested that the first attention should be paid to customers and that competitive realities should be used to test possible strategies which should always be defined in terms of customers.

Abbot (2007) defined strategy as the unique and distinctive actions a company takes to achieve a competitive advantage that will contribute to greater net profitability. Strategy he said is all about creating a distinctive approach to a customer differentiated value proposition. He argued that sometimes what is so much referred to as strategy is usually an operational plan involving some wishful thinking and a projection of existing status quo into the future and adjusting by a given percentage. According to him hard analysis and ruthless questioning of fundamental assumptions is usually lacking in such plans which should be present in a strategic plan.

According to Pearce and Robinson (1991), "By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Thus, a strategy represents a firm's game-plan. Although it does not precisely detail all future deployments (people, financial and

material), it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete, against whom, when, where and for what." Pearce and Robinson (1997) further argued that strategy can be viewed as building defenses against competitive forces or finding positions in the industry where forces are weakest.

Mintzberg et al (1998) viewed strategy from five interrelated definitions which are in terms of strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a deliberate, consciously intended course of action that is designed in advance of the actions it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception. This they termed as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. Mintzberg et al (1998) argued that no one definition should be preferred to the others. In some senses they can be considered as alternatives or complementary approaches to strategy.

### **2.1.1 Origin of Strategy**

The emergence of strategy in civilian organizational life resulted from the emergence of opportunities and needs created by the changing population, income and technology to employ existing resources more profitably. Strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals (Chandler 1962).

Henderson (1979) argued that competition has always existed long before strategy. However such competition involved no strategy at all. By chance and the laws of probability, competitors found the combination of resources that best matched their

differences which he terms as Darwinian natural selection. This kind of competition found many businesses being overcrowded out of the marketplace with only the fittest surviving. This brought about the need to differentiate in order to survive leading to strategy as businesses sought different combinations of factors that would earn them a competitive advantage. The key difference with strategy was that the search for competitive advantage was a deliberate one, carefully considered and tightly reasoned. With strategy the consequences could be radical changes while in the previous ideology, change was evolutionary. Therefore strategy came about as businesses discovered that by use of imagination and logic they can accelerate effects of competition and rate of change.

Ansoff and McDonnell (1990) argued that the first one hundred years of the firm's existence, the firm went through sequential phases namely the entrepreneurial creation of the modern firm, perfection of mass production technology and development of mass marketing. In this period the firm remained immune to societal interference. However changes soon became more complex, novel and discontinuous from past experience. From the 1950s, the changes became more simultaneous including the need for revival of entrepreneurship, response to the increasing intensity of global competition and societal involvement in how the firm should be run and the role it should play in society. They argued that in the twentieth century the distinctive characteristics are an acceleration of the incidence and diffusion of change. Change is more surpriseful and less predictable. Management had to develop systems to determine their firm's responsiveness to the environmental changes. According to them, the management systems determine the way managers perceive environmental changes, diagnose their impact on the firm, decide what to do and implement the decisions. With the environmental changes, the management systems evolved as shown in figure 2.1.1.

**Figure 2.1.1: Evolution of Management Systems**

Change-ability	1900	1930	1950	1970	1990
Unpredictability of the future	Familiarity of events				
	← Familiar	▶▶ Extrapolable	▶▶ Familiar discontinuity	▶▶ Novel Discontinuity	
Recurring	Systems and procedures manuals		<b>Management by control</b>		
	Financial control				
Forecastable by extrapolation	Operations budgeting			<b>Management by extrapolation</b>	
	Capital budgeting				
	Management by objectives				
	Long range planning				
Predictable threats and opportunities	<b>Management by anticipation of change</b>		Periodic strategic planning		
			Strategic posture management		
Partially predictable opportunities	<b>Management by flexible / rapid response</b>			Contingency planning	
Unpredictable surprises				Strategic issue management	
				Weak signal issue management	
				Surprise management	
Turbulence level	1 Stable	2 Reactive	3 Anticipating	4 Exploring	5 Creative

Source: Adapted from Ansoff and McDonnell (1990), *Implanting Strategic Management*, p.13.

According to Ansoff and McDonnell (1990), as the turbulence levels changed, management developed systematic approaches to deal with the increasing unpredictability, novelty and complexity of the environment. These systems became more sophisticated with the changes. Strategy and strategic management started being adopted as turbulence became discontinuous.

### 2.1.2 Characteristics of Strategy

Various authors have given what they term as the characteristics of strategy. These are the traits that differentiate strategic plans from other kinds of plans like the operating plans. Ansoff and McDonnell (1990) suggested that strategy has various characteristics as explained in the following discussion. First, the process of strategy results in no immediate action rather it sets the general direction in which the firm's position will grow and develop. Secondly, strategy involves a search process whose role is to focus on areas defined by the strategy and uncover possibilities inconsistent with it and filter them out. Next, strategy is irrelevant where the historical dynamics of a firm can get it where it wants to go. Strategy formulation is also based on highly aggregated, incomplete and uncertain information and does not enumerate all project possibilities which will be uncovered. Strategic feedback is essential because the search uncovers less aggregated information which may cast doubt on original strategy. Next strategy is different from objectives in that objectives are the ends the firm seeks to achieve and strategy is the means to these ends. Lastly, strategy and objectives are interchangeable at different points in time and at different levels in the firm.

According to Pearce and Robinson (1991), the characteristics of strategic management decisions vary with the level of strategic activity considered. At the corporate level, decisions are value-oriented, conceptual and less concrete. They involve greater risk, cost and profit potential with longer time horizons and greater need for flexibility. They have a far-reaching futuristic, innovative and pervasive nature. Functional level strategies involve action-oriented operational issues and lead to implementation of some part of the overall strategy. They are relatively short range and involve periodic planning, low risk and moderate costs. Business level strategies bridge the corporate and functional strategies and are less risky and costly than corporate strategies but more costly and risky than functional ones.

According to Johnson and Scholes (1997), strategic decisions are concerned with and affect the long-term direction of a firm. They are also aimed at achieving some advantage

for the firm and are sometimes conceived as the search for effective positioning of the firm to give advantage to the firm. They argued that such decisions are likely to be concerned with the scope of an organization's activities that is what it should be like and what it should be about. Next, strategy involves matching the firm's activities to the environment it operates in which they term as strategic fit. However strategy can also be building or stretching the resources and competences to create opportunities or capitalize on them. Strategies they added may require major resources and are likely to affect operational decisions. Lastly they argued that strategies are affected by the environmental forces, resource availability and the values and expectations of those who have power in and around the organization.

### **2.1.3 Levels of Strategy**

According to Johnson and Scholes (1997), strategies exist at different levels in the organization, extending to the individual level. However organizational strategies are at three levels namely corporate level, competitive or business level and operating level. At the corporate level, strategies are about the overall purpose and scope of the organization. This involves how the organization is to be run in structural and financial terms and how resources are to be allocated. At the competitive level, strategy is about how to compete successfully in a particular market. At this level they said strategies should be related to a strategic business unit (SBU) which they define as a unit within the overall organization for which there is an external market for goods or services distinct from another SBU. At the operating level, strategies are concerned with how the component parts of the organization in terms of people, resources, processes and skills are combined to deliver the overall strategic direction. Pearce and Robinson (1991) concurred on the three levels given by Johnson and Scholes (1997). However they added that for a business engaged in only one business, the corporate and business levels are rolled up into one level and therefore they have two levels only, that is the corporate level and the functional level.

