

**FACTORS AFFECTING CHOICE OF INNOVATION STRATEGIES IN
NESTLÉ KENYA LIMITED**

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature

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D61/ 7117/ 2006

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

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DEDICATION

This work is dedicated to my dear sons Alvin and Jason, my dear friend Kimaru Kagwe and my mother. My sons went without supervision of their homework when I was pursuing my MBA. My friend was a source of inspiration all along. He made the journey to finalize my MBA seem so easy and manageable. My mother stood in for me and acted as a mother to my sons. Your support and encouragement made my study a success.

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I acknowledge God's blessings for providing the enablers for me to pursue the MBA. I have seen his powers in all spheres of my life and continue to depend on him to shape and guide my life.

The process of pursuing the MBA has been a new learning experience for me and a chance to meet and network with great men and women who have passion for education. It was also an opportunity to make lasting relations in my life.

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ABSTRACT

Companies can achieve competitive advantage through acts of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things. Implementing innovations is a challenging and high risk task for many organizations. A number of challenges also exist in the process of innovating in an organization and for success to be achieved in the whole innovation process, a deliberate move will have to be made to address these challenges. The purpose of the study was to determine the factors affecting choice of innovation strategies in Nestlé Kenya limited.

The study adopted a case study research design in which an interview guide was used to collect data while content analysis was used in analyzing the data.

The findings show that the company undertakes two major types of innovation namely product and process innovation and from the innovation strategy that it has employed, the company has been successful in introducing a number of products in the market that were positively received. The factors affecting the choice of innovation strategy include the emergence of new technologies, products, market focused learning capability, entrepreneurship behavior and scarce resources in the organization, markets and competitors and these necessitates flexibility and adaptability in order to achieve competitive advantage.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from competitors and it is becoming apparent that innovation strategy is not only pivotal for an organization to achieve a competitive advantage, but that it is also critical for survival in many industries (Klein *et al.*, 2001). As such, every organization needs to adopt some strategies which will enable it to have a competitive edge over the others. The business environment is recognized to be one of the most important contextual factors that influence innovation, so that environmental changes are often seen as the driving forces of the firm innovation process (Pavitt, 2006). As a matter of fact, economists generally have been focusing their attention on firms or environmental aspects that spur innovation in the organization, or the industry. The idea behind this line of research is that firms are open systems seeking a state of equilibrium with their environment, so that when the environment changes, they have to accordingly change their strategies, structures and processes.

Innovation has experienced a remarkable change in recent years as a consequence of a number of factors including the advance of science and technology and the increasing globalization of a number of markets and activities. The growing heterogeneity of sources affecting the process of firms' innovation has led to the knowledge created out of the companies themselves achieving greater importance, and therefore to the central role to be played by the capacity of integrating inner and outer sources of technological capabilities with other competitive forces. As such it was noted by Slack and Lewis (2002) that organizational teams invest a lot of time and effort into analyzing their environment capabilities and services to develop their innovation strategy.

Unfortunately they do not invest the same effort in implementing their strategy and as a consequence 9 out of 10 organizations fail to implement these strategies. This situation is compounded by the lack of regular strategic review process so that the organization is not only unaware of “how it is doing” in implementing its strategy hence it also misses many strategic opportunities that emerge.

Nestle (K) Ltd as a multinational organization has an added advantage in the Kenyan market by virtue of its expansive network regionally and in Europe. Despite the traditional advantage, more recently, the organization has been facing challenges ranging from increased competition from other players in industry producing substitute products and also diversified product range. As a result, the organization should be innovative enough and introduce different products that are differentiated to continue enjoying the present advantage. However, a number of challenges face organizations in their innovation strategies.

1.1.1 The Concept of Strategy

The concept of strategy embraces the overall purpose of an organization. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy as outlined by Gole (2005) encompasses: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within which the organization operates.

Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. It involves carrying out situation analysis that leads to setting of objectives. Vision and mission statements are crafted and overall corporate objectives, strategic business unit objectives and tactical objectives are also developed. Strategy implementation is the process of allocating resources to support an organization's chosen strategies. This process includes the various management activities that are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence (Robbins and Coulter, 1996).

1.1.2 Innovation Strategy

According to Pavitt (2005), innovation is the implementation of a new or significantly improved product (good or service), or the process of coming up with a new marketing method, or a new organizational method in business practices, workplace organization or external relations. An innovation has been seen principally as the means to turn research results into commercially successful products. Innovations can stem from adopting new technologies or processes from other fields, or from new ways of doing business, or from new ways of marketing products and services. On the other hand, Pilo, Taskinen and Salkari (2007, p. 34) state, there is no one single innovation process that could be replicated from an organization to another. Organizations are different, with different backgrounds, cultures, strategies, missions and visions. Organizations need innovation management to drive the development of the innovation process, define the innovation strategy, and most importantly, to create an innovation culture.