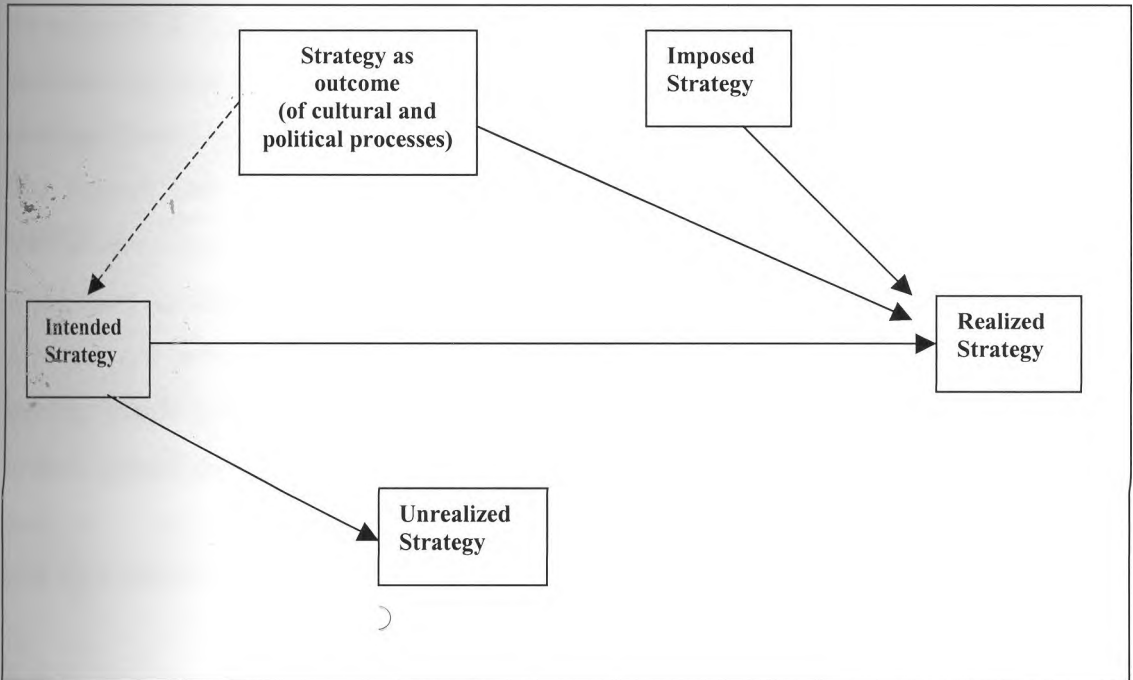
#### 2.1.4 Development of Strategic Responses

In responding to environmental changes, management may be categorized in different ways. Ansoff and McDonnell (1990) identified three kinds of management namely decisive, reactive and planned management styles. When a discontinuity affects a firm, it is mostly disguised by normal business fluctuations thus most firms deal with it using past measures. However, past measures fail to work thus the discontinuity is identified as a new one. Decisive management is quick to learn from the failure of past measures and quickly triggers a response. This quick response reduces the costs to the firm. Reactive management however delays response which increases the costs to the firm. The delays are usually caused by systems delay as information is collected and transmitted to managers who then consume time communicating with each other, verification delays as managers argued that the threat may not be real and allow time to see if it passes by itself, political delays as some managers feel admission of a threat will ruin their reputation and unfamiliarity rejection delay as managers reject unfamiliar ideas inconsistent with their experiences. Both decisive and reactive management act after the threat has appeared and are characterized by reliance on historical information. Planned management involves forecasting discontinuous changes by use of non-extrapolative technology and triggering response at the point of forecasting.

Johnson and Scholes (1997) were of the view that strategies come up in organizations as a result of deliberate managerial intent. However this can be in different ways. In the planning view, strategies are arrived at through a highly systemized form of planning sometimes even with a corporate planning department and prescribed tools and techniques. In the command view, strategies are formulated by an influential leader or a small group of influential leaders. At the extreme of this view strategies are formulated by an autocratic leader and the other manager's work is to implement them. The logical incremental view argues that strategy building takes place through successive limited comparisons where options are compared against each in a step by step manner. This view argues that it is unrealistic to say that strategies can be managed through a neat and logical sequential planning.

According to Mintzberg (1979), the planning image distorts the strategy making process and misguides organizations that embrace it totally. This is because strategies that are planned are not always realized, some of them become unrealized strategies. In addition some strategies emerge as the firm interacts with the environment and some other strategies are imposed upon the firm by the environment. Therefore realized strategies usually have a mix of planned strategies, emergent strategies and imposed strategies. Figure 2.1.2 depicts this mix.

**Figure 2.1.2: Strategy Development Routes**



Source: Adapted from Johnson and Scholes (1997), Exploring Corporate Strategy, p.44.

### 2.1.5 Generic Strategic Responses

Deriving from the perception on the environment, some authors have advanced alternative strategies that organizations can pursue in addressing the environmental changes. Porter (1980) advanced what is known as the generic competitive strategies. Ghemawat (2007) advanced the AAA triangle framework for firms facing global



challenges. Pearce and Robinson (1991) proposed the grand strategies for firms facing dynamic environments.

Porter (1980) described the environment in terms of competition and gave the five competitive forces discussed earlier. To deal with these competitive forces, he suggests three generic competitive strategies. These strategies are overall cost leadership, differentiation and focus.

Overall cost leadership is a strategy aimed at achieving cost leadership in an industry through a set of functional policies. It requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reduction derived from experience, tight cost and overhead control, avoidance of marginal customer accounts and minimization in areas like research and development, service, sales force and advertising. In this case management attention is on cost control to achieve a low cost relative to competitors which earns the firm above-average returns. This is because lower costs mean that the firm can still earn returns after competitors have competed their profits away. This strategy guards against substitutes and new entrants due to the favorable position. It defends against powerful buyers because it has higher margins even after they drive prices down and also defends against powerful suppliers by having the flexibility to cope with input cost increases.

Differentiation strategy means creating something that is perceived as unique across the entire industry. Differentiation can be on the brand, image, technology, features, customer service and distribution network. Differentiation earns above-average returns by defending against the competitive forces. It defends against substitutes, rivalry and new entrants due to the brand loyalty it commands and also raises margins because buyers are willing to pay premiums for the differentiated products. Buyers also do not have alternatives therefore it guards against buyer power. It defends against supplier power by the higher margins affording the firm flexibility.

The focus strategy involves using either the cost leadership strategy or the differentiation strategy but on a narrower target. The focus strategy narrows down on a segment of the industry and uses either of the cost or differentiation strategies for the smaller segment. The focus strategy may select a segment that is least vulnerable to substitutes or where rivals are weakest. This strategy places a limitation on the overall market share that can be achieved. It also involves a trade-off between profitability and sales volumes.

According to Porter (1980), a firm that fails to adopt any of the strategies is stuck in the middle. This he said is an extremely poor strategic situation where the firm is almost guaranteed poor returns. It loses on the high volume low margin customers as well as the low volumes high returns customers. Once stuck in the middle it takes time and sustained efforts to get the firm out of this position. Therefore, firms should avoid being stuck in this position.

Ghemawat (2007) proposed what he terms as the AAA triangle framework. The idea behind this framework is that the world has become a global village. Therefore firms have to develop global strategies in order to compete effectively. He argued that most business leaders and academicians make problematic assumptions in global strategy. These are that the central challenge is to strike a balance between economies of scale and responsiveness to local conditions and that the more emphasis companies make on economies of scale in their worldwide operations, the more global their strategies. He argued that the main goal of a global strategy is to manage large differences arising at borders. He agreed that standardization and local responsiveness strategies are valid but they also ignore cross-border integration. To deal with this he proposed the AAA triangle framework.

The AAA triangle framework is made of three distinct global strategies namely adaptation, aggregation and arbitrage. Adaptation he said seeks to boost revenues and market share by maximizing local relevance. Aggregation attempts to deliver economies of scale by creating regional or even global operations which involves standardization. Arbitrage involves exploitation of differences between national or regional markets by

locating separate parts of the supply chain in different locations. The framework rests on the premise that firms going global have to choose one or more of the strategies. The key lies in choosing a strategy that best fits the needs of the organization and prioritize among them. Ghemawat notes that firms may employ the different strategies at different points in their evolution as global firms.

Pearce and Robinson (1991) advanced the grand strategies for firms operating in dynamic environments. The grand strategies include concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation. Concentration involves directing the firm's resources to the profitable growth of a single product in a single market and with a single technology. Market development involves marketing present products to new markets. Product development involves substantial modification of present products for existing customers. Innovation involves modifying a product such that the firm creates a new life cycle for the product.

Integration can either be horizontal or vertical. Horizontal integration involves acquiring similar businesses operating at the same stage of production or marketing. Vertical integration involves acquisition of businesses that supply the firm with raw materials or serve as the firm's customer. Joint venture involves two or more capable companies which join together to *complement each other in order to succeed in a given environment*. Diversification involves developing new products for new markets. Turnaround involves concentrated efforts to reduce costs and assets to reverse negative trends. Divestiture involves sale of a business or a large part of a business which is not profitable while liquidation means winding up of the business.

Challenges faced by different industries are different. As a result it is no longer possible to devise a single prescription for response to challenges which would apply to all industries and firms (Ansoff and McDonnell, 1990). This therefore means that each organization develops strategies that match its own conditions. What works for one organization may not work for another. Each organization must find what works for it in

order to succeed. According to Ferrell, Hartline and Lucas (2002), each organization must carry out a situational analysis which must always include analysis of the internal and external environments to determine the responses to adopt in order to survive and succeed in the environment.

## 2.2 The Strategic Success Hypothesis

In advancing the strategic success hypothesis, Ansoff and McDonnell (1990) introduced what they term as a firm's strategic aggressiveness. This they described by the degree of continuity from the past of the firm's new products, competitive environments and marketing strategies and timeliness in introducing the new products appearing on the market. Timeliness ranges from reactive, anticipatory, innovative and creative. Discontinuity ranges from no change, incremental change, discontinuous and creative change.

From this Ansoff and McDonnell (1990) advanced the strategic success hypothesis which prescribes that for a firm to succeed its strategies must match the environment and further that its internal capability must match the strategies. The strategic success hypothesis states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behaviour matches the turbulence of its environment, the responsiveness of the firm's capability matches the aggressiveness of its strategy and components of the firm's capability must support each other. If these are not matching, a strategy-capability gap results. Figure 2.2.1 depicts the relationship between the environmental turbulence, strategic aggressiveness and responsiveness of capability.

**Figure 2.2.1: Matching Aggressiveness And Responsiveness With Turbulence**

<b>Environmental Turbulence</b>	<b>Repetitive</b> Repetitive	<b>Expanding</b> Slow Incremental	<b>Changing</b> Fast Incremental	<b>Discontinuous</b> Discontinuous Predictable	<b>Surprising</b> Discontinuous Unpredictable
<b>Strategic Aggressiveness</b>	<b>Stable</b> Based on precedents	<b>Reactive</b> Incremental based on experience	<b>Anticipatory</b> Incremental based on extrapolation	<b>Entrepreneurial</b> Discontinuous based on expected futures	<b>Creative</b> Discontinuous based on creativity
<b>Responsiveness of capability</b>	<b>Custodial</b> Suppresses change	<b>Production</b> Adapts to change	<b>Marketing</b> Seeks familiar change	<b>Strategic</b> Seeks new change	<b>Flexible</b> Seeks novel change
<b>Turbulence level</b>					

Source: Adapted from Ansoff and McDonnell (1990), *Implanting Strategic Management*, p.38.

Pearce and Robinson (1991) argued that for strategy to succeed three ingredients must be in place. First the strategy must be consistent with the competitive environment conditions. Secondly, the strategy must place a realistic demand on the firm’s internal resources and capabilities. Lastly, strategy must be carefully executed. They suggested that internal analysis is therefore very crucial in order to succeed however difficult and challenging it is.

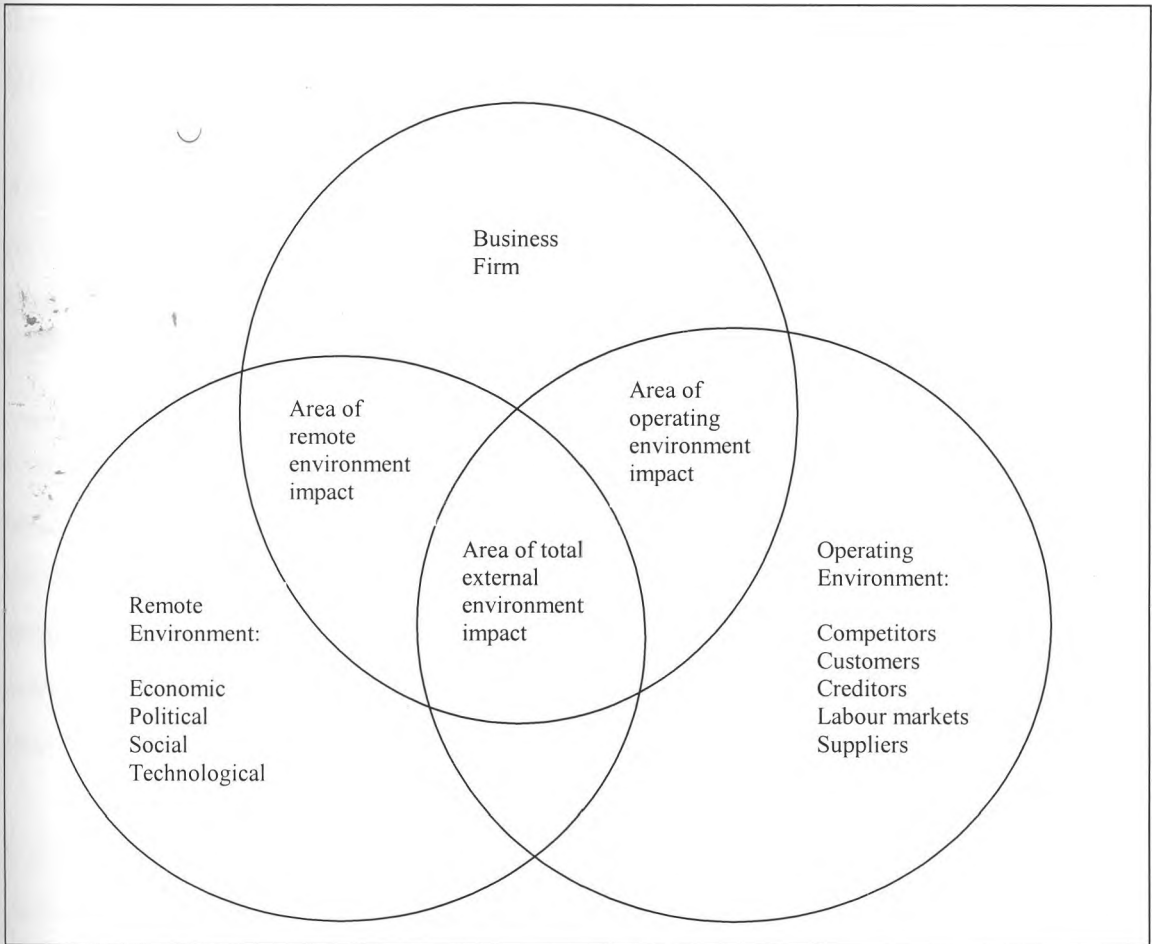
## 2.3 External Environment

### 2.3.1 Operating and Remote Environment

Pearce and Robinson (1991) defined the external environment as that part of the environment which consists of all the conditions and forces that affect a firm’s strategic options but are typically beyond the firm’s control. They argued that the strategic

management model shows the external environment to consist of two interactive and interrelated segments which are the operating environment and the remote environment. The operating environment is also referred to as the competitive or task environment. The relationship between the firm, the operating and the remote environment can be depicted as shown in figure 2.3.1.

**Figure 2.3.1: The Firm's External Environment**



Source: Adapted from Pearce and Robinson (1991), *Strategic Management: Strategy Formulation and Implementation*, p.100.

Pearce and Robinson (1991) argued that the operating environment consists of forces and conditions within a specific industry and a specific competitive operating situation which is external to a firm and influence the selection and attainment of alternative objectives or strategies. Changes in this environment are shaped by strategic actions taken by a firm or

its competitors, consumers, users, suppliers and creditors. The operating environment is subject to much more influence or control by the firm thus calls for more proactivity on the part of the firm. The firm must assess its competitive position in order to improve its chances of designing strategies that optimize environmental opportunities. Customer profiles must also be developed to understand and deliver value to the customers. Suppliers and creditors provide resources and inputs and therefore a dependable relationship with them must be fostered for a firm's long-term survival and growth. The firm must also be able to attract and maintain capable employees with readily available skills and knowledge needed.

According to Pearce and Robinson (1991), the remote environment consists of forces and conditions that originate beyond and are irrespective of any single firm's operating environment. It provides the general economic, political, social and technological framework within which competing firms operate in.

Economic considerations give the nature and direction of the economy and a firm must understand these considerations both on a national and international scale. They influence the general availability of credit, level of disposable income and propensity of people to spend. Economic variables include the gross national product, disposable income, economic growth, unemployment rate, inflation rate, interest rates and foreign exchange rates

Social considerations include the beliefs, values, habits, attitudes, opinions and lifestyles derived from the cultural, demographic, religious, education and ethnic conditioning. *These influence demand and consumption patterns. The socio-cultural variables include lifestyle changes, population demographics, education levels, religious beliefs, urbanization, racial mix and stages in life.*

Political considerations define the legal and governing parameters which the firm must operate by. The political environment consists of variables like the political stability, budget surplus or deficit, personal and corporate taxes, export and import restrictions and

tariffs. Legal prescriptions include environmental protection policies, labour laws, anti-monopoly laws, municipal council laws and patents and copyrights laws.