Afuah (1998) proposed that innovation is the use of new technical and administrative knowledge to offer a new product or service to customers. Therefore, it can be concluded that innovation is any practices that are new to organizations, including equipments, products, services, processes, policies and projects. As such an innovation, whether a new idea, method, or devise, is incomplete unless it is made part of a working system. The innovative organization does not need to have invented the new product or process they adopt. Innovation is as much about the way new ideas and products are brought to effect as it is about the uniqueness of the original concept. Product and process innovations are prime manifestations of innovativeness by an organization. Although process innovation are defined as new tools, devices, procedures as well as knowledge in throughput technology that mediate between inputs and outputs, product innovation is seen to do more with the output that are introduced for the benefit of customers (Fagerber et al, 2006).

The aim of the product innovation is to offer customers radically new or incrementally improved products based on technological advances. The aim of the process innovation is to reduce the costs of manufacturing existing products (Nelson, 2008). Although (Nelson, 2008) has favored that both type of innovation is a variant of technological innovation, there are also product and process innovations in the service sector. Innovation has experienced a remarkable change in recent years as a consequence of a number of factors including the advance of science and technology and the increasing globalization of a number of markets and activities.

Organizations that wish to stay competitive should embrace innovation through the creation of innovation policies, strategies, processes and, most importantly, they need to establish a creative culture within the organization. One of the more common debates concerning the definition of innovation asks whether innovation should be regarded as a process or a discrete event. Those

who see innovation as a process focus on the various stages that the potential adopter goes through over the course of an innovation effort. These stages include identifying problems, evaluating alternatives, arriving at a decision, and putting innovation into use (Rogers, 1983). Zhuang *et al.*, (1999) classified innovation as an invention, an improvement on an existing product or process and the diffusion or adoption of a change developed elsewhere. Innovation by invention undoubtedly plays a significant role in gaining competitive advantage through differentiation. However, most innovation falls into an improvement on an existing product or process and the diffusion or adoption of a change developed elsewhere. The diffusion or adoption of a change developed elsewhere though often excluded by narrow treatments of innovation, accounts for a large proportion of innovative activities in many business organizations and is consistent with treatments of innovation as something new to an organizational sub unit (Zhuang *et al.*, 1999).

1.1.3 Food and Beverage Industry

The food and beverage industry enjoys high trust ratings 70 to 90 percent in both developed and developing economies. But consumers around the world thought that companies in this sector should improve their performance in health and safety, the environment and sustainability, and ethical business practices. Consumers emphasize three things that a food and beverage company should do to make them more inclined to choose its products over those of competitors: label products clearly with honest information, make them more healthy and nutritious, and reduce waste and pollution in manufacturing. However, these companies must do a better job of publicizing their green efforts.

With a fairly stable consumption level the industry expects increasing spending level in the years to come and its consequent increasing revenue, and more opportunities for companies to grow. While carbonated soft drinks have been dominant core products but in the last two years

consumers have changed direction to more health drinks and replaces carbonated soft drinks with bottled water, fruit juices, low calorie and diet drinks. Consequently, manufacturers are forced to adopt brand extensions and introduce new brands and products to withstand their positions within the industry. After having analyzed the competitive environment and its elements, the organization must consider selection of its product market to operate and invest which would reflect on its investment strategies. Strategies then have to be developed and implemented as part of the business management process rather than isolated departmental strategies, Pearce and Robinson (2002).

1.1.4 Nestlé Kenya Limited

Nestlé is the world's leading Nutrition, Health and Wellness Company. The organization is committed to increasing the nutritional value of their products while improving the taste. The organization achieve this through their brands and with initiatives like the Nutritional Compass and 60/40+. Since Henri Nestlé developed the first milk food for infants in 1867, and saved the life of a neighbour's child, the Nestlé Company has aimed to build a business as the world's leading nutrition, health and wellness company based on sound human values and principles. The organization overall strategy is to enhance brand image, change negative affordability perception and improve availability and visibility in retail trade.