Technological considerations must be monitored to ensure a firm is not rendered obsolete and also to promote innovation. Technological variables include cost of technology, rate of obsolescence, efficiency of infrastructure and new innovations. Technological changes involve new manufacturing processes, new products and services from suppliers, new products and services from competitors and any new technology that affects the way a firm operates.

The firm basically exists within the physical or ecological environment and derives most of its inputs from it. Therefore, the firm has to monitor the physical environment for its continued existence. Variables in the physical environment include availability of raw materials, pollution control, energy sources, ecological concerns affecting consumer habits and perception of the company, products and production processes.

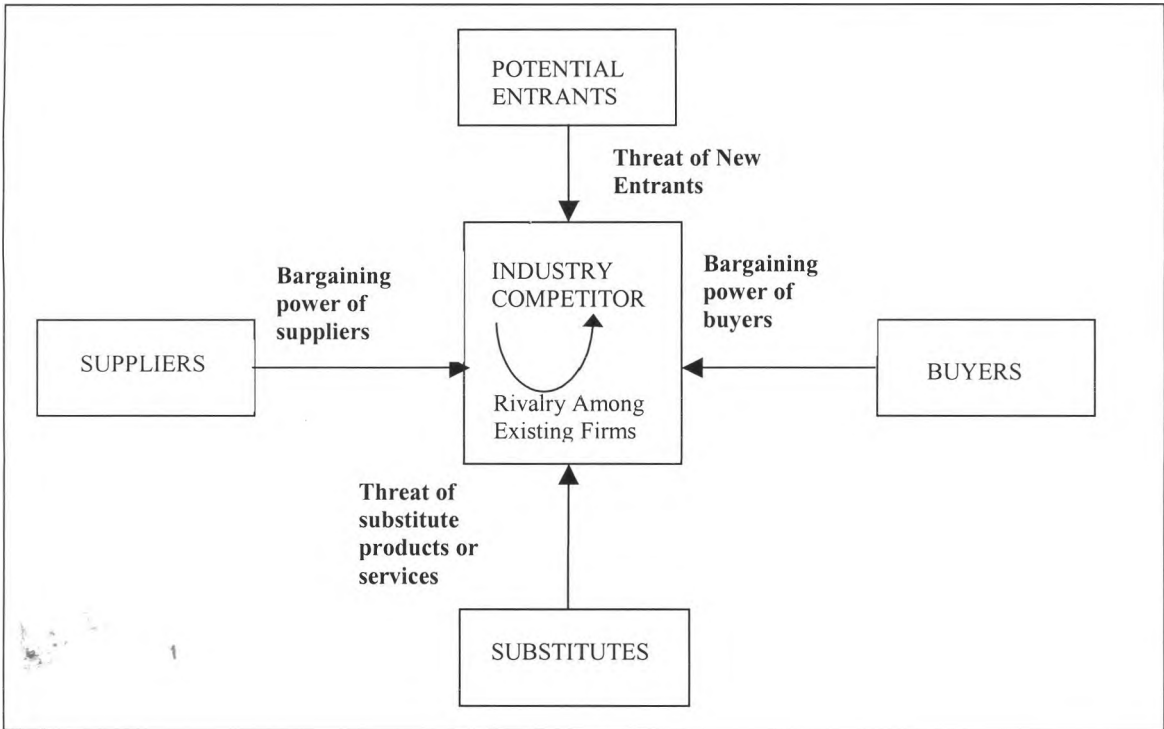
An understanding of the environmental influences helps examine their differential impact on the organization, either historically or in terms of the likely future impact. This builds on key drivers and asks to what extent such influences will affect different organizations. This helps managers determine their strategic options (Johnson and Scholes, 1997).

### **2.3.2 Competitive Environment**

Porter (1980) on the other hand argued that although the relevant environment is very broad encompassing of social as well as economic forces, the key aspect of the firm's environment is the industry it competes in. According to him, the industry structure has a strong influence in determining strategies available to a firm. Forces outside the industry are significant in a relative sense because they affect the industry as a whole but the key is in the differing abilities to deal with them. He advanced five forces that according to him define the state of competition in an industry. These forces are depicted in figure 2.3.2.



**Figure 2.3.2: Forces Driving Industry Competition**



Source: Adapted from Porter (1980), *Competitive Strategy: Technique for Analyzing Industries and Competitors*, p.4.

According to Porter (1980), these forces pose a challenge to a firm by determining the competition in an industry and profitability. In order to succeed in the industry, the firm has to formulate competitive strategies to relate to these forces. New entrants in an industry bring in new capacity, a desire to gain market share and in some cases substantial resources. The threat posed by new entrants depends on the barriers to entry in the industry. Porter gave six barriers to entry as explained in the following discussion.

Economies of scale which is the decline in unit costs of product as the absolute volume in a period increases. Economies of scale deter new entrants because it means they have to enter the industry on a large scale which is more risky due to strong reactions from existing firms or accepting cost disadvantages by entering on a small scale. Product differentiation deters new entrants because existing firms already have brand identity and customer loyalty. Porter (1980) noted that in the brewing industry product differentiation coupled with economies of scale create very high barriers.

Capital requirements deter entry due to the need for large financial investments in order to compete especially if the capital is for risky and irrecoverable expenses to penetrate the industry. Switching costs in form of costs required by buyers to switch from one supplier's products to another deter new entrants because buyers may not be willing to incur such switching costs. Access to distribution channels deter new entrants because existing firms already have a good command of existing channels and the new entrant may have to spend heavy outlays to establish new channels or persuade existing ones to accept his products. The last barrier is the government policy which can limit entry by controls like licensing requirements, limitations on access to raw materials, product safety standards and environment pollution laws. Such government policies may also require the new entrant to incur heavy capital outlays in order to comply.

Rivalry among firms involves jockeying for positions in the industry. It involves activities like price wars, advertising campaigns, product innovations and customer service. Rivalry is aggravated by the presence of numerous and equally balanced competitors, slow industry growth, high fixed and storage costs, absence of differentiated products, absence of switching costs, diverse competitors in terms of goals and strategies and high exit barriers. Any firm in such an industry has to design strategies to gain an edge over the competitors.

Threat from substitute products comes because substitutes limit the potential returns in an industry. Substitutes are products that can perform the same function as the products of the industry. According to Porter, substitutes that require most attention are those that are subject to trends improving their price-performance tradeoff with the industry's product or those that are produced by industries earning high profits. Analysis of these substitutes is important in deciding the strategic approach towards them.

Buyers compete with an industry by forcing down prices, bargaining for better products or playing competitors against each other at the expense of industry profitability. Buyers are more powerful if they buy large quantities relative to firm's sales, the products represent a large proportion of the buyer's costs, the products are undifferentiated,

switching costs are low, the buyer earns low profits, they have a great potential for backward integration, buyer has full information and the products are unimportant to the quality of buyer's products and services. To counter buyers' power, firms have to devise strategies.

Suppliers exert a threat to an industry by threatening to raise prices or reduce quality of purchased inputs thereby squeezing profits from an industry. Suppliers are more powerful if they are dominated by only a few firms, there are no competing substitutes, the industry is not an important customer to the supplier, the supplier's product is an important input to the industry, supplier's products are differentiated, there are switching costs on supplier's products and the supplier has great potential to integrate forward. According to Porter (1980), firms can improve their situations through strategy in dealing with suppliers.

Despite their differences in classifying the environment, Pearce and Robinson (1991) and Porter (1980) all concurred that monitoring the environment and designing appropriate strategy is important. Pearce and Robinson (1991) were of the view that assessing the impact of changes in the environment on the effectiveness of alternative strategies is difficult. However, decision makers are better able to narrow down the range of potential alternatives by such assessment. To them, designing business strategies is a multifaceted, complex and often dependent on fairly subjective impact assessments. They gave three recommendations in environment assessment namely, collection of data for a meaningful range of factors combining managers' perceptions with public sources, carrying out impact studies to convert such data to meaningful information on consequences of implementing alternative strategies and flexibility in incorporating strategy to allow for unexpected variations in the environment.

Porter (1980) on the other hand was of the idea that once the forces affecting competition are identified along with their underlying causes, the firm should identify its strengths and weaknesses relative to the industry. From this a strategy is devised which either takes an offensive or defensive action to create a defensible position. This he said involves

various approaches as follows. Positioning the firm so that its capabilities provide the best defense against the competitive forces, influencing the balance of the forces through a strategic move thus improving the firm's position or anticipating shifts in the factors underlying the forces and responding to them which involves exploiting the change by choosing an appropriate strategy before competitors.

### **2.3.3 Environmental Turbulence**

Ansoff and McDonnell (1990) explained the changes in the environment in terms of what they referred to as turbulence. According to them environmental turbulence is a combined measure of the changeability and predictability of a firm's environment. They described changeability to consist of the complexity of the firm's environment and the relative novelty of the successive challenges the firm encounters in the environment. Predictability consists of the rapidity of the change which is the rate of the speed with which environmental challenges evolve compared to the speed of the firm's response and visibility of the future which assesses the adequacy and timeliness of information about the future. They categorized environmental turbulence in five levels as shown in figure 2.3.3.

**Figure 2.3.3: Turbulence Scale**

Environmental Turbulence	Repetitive	Expanding	Changing	Discontinuous	Surprising
Complexity	National Economic	+	Regional Technological	+	Global Socio-political
Familiarity of Events	Familiar	Extrapolable		Discontinuous Familiar	Discontinuous Novel
Rapidity of Change			Comparable to response	Faster than response	
Visibility of Future	Recurring	Forecastable	Predictable	Partially predictable	Unpredictable surprises

Source: Adapted from Ansoff and McDonnell (1990), *Implanting Strategic Management*, p.31.

Ansoff and McDonnell (1990) argued that at level 1 firms do not change their products and services unless forced by a threat to their survival since the environment is stable and repetitive. At level 2, the environment changes slowly and incrementally and firms succeed by adapting reactively to change. Decisions are based on experience and they do not change their products or services unless there is threat from the competition. At level 3 the environment changes incrementally but fast. To succeed firms seek to progressively improve their products and services in anticipation of changing customer needs. Level 4 becomes very difficult because the firm has to be ready to abandon its historical position and be driven by its perception of new opportunities that will exist in the environment. The firm has to continuously scan the environment to identify future discontinuities and only stays in industries which are profitable and exits industries in a timely manner before they become unprofitable. At level 5, the only way to succeed is by remaining a leader in developing products and services using cutting edge innovation and technology. According to them strategic management becomes vital to a firm's success and even continued survival at levels 4 and 5.

## 2.4 Internal Environment

The internal environment can also be referred to as internal capability. It comprises of those factors that are within the firm and can be controlled by the firm. It includes factors like financial resources, technology, human resources, structures and processes. Pearce and Robinson (1991) suggested that these are factors that give the organization its strengths and weaknesses. They defined strengths as resources, skills or other advantages relative to competitors and market needs like financial resources, image, market leadership and buyer and supplier relations. Strengths they said are distinctive competences that give a firm comparative advantage in the marketplace. Weaknesses they said are limitations in resources, skills and capabilities that seriously impede effective performance. The internal strengths and weaknesses they argued help in narrowing the choice of alternatives and selecting strategies to deal with the external environment.

Johnson and Scholes (1997) approached the internal environment from what they termed as strategic capability. They defined strategic capability as consisting of three factors namely; resources available to the firm, competence with which the firm's activities are undertaken and balance of resources, activities and business units. They argued that many of the issues of strategic development are to do with changing the firm's capability to match the changing environment. They concluded that there was no best or worst set of resources and competences. They can only be assessed in relation to the strategy which the organization is pursuing.

The internal environment can be understood from various perspectives. The functional approach views the internal environment from the different departments in an organization like marketing, human resource, finance and accounting, production and administration. In marketing, variables like the breadth of the product lines, market share, marketing mix, brand loyalty and distribution channels constitute key factors. In finance there are variables like ability to raise capital, tax considerations, effective cost control, leverage position, corporate financial resources and price-earnings ratio. In production

the variables include raw materials cost and availability, inventory controls, location, technical efficiency, research and development and patents. In human resources the key variables include management style, employees' skills and morale, labour relations, employee turnover and absenteeism and experience. General management variables include organizational structure, image, firm's record in achieving goals, organization climate and culture and intra-organizational synergy (Pearce and Robinson, 1991).

Closely related to the functional approach is the value-chain approach. This approach views the organization as a process to create value for the consumer rather than functional departments. The organization consists of primary activities namely, inbound logistics, operations, outbound logistics, marketing and sales, services and support activities. Variables in inbound logistics include receiving, storing and distributing inputs. In operations the variables involve activities to transform inputs to final products. Outbound logistics collect, store and distribute final products to consumers and include variables like warehousing, product handling and transport. Marketing and sales involve activities that make consumers aware of the products. Support activities include procurement, technology development, human resource management and infrastructure like finance, quality control and planning (Chase, Aquilano and Jacobs, 2003).

The internal environment may also be understood from four major categories namely physical resources, human resources, financial resources and intangibles. Physical resources include variables like the plant and equipment, land and buildings, location and the general usefulness of physical items owned by a firm. Human resources involve the number and different types of skills in the organization as well as their adaptation, commitment and loyalty. Financial resources involve the sources and uses of money and include variables like control of debtors and creditors, cash management and relationships with lenders and investors. Intangible resources include variables like goodwill, reputation, patents and copyrights, image, loyalty, stability of customer base and brand names (Johnson and Scholes, 1997).

In choosing the strategy to adopt, the internal factors play a key role. There are no best or worst resources. These can only be determined in the light of the strategy an organization wishes to pursue. Therefore, to be successful an organization must match its strategies to the environment and also match the internal resources to the strategies (Johnson and Scholes, 1997).

Thompson, Strickland and Gamble (2007) argued that in devising and executing a strategy, managers must start with assessing what the organization must do differently to carry out the strategy successfully. That means the firm must make internal changes. They argued that the managerial component in strategy execution involves building the organization with competencies, capabilities and resources, strength to execute strategy successfully, marshalling sufficient money and people to execute strategy, instituting policies and procedures that facilitate strategy, adopting best practices and pushing for continuous improvement on value chain activities, installing information and operating systems that enable personnel to carry out their strategic roles proficiently, tying rewards to achievement of strategic targets and installing a corporate culture that promotes good strategy execution.

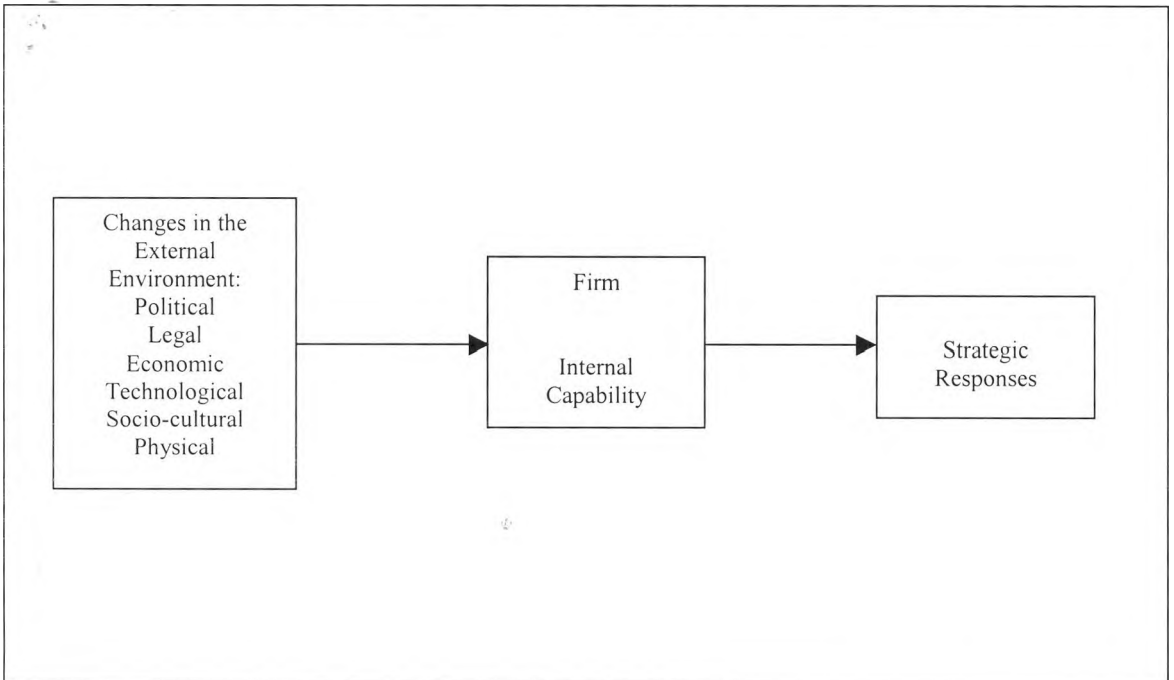
Choice of a good strategy is partly guided by the general principle of strategic fit between the business environment and the resource base of a firm. However many competitors achieve this fit and yet some outperform others. This difference in performance results from the deployment of resources in order to create a competence in a given activity, how these resources are matched to the requirements of a particular strategy and the competence with which these activities are linked together. Therefore choice of strategic responses to environmental changes is largely determined by the internal capability or environment of a firm. Therefore a clear understanding of the internal environment is crucial in determining the strategy to adopt (Dawson, 2005 and Johnson and Scholes, 1997).