Nestle company whose headquarters is in Switzerland started its operation in Kenya in 1967 and thereafter made the regional headquarters serving Kenya, Uganda, Tanzania, Democratic republic of Congo, Mozambique Mauritius and Angola. Nestle deals with Baby foods (Nan and Cerelac), Soluble Coffee (Nescafe), Beverages (Milo, Nestle drinking chocolate and Nestea), Breakfast cereals (Cerevita), Chocolate (Kit Kat) and Culinary (Maggi bouillon). Total beverages markets are estimated at 25 bio cups (Not including alcoholic beverages). Tea dominates the hot beverages category by 11.3 bio cups (representing 45% of the total market).

Kenya, DRC, Tanzania and Uganda are the biggest tea markets, contributing 70% of the total tea market in East Africa Region, which reflect their contribution to the total population (60% of East Africa Region population). Tea consumption is mainly driven by appeal, availability and affordability.

1.2 Research Problem

Companies can achieve competitive advantage through acts of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things (Porter, 1990). Innovation adoption is accepted as a decision process which involves several stages classified as individual-oriented and organization oriented. At the same time, implementing innovations is a challenging, high risk task for many organizations. “Innovate or die” is one of the mantras of today’s economy (Getz and Robinson, 2003 p. 87). Therefore, it is not surprising that being innovative is generally considered to be key drivers of organizational success. Before the potential benefits of implementing the new idea, practice or technology can be realized, management faces the challenge of ensuring organization members accept the innovation. One consequence of a limited understanding about how to manage innovation implementation is that many organizations abandon some adopted innovations during the implementation stage. About 15% of the adoptions of the technological innovations are cancelled before completion, with devastating consequences for some companies (Iacovoc and Dexter, 2005). These include loss of sunk and opportunity costs, loss of potential benefits of successful innovation, disruption of operational systems, unwelcome publicity and associated negative impacts on company image and reputation, and loss of managers’ credibility. These risks will only be reduced by increased understanding of how to effectively manage innovation implementation.

Several studies on the importance and application of innovation have been undertaken locally. Gathai (2009) undertook a research on the innovation strategies adopted by Equity bank Ltd and found that in order for a firm to embrace innovation, and then the top management should be involved and direct resources to the team involved in the innovation processes. Karanja (2009) researched on the innovation strategies adopted by Insurance Companies in Kenya and found out that in order for a firm to embrace innovation, and then the top management should be involved and direct resources to the team involved in the innovation processes.

Odhiambo (2008) studied Innovation strategies at the Standard Chartered (K) Ltd and found out that for firms to be innovative it should encourage creativity in its learning process and this will lead to a higher platform of quality and innovation: creative quality and value innovation.

Mwikali (2011) undertook a research on innovation processes within insurance industry in Kenya and found out that the insurance companies have a common understanding in the innovation process which involves the whole organization and as they adopt both incremental and radical innovation and in order to be innovative the companies have put forward principles for managing innovation. Arising from above its clear a lot of work has been done in this area however a lot of issues remain unresolved. At the same time none of the studies has focused on Factors affecting choice of Innovation Strategies in a beverage industry, and as a result, the current will seek to answer the question: What factors affect the Innovation Strategy choice in Nestlé Kenya Limited?

1.3 Research Objectives

The objective of the study was to determine the factors affecting choice of innovation strategy at Nestlé (K) Limited.

1.4 Value of the Study

The study will have value in different aspects as follows:

The management of the Nestle (K) Limited will be able to know the challenges which have been affecting the implementation of innovation strategies and thus come up with measures which will counter the challenges and be able to maintain its competitive advantage over other beverage firms in the country. The management of other firms in the beverage industry will benefit from the study as they will be able to gain more insights concerning the competitiveness of their company's innovation strategies and having known the challenges facing innovation strategies in their firm, they will be able to put in place possible ways of mitigating them. The firms will also be able to reinforce those innovation-based competitive strategy and capabilities, which in turn will enable such firms to outperform their competitors by creating superior value to their customers.

The study will be justified since it will be of academic value to those interested in beverage industry in the country with an aim of establishing a business since they will be able to understand what to do right to succeed and what if done wrong will bring the business down. They will also be in a position to relate happenings in the market with the challenges identified in this project. The study will be of value to the government as it will form an invaluable source of reference especially the ministry of finance in coming out with policies to guide the industry in the development of new products. This study is expected to increase body of knowledge to the scholars in the service industry and make them be in touch with how innovation strategies challenges can be overcome in the service industry.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides information from publications on topics related to the research problem. It examines what various scholars and authors have said about the concept of strategy and innovation. The chapter is divided into three main areas: concept of strategy, innovation strategy, and factors affecting innovation strategies.

2.1 The Concept of Strategy

An organizations strategy is concerned with the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy as outlined by Gole (2005) encompasses: strategy analysis, strategy development and strategy implementation. Hence the concept of strategy embraces the overall purpose of an organization.