## 2.5 Summary

Figure 2.5.1 summarizes the relationship between the environment, internal capability and strategic responses. Whenever there are changes in the external environment, the firm has to come up with strategic responses in order to survive. The choice of strategic responses depends on the firm's internal capability. Therefore, strategic responses are driven by the external environmental changes and the firm's internal capability. The external environmental changes form the independent variable, internal capabilities form the moderating variables and strategic responses are the dependent variables. Ferrell et al (2002) argued that each organization must carry out a situational analysis which must always include analysis of the internal environment to determine the responses to adopt in order to survive and succeed in the external environment.

**Figure 2.5.1: Relationship between the Environment, Internal Capability and Strategic Responses**



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This was a case study of EABL. Kothari (1990) described a case study as a careful and complete examination of a social unit, institution, family, cultural group or an entire community. A case study he argued embraces depth rather than breadth of a study. The study therefore involved an in-depth exploration of the strategic responses by EABL to changes in the environment. The study allowed for an in-depth understanding of EABL but cannot be used to generalize for any other company or industry.

### **3.2 Data Collection**

The study made use of both primary and secondary data. Secondary data was obtained from the company's records such as published financial statements, in-house magazines and publications. Data was also obtained from newspapers, trade journals, magazines, websites and internal communication media like the notice boards and posters. This method assisted in obtaining data quickly and cheaply and also assisted in probing when collecting primary data. Secondary data helped to address the first objective which was to identify changes in the external environment that have affected EABL.

Primary data was collected through in-depth interviews. An interview guide was used to help steer the interviews as well as to ensure crucial data was not forgotten during the interviews. The interview guide made use of open-ended questions to allow respondents to explain phenomenon in their own words. The interview allowed for probing, clarifying issues and addressing any concerns which assisted in gaining a clear understanding of issues. The target respondents for the study were 7, who included the managing director, the commercial director, strategy manager and the heads of departments specifically finance, human resources, production and marketing departmental heads. Primary data assisted in addressing the second objective which was to determine strategic responses by EABL to environmental changes.

### **3.3 Data Analysis**

Data collected from the study was qualitative data. The data was checked and edited for completeness and consistency. A content analysis was then performed on the data to allow for an in-depth understanding of issues in the case. Nachmias and Nachmias (1996) defined content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends. By performing a content analysis, a clear understanding of respondents' answers was obtained. This approach had been used successfully by other researchers for previous similar studies like Muse (2006), Kathuku (2005) and Mulema (2004).

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

### **4.1 Strategic Planning**

EABL had periodic strategic plans. The company's senior executives would draw up long-term strategic plans and capture them in its mission. At the time of the study, the strategies were aligned to what was dubbed 'Vision 2010' whereby the company targeted to be the number one drinks company in Eastern Africa by 2010. Every year the senior executives including the chief executive officer, the group commercial director, the strategy manager and the heads of finance, sales, marketing, production, procurement and information systems would hold a strategy seminar whereby they would break down the long-term plans into annual plans. From this, the annual targets would be determined and cascaded down such that each business area would have its annual mission and targets.

The mission would be cascaded down from the senior business executives to each individual such that each individual would be aware at the beginning of the financial year what they would be expected to contribute for the company to achieve its goals. At the business and departmental level the goals would be captured by a mission statement and at the individual level the goals would be captured by performance commitments known as 'P4G'. These performance commitments would form the basis of performance evaluation at the end of the year which would determine the salary increments and bonus payments to members of staff.

In determining the strategic plans, the senior executives would carry out a review of current macro-environmental conditions and competitive conditions and any likely changes in these conditions. From this analysis, the executives would determine the likely threats and opportunities posed to the company. Based on the expected threats and opportunities, they would determine the strategies to undertake in the course of the year in response to these changes.

## 4.2 Environmental Changes

The study established that there had been many changes in the external environment variables. However not all these changes had impacted EABL to a large extent. The following variables had impacted EABL to above medium extent leading to the company drafting strategic responses to address the changes in these variables. In the political-legal framework, the company had faced greatest challenges from taxation. Due to the classification of EABL's products as potentially harmful products, the government had continued to increase the excise duties levied on the products leading to increase in cost of production. However, with the proliferation of illicit brews and many cases of deaths and other tragedies on consumption of the brews, the government had removed the duties on the beer brands targeted to low income groups.

In the technological environment, EABL had been operating with many disjointed information systems which were becoming obsolete due to improvements in technology leading to new end to end systems. In addition, most companies had moved from use of glass bottles to cheaper plastic bottles due to changes in technology. Therefore, glass manufacturers had challenges on where to sell their products and had thus been forced to move to other product lines. The company was faced with challenges on procuring glass bottles for packaging.

In the economic environment, the company had been affected by the low-income levels, business cycles, cost of factors of production and liberalization. Liberalization posed a constant threat due to the fact that at any time new products could come into the market and even new investors could come and set up business operations to compete with EABL. The low-income levels had posed a challenge because most people could no longer afford the company's products and had turned to consumption of illicit beers.

The socio-cultural environment variables like gender, changing lifestyles like the trend of eating out on Fridays and ladies nights on Wednesdays, safety concerns especially in consumption of illicit brews, accident rates leading to the introduction of the alco-blow

and underage drinking had impacted on EABL's strategies to a large extent. The company had faced the strongest opposition from NACADA especially with the rise of underage consumption of alcohol. Physical environment changes especially weather patterns, poor infrastructure, disease attacks especially the yellow dwarf disease and pest attacks mainly impacted EABL's subsidiary, EAML. The competitive pressures faced by the company were mainly from beer exports and other spirits companies mainly Kenya Wine Agencies Limited, London Distillers and Keroche.

### **4.3 Strategic Responses**

The following were the specific strategies the company put in place in response to changes in the environment in line with the 'Vision 2010'.

#### **4.3.1 Market Development**

This strategy involves marketing present products to customers in related market areas. EABL had effected this strategy by exporting its brands to other countries. The company had penetrated the new markets especially using its flagship brand, Tusker. The company had entered countries like Djibouti, Sudan, Rwanda, Australia, Japan, USA, Canada and United Kingdom in response to the opportunities created by globalization, liberalization and stabilizing political conditions especially in Sudan and Rwanda.

#### **4.3.2 Information Systems Change**

EABL had rolled out a new information system across its business. The system referred to as SAP had been implemented to cover the business processes on an end-to-end basis that is from production to financial reporting. The implementation had cost the company Kshs. 1 billion and was expected to deliver simpler, faster and better operations for the company. The system had been in response to the need for a streamlined system,

enhanced accountability, robust internal controls and provision of real time data for decision making triggered by availability of new technology.

EABL had also put in place new technologies for production among its subsidiaries. In KBL, the company had put in place a new keg line to boost production of Senator keg. In UDV, the company had put up a new spirits line to boost production of the spirits. In UBL, the company had invested in new dual-purpose vessels to be used in fermentation and storage of beer in a bid to boost its capacity in order to meet consumer demand. In CGI, the company had put up a new furnace and in EAML, a new malt house had been constructed. These were to replace obsolete equipment in the production of glass and malting of barley.

#### **4.3.3 Vertical Integration**

EABL's core business was beer brewing and spirits distillation and selling. However, faced with the rise in cost of raw materials and need for reliability on the part of the suppliers of such raw materials, EABL employed the vertical integration strategy. This strategy involves acquisition of businesses that supply the organization with inputs or serve as a customer for the firm's output.

EAML would provide the brewing subsidiaries with malt and barley for beer brewing. To achieve this, EAML would contract farmers and provide them with raw materials for growing barley, which the subsidiary would process into malt for production of beer. The company aimed at achieving self-sufficiency in barley production and cut down on importation. CGI on the other hand would produce glass bottles for the company, used in packaging beers and spirits.

#### **4.3.4 Innovation**

EABL had to come up with new products to meet changing consumer needs. Senator keg had been launched on a joint initiative with the Kenyan Government to curb the consumption of illicit liquors. Senator keg was a cheaper beer targeted at the low income earning population due to the low taxes on the product. VAT 69 had also been introduced in the market to meet the needs of spirit consumers who felt that Bond 7 was an old spirit that did not appeal to their image. In addition, the company had introduced V&A, a cream based liqueur meant to appeal to ladies whose needs were not being met by Baileys. To meet the demands of the health conscious consumers, EABL had launched White Cap Light and Malta Guinness. White Cap Light being a reduced calories beer for those consumers who are concerned about their calories intake and Malta Guinness being a non-alcoholic malt-based energy drink for both alcohol and non-alcohol consumers.

To address the physical changes, EABL developed a more drought resistant, pest resistant and higher quality barley variety named Nguzo following 11 years of research. Prior to this, only two barley varieties were in production that is Sabini and Karne. Nguzo combined the good qualities of Sabini and Karne.

#### **4.3.5 Product Differentiation**

EABL differentiated its products by matching consumer motivations with the brand image. Consumer motivations involved the reasons why consumers drink like to quench their thirst, to socialize, as part of their lifestyle, psychological feeling and to express themselves. Brand image involved the social perceptions like masculine, feminine, older, young, personalities like fun loving and product features like packaging.

Tusker was associated with patriotism in Kenya while Bell and Uganda Waragi were associated with patriotism in Uganda. Some brands like Tusker Malt lager and Johnnie Walker spirits were associated with people who seek status and prestige. Smirnoff ice and



Baileys were associated with ladies and were deemed as products for ladies. White Cap was mostly perceived as a beer for the older generation while Guinness was for starters.

EABL also differentiated its products by outlets and matched its advertising and promotions by the outlets. Outlets were ranked by the income levels of the patrons and locations. The five star restaurants and pubs would only stock high-end beers and spirits associated with status like Tusker Malt Lager, Baileys, Johnnie Walker, Smirnoff and Tusker. Such outlets would not have brands like Senator. On the other hand local estate pubs would not have the status brands and instead they would stock the lower end brands and the affiliation brands like Tusker, Pilsner and Senator. In the very low-income areas like the slums, the only brands available would be Senator Keg. The high end pubs would not run promotions and would not even have posters advertising while in the low end pubs the promotions would form a very key activity.

#### **4.3.6 Product Development and Modification**

EABL had developed and modified its products to appeal to a wider range of consumers. The company had introduced Smirnoff Black, which targeted men who would normally take Smirnoff ice but considered it a ladies' drink and so avoided it. In addition the company modified the labeling of Uganda Waragi in a bid to give it a fresh and modern look. White Cap had always been perceived as a beer for the old and established consumers. However, White Cap Light had been developed to appeal to younger consumers. Guinness packaging was also modified from the 500ml bottle to the 300ml bottle.

In barley production, EAML had expanded to Uganda to find new farming areas. Previously barley growing was concentrated in Kenya in the Mau Escarpment, Mt. Kenya Region, Nakuru district and Moiben region. In seeking to meet the demand for barley as demand for beer increased, EAML had contracted farmers in the Kapchorwa region in Uganda. The company also targeted to take advantage of the favourable physical conditions in the region as well as the lower excise duties on locally produced goods

provided by the Ugandan Government. In addition, the subsidiary had entered into agreements with Aon Minet Insurance Brokers to insure farmers' barley produce. This was in response to the problem of crop loss that farmers faced occasioned by changes in climatic conditions, which had led to farmers wanting to change to other products that were more profitable posing a threat to the company.

Glass is normally in three different colours that is amber, green or flint (clear). CGI had succeeded to develop its processes such that it could produce the three types of glass using the same furnace. This had set it apart since it was the only glass manufacturer in the region that produced the three colours of glass containers. In addition, due to the threat posed by plastic bottles, CGI had also modified its glasses to lighter and more cost effective glasses, which were cheaper.

#### **4.3.7 Outsourcing**

EABL had outsourced most of its non-core activities. The company had outsourced services like casual and temporary human resource management, payroll processing, fleet management, product distribution, clearing, information technology hardware management, security, cleaning and catering. The need to outsource arose from the need to reduce cost in order to remain profitable occasioned by low economic growth and also to improve efficiency. In addition outsourcing would also help to meet changing consumer needs since the non-core activities which would take up a lot of management time would be removed from them allowing them time to concentrate on consumer needs.

#### **4.3.8 Shared Services Centre**

EABL had also established a shared services centre. This concept involved setting up a hub, which would perform given functions for the whole company. EABL's shared services centre would perform all the financial accounting and reporting activities for the EABL group of companies. In addition, the procurement function and information

systems services were performed from central locations. This concept reduced costs attributed with duplication of services among subsidiaries. This helped EABL address the problems associated with low economic growth and thus the need to reduce costs of operation. The shared services centre also helped to increase efficiency and synergies for EABL.

#### **4.3.9 Culture and Structure Changes**

EABL was made up of different subsidiaries, some with different product lines. Due to these differences, the different subsidiaries and departments had been operating as small groups each pursuing their own goals. This sometimes led to competition amongst them and a culture of blaming each other. The management put in a new way of working which involved a shift from the previous culture to a new one dubbed 'One Company One Culture'. This new way involved viewing all the different facets of the business as one with a common mission and common goals.

Accompanying this change of culture was a change of structure. Previously the structure was divided by subsidiaries then each subsidiary was divided into the different functional departments. The structure was changed to consist of the value chain activities of supply and demand whereby all functions involved in supplying the market were grouped together regardless of the subsidiary with one managing director and the same would apply to the demand functions.

#### **4.3.10 Aggressive Marketing Campaigns**

EABL had continued to invest in aggressive marketing campaigns. Despite, not having a fully established competitor in beer brewing in Kenya, the company faced competition from some imported brands like Heineken, Stella Artois, Sierra and Windhoek. In addition there were competitors in the spirits line like London Distillers, Keroche Industries and Kenya Wine Agencies Limited. There was also the threat of new entrants

because the Kenyan economy was still liberalized and unless EABL ensured that its brand were at the top of consumers' minds new entrants would always pose a major threat. EABL would also run marketing campaigns according to business cycles because seasons like Christmas and Easter would fetch high sales volumes.

EABL had therefore continued to run advertisements and promotions that always remind consumers of their presence. Tusker Project Fame involved sponsoring a musical reality show that was a new concept in advertising in Kenya and was aimed at giving a new face to Tusker, which had been perceived as a beer for the older generation. Guinness greatness and Guinness 1759 promotions sought to move away from the previous association of Guinness with Michael Power. Other promotions at the time were 'Reconnect with Richot', 'Tusker na Chapaa Chapaa na Tusker', 'Smirnoff Raev it Up' and Senator's 'Tuko Mitaani'.

#### **4.3.11 Corporate Social Responsibility**

EABL had put in place strategies to promote community welfare. This was mainly through the EABL foundation and the EABL green team. The EABL green team would mainly partner with communities to plant trees. The most recent initiatives at the time had been planting of trees in the Lake Nakuru conservatory, Sururu forest in Mau Narok and Ngong' Forest in Kenya and Lwamunda Central Forest Reserve in Mpigi and KKoba area of Mpanga Forest in Uganda. The EABL foundation had contributed to community welfare through sponsorship of academically bright but needy students across East Africa for university education. The foundation had also been partnering with communities to provide safe drinking water and health facilities like the Kajiado and Nzueni water projects, the Ekitangala fish-farming project in Nakasongola, Uganda and the Optical Centre in Moshi Tanzania.

The company had responded to problems of accident rates and underage drinking by running responsible drinking campaigns like the 'Don't drink and drive campaign' and partnerships with outlets to stop underage drinking whereby the company would

withdraw its products from any outlets that would sell alcohol to minors. The company had also trained outlet owners on its standards and practices relating to responsible drinking. In addition the company had partnered with other stakeholders in NABAK to start the 'We ID' campaign, which would require outlet owners to sign a code of conduct and to demand for identification from any of their patrons deemed to be under 18 years.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary of Findings

The study set out to identify changes in the external environment that had affected EABL and the strategic responses that EABL had put in place to deal with these changes. The study made use of secondary data and primary data. Secondary data was collected from journals, newspapers, websites and in-house publications. Primary data was collected through personal interviews.