According Pearce and Robinson (2007), Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. It involves carrying out situation analysis that leads to setting of objectives. Vision and mission statements are crafted and overall corporate objectives, strategic business unit objectives and tactical objectives are also developed. Strategy implementation is the process of allocating resources to support an organization's chosen strategies. This process includes the various management activities that

are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence (Robbins and Coulter (1996). Many successful companies are those that plan. Therefore, organizations use strategy as a means of dealing with uncertainty (Zyen, 2009). On the other hand, McNamara, (2009) indicates that strategic planning determines where an organization is going over the next year or more and how it is going to get there. According to his theory, the process of strategic planning is organization-wide, or focused on a major function such as a division, department or other major function. Planning typically includes several major activities in the process.

Strategies which are implemented within an organization should support the culture associated with the firm. The proposed strategy should preserve, emphasize, and enhance the culture, in accordance with the culture supporting the proposed strategy. Conflict management also plays an integral role within the implementation process. According to David (2003), the human element of strategic implementation plays a key role in successful implementation and involves both managers and employees of the organization. Both parties should directly participate in implementation decisions and communication plays a key role in ensuring that this occurs. Business performance is influenced by this human element of strategic implementation. Through providing performance incentives to employees during the implementation phase, it is suggested that business performance will be positively influenced.

There are some commonly used models and frameworks such as SWOT, industry structure analysis and generic strategies for researchers and practicing managers, in the areas of strategy formulation and analysis in strategic management. By contrast, there is no agreed-upon and

dominant framework in strategy implementation. Concerning this, Alexander (1991) has stated that: One key reason why implementation fails is that practicing executives, managers and supervisors do not have practical, yet theoretically sound, models to guide their actions during implementation. Without adequate models, they try to implement strategies without a good understanding of the multiple factors that must be addressed, often simultaneously, to make implementation work.

2.3 Innovation Strategy

Innovation strategy determines long-term fundamental business objectives and determines the activities and resources for achieving these goals. Orientation objectives are focused on timely response to changes in signaling of need of innovations (Marhdon *et al.*, 2010). According to him the innovation strategy must be based on variation, long term, systematic, the time factor and the concentration of resources and activities. Gunderson and Holling, (2001) on the other hand defined an innovation strategy as an instrumentalist, functional, predetermined plan governing the allocation of resource to different types of innovations in order to achieve a company's overall corporate strategic objectives and, a decision framework guiding a company about when and how it should selectively abandon the past and/or change its corporate strategy and objectives in order to focus on the business of the future. Kraatz (1998, p.621) noted that "Innovation strategy is innovative direction of company approach to the choice of objectives, methods and ways to fully utilize and develop the innovative potential of the enterprise. This is the direction given of its boundary, which determines the potential of innovative strategies."

Companies can achieve competitive advantage through acts of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things (Howells and Tether, 2004). According to innovation strategy is a summary of the strategic

decisions on which are managed and carried out innovative activities in the enterprise. A successful innovation strategy must have variants that reflect past, current and expected future developments. Long term effects, taking into account all relevant factors acting on the business, as well as the time factor. The implementation of innovation strategy is necessary to ensure all available resources and its link with corporate strategy and other departments of the company, especially with the marketing department and information technology. The company must have secured an effective collection and sharing of information and knowledge to support innovation. To be creative a good innovation strategy it is essential that business managers are familiar with the detailed business strategy. According to Dorado, (2005) preparation of innovative strategies must be purposeful and must be based on analysis of internal and external environment, planning and innovative design.

Before the creation of innovative strategies in the enterprise, there should be an audit of the current situation. An audit includes identification and analysis of human potential, competitors, partners, customers and business needs to create innovations. For analysis of the initial position of a company may be based on broad methodological apparatus of strategic management. Analysis of internal environment includes the creation of innovation capacity, innovation potential mapping, identifying the current level of use of the innovation capacity of innovation and specification requirements. Innovation capacity is formed by the sum of knowledge, experience, resources, assets and managerial capabilities and skills in business available, or is able to obtain in due time. The process of creating an innovation strategy is a complex process that contains six main parts. This is a defining vision and mission of the enterprise, identifying strategic objectives, detailed analysis business environment (internal and external), formulation of strategy, its implementation and subsequent evaluation associated with the control (Westley et al., 2006).

2.4 Factors Affecting Innovation Strategy

Organizational learning processes are key determinants of capabilities. In addition, the learning approaches to innovation suggest that the degree of innovation reflects the extent of new knowledge embedded in an innovation (Dewar and Dutton, 1986) and learning from markets is a key source of innovation. Entrepreneurial firms pursuing innovation-based competitive strategy build and nurture distinctive market-focused learning capabilities, which in turn enable such firms to outperform their competitors by creating superior value to their customers. According to Weerawardena (2001), the sources of firms innovation process can be attributed to a firm's entrepreneurship, market focused learning capability and organization learning intensity. These factors will also define the firms' sustainable competitive advantage.

2.4.1 Market-Focused Learning Capability

Learning from market changes has emerged as a key source of innovation and firm performance particularly on the market driven firm perspective. This approach argues that, to be effective innovators, organizations should constantly scan the horizons for new opportunities to satisfy their customers. Generating innovative ideas through the collection and dissemination of marketplace information is a starting point for innovation. Because knowledge of market preferences reduces the degree of incompatibility of new products with customer needs, it is likely to enhance the adoption and success of innovations (Cooper and Kleinschmidt, 1987). As argued by Prahalad and Hamel (1990) "the critical task for management is to create an organization capable of infusing products with irresistible functionality or, better yet, creating products that customers need but have not yet even imagined". In this paper market-focused learning capability is conceptualized to incorporate learning activities aimed at both customer preference changes and competitor actions.

Hamel and Prahalad (1993) suggest that merely being a learning organization is not sufficient. Learning processes must be translated into the acquisition of managerial competencies that permit the organization to be more efficient than competitors. The first step in this direction will be to arrive at a definition of organizational learning. Based on Slater and Narver (1995), organizational learning is defined as the development of new knowledge or insights that have the potential to influence behavior, which can be distinguished from individual learning in an organization. The organizational learning comprises four learning activities, which constitute the overall organizational learning process of the firm. These activities are knowledge acquisition (the development or creation of skills, insights, relationships), knowledge sharing (the dissemination to others of what has been acquired by some), knowledge utilization (integration of the learning so that it is assimilated, broadly available, and can also be generalized to new situations) and unlearning (the review and renewal of existing knowledge and communication of changes within the firm) (Schein, 1990).

2.4.2 Entrepreneurship

Merz and Sauber (1995) argued that entrepreneurship is the key factor determining the capability building activity of the firm. A firm's entrepreneurial orientation dictates its competitive orientation. Schollhammer (1982, p. 210) stated that "Entrepreneurship is the key element for gaining competitive advantage and consequently greater financial rewards". The entrepreneurial firm is generally distinguished in its ability to innovate, initiate change, and rapidly react to change flexibly and adroitly (Naman and Slevin, 1993).

Premised on the firm-behavior model of entrepreneurship, Covin and Slevin, (1986) observed that entrepreneurship has gained popularity among strategy researchers over recent years. Entrepreneurship was taken as a firm behavior in which the firm displays innovativeness, pro-

activeness and risk-taking propensity in their strategic decision making. It is further argued that entrepreneurship can be conceptualized in terms of a continuum using these three attributes, which reflects the “entrepreneurial intensity” of the firm. Rizzoni (1991) established a link between entrepreneurship, organizational capabilities and innovation. According to him a firm pursuing an innovation-based strategy accumulates specific capabilities, which distinguish the firm from its competitors and enable it to face the variability of the environment.

2.4.3 Organization Learning Intensity

Organizational learning intensity is a higher stage in the development trajectory of quality and innovation, and the future platform for organizational success. Its attainment is the core target of the learning approach to quality and innovation. Creative quality inherits qualities from both “creativity” and “quality”. Creativity is defined from different perspectives and falls into a cross-disciplinary domain, although much attention it has received is from the psychological viewpoint. Lumsdaine and Lumsdaine (1995, p. 14) defined creativity has “creativity is playing with imagination and possibilities, leading to new and meaningful connections and outcomes while interacting with ideas, people, and the environment.” Creativity is viewed as a process, rather than an outcome. It is an output-oriented process, in which an individual behaviorally, cognitively and emotionally attempts to produce creative outcomes (Kahn, 1990), which are novel and useful ideas (Amabile, 1988), novel or original, relevant and useful products, or procedures (Oldham and Cummings, 1996). Organizational creativity is closely linked to productivity and competitive success in business organizations.

Creative quality is a process built up upon organizational-based competency and delivers value innovation in the marketplace. In a sense, creative quality is more focused on customers and more likely to be approached from a set of values, as a general strategic orientation and

organizational ideology rather than simply as a set of tools and techniques. Value innovation, like creative quality, is more focused on end-consumers, and links innovation to buyer value. It places emphasis on both value and innovation: value without innovation is likely to focus on improving