The study established that in coming up with strategic plans, EABL's executives would consider the external environmental changes and competitive pressures expected. The study further established that the following variables had impacted EABL to a large extent and thus influenced the company's strategic responses. In the political-legal environment the key variable had been changes in taxation. In the technological environment the rates of obsolescence and new technological developments had played a major role. In the economic environment key variables had been the income levels and willingness to spend, cost of factors of production, business cycles and liberalization. In the socio-cultural environment, the key variables had been gender, lifestyle changes, income distribution, lobby groups, accident rates and safety concerns. In the physical environment key challenges had been the weather patterns, pests and diseases and infrastructure while in the competitive environment the key challenges had been from exports and illicit brews.

In addition the study established that EABL had put in place strategies to address the environmental changes. Key strategies that EABL had employed are market development, product development and modification, vertical integration, information systems change, innovation, product differentiation, outsourcing, shared services centre, culture and structure change, aggressive marketing campaigns and corporate social responsibility.

## **5.2 Conclusion**

EABL had employed a great mix of strategic responses in various facets of the business in order to cope with environmental changes. Though not clearly distinct, the strategic responses adopted by EABL seemed to be in line with the Pearce and Robinson's (1991) grand strategies namely concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation. In addition the company had adopted other recent strategies like outsourcing and shared services centres.

EABL had been one of the most successful companies and in Kenya it dominated the beer and spirits industry. The company had managed to get ahead of its competitors. However, the company still found it necessary to engage in strategic planning. The company still monitored changes in the environment and put in strategic responses to address the changes. This answered one of the key questions posed by the study, which was whether strategy was important for a company that had managed to beat the competition. From the findings of the study therefore, strategy was still important for a company that had managed to beat its competitors and dominate the market. This was because environmental changes could still drive the company out of the market and force it to wind up. Therefore environmental monitoring and strategic responses to environmental changes were very important for a company to survive and remain profitable in the environment.

## **5.3 Recommendations**

EABL had been very successful in its strategic responses and had managed to dominate the spirits and beer industry. However, EABL's vision for 2010 was to be the number one drinks company in Eastern Africa. The company seemed to focus mainly on the alcoholic drinks but in order to achieve its vision it needed to increase its attention on the non-alcoholic drinks. The only non-alcoholic drink that was produced by the company was Malta Guinness. The company therefore needed to engage its resources to understand the

non-alcoholic drinks industry and devise strategies to compete effectively in that industry as well if it was to achieve its vision.

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

The findings of this research were limited due to some factors arising in the course of the study. The biggest challenge in conducting the study was due to the fact that most companies would like to keep their strategies confidential because they would use them to gain competitive advantage. Therefore, the respondents were not very willing to disclose their strategies in some cases or give details of how they have implemented their responses.

The time available for this study was also limited and especially in data collection considering the interview method of data collection. The other challenge was on accessing the senior management since at the time of study most of them were attending a series of conferences outside the country. Therefore, in some cases the study relied on data from middle level managers, which may have limited the research findings. Lastly, this study focused on management only while the company's stakeholders are many. The findings of this study are therefore limited to the views from management.

#### **5.5 Suggestions for Further Study**

The study focused on EABL's responses to environmental changes. These environmental changes affect all companies in an industry and sometimes all companies within a given location. To understand, the strategic responses possible for these changes, further studies could be carried out in the other companies affected by the same environmental changes.

Different companies respond to environmental changes in different ways. EABL had applied the strategic responses identified in this study. However, to gain a full understanding of why EABL had chosen to use these strategies, a further study could be



carried out. This would focus on the strategic responses available and why EABL had chosen to use the responses it had adopted.

Lastly, the environment is dynamic and keeps changing overtime. With these changes, the strategic responses were expected to change. Therefore, further studies could be carried out on EABL to identify how the company would alter its strategies to other changes in the environment in future.

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## INTERVIEW GUIDE

1. Does your company have a strategic plan and how often is the plan reviewed?

2. At what level in the organization are strategies made?

3. Has your company engaged in any of the following strategies?

	Yes	No
a. Restructuring	<input type="checkbox"/>	<input type="checkbox"/>
b. Diversification	<input type="checkbox"/>	<input type="checkbox"/>
c. Information Systems and Technology changes	<input type="checkbox"/>	<input type="checkbox"/>
d. Culture change	<input type="checkbox"/>	<input type="checkbox"/>
e. Integration	<input type="checkbox"/>	<input type="checkbox"/>
f. Retrenchment	<input type="checkbox"/>	<input type="checkbox"/>
g. Product differentiation	<input type="checkbox"/>	<input type="checkbox"/>
h. Product modification	<input type="checkbox"/>	<input type="checkbox"/>
i. Aggressive marketing campaigns	<input type="checkbox"/>	<input type="checkbox"/>
j. Target market modification	<input type="checkbox"/>	<input type="checkbox"/>
k. Internationalization	<input type="checkbox"/>	<input type="checkbox"/>

- l. Strategic alliances
- m. Marketing mix modification
- n. Positioning and repositioning
- o. Packaging modification
- p. Concentration
- q. Cost leadership

4. Briefly explain how you've employed these strategies in your business.

5. To what extent have changes in the following political-legal variables impacted on EABL?

Variable	Small Extent	Medium Extent	Large Extent
Taxation			
Labour laws			
Pricing controls			
Government stability			
Upcoming elections			
East African Integration			
Others (please specify)			

a. Which strategies did you use to respond to these changes?

6. To what extent have changes in the following technological variables impacted on EABL?



<b>Variable</b>	<b>Small Extent</b>	<b>Medium Extent</b>	<b>Large Extent</b>
<b>Rate of obsolescence</b>			
<b>New Technological Developments</b>			
<b>Speed of technology transfer</b>			
<b>Industry focus on technological efforts</b>			
<b>Others (please specify)</b>			

a. Which strategies did you use to respond to these changes?

7. To what extent have changes in the following economic variables impacted on EABL?

<b>Variable</b>	<b>Small Extent</b>	<b>Medium Extent</b>	<b>Large Extent</b>
<b>Interest rates</b>			
<b>Credit availability</b>			
<b>Business cycles</b>			
<b>Inflation</b>			
<b>Unemployment</b>			
<b>Disposable Income</b>			
<b>Economic growth rate</b>			
<b>Liberalization</b>			
<b>Foreign Exchange rates</b>			
<b>Consumer spending patterns</b>			
<b>Consumer willingness to spend</b>			
<b>Cost of factors of production</b>			
<b>Others (please specify)</b>			

a. Which strategies did you use to respond to these changes?

8. To what extent have changes in the following socio-cultural variables impacted on EABL?

<b>Variable</b>	<b>Small Extent</b>	<b>Medium Extent</b>	<b>Large Extent</b>
<b>Lifestyle changes</b>			
<b>Attitudes to work and leisure</b>			
<b>Population demographic e.g. age, gender</b>			
<b>Income distribution</b>			
<b>Rural-urban Migration</b>			
<b>Religious beliefs</b>			
<b>Population density and location</b>			
<b>More Educated Population</b>			
<b>Family lifecycle</b>			
<b>Increase in working women</b>			
<b>Younger population</b>			
<b>Lobby groups</b>			
<b>Awareness of company's CSR</b>			
<b>Population safety concerns</b>			
<b>Concern on accident rates</b>			
<b>Others (please specify)</b>			

a. Which strategies did you use to respond to these changes?

9. To what extent have changes in the following physical/ecological variables impacted on EABL?

Variable	Small Extent	Medium Extent	Large Extent
Raw Materials availability			
Waste Disposal Laws			
Pollution Control Laws			
Energy sources restrictions			
Environmental Impact Assessment Requirements			
Others (please specify)			

a. Which strategies did you use to respond to these changes?

10. To what extent have changes in the following competitive pressures impacted on EABL?

Variable	Small Extent	Medium Extent	Large Extent
Direct substitutes			
Generic substitutes			
New Entrants			
Supplier power			
Customer power			
Others (please specify)			

a. Which strategies did you use to respond to these changes?

11. Are there any other environmental changes that have impacted on your company's strategies and how have you responded to such changes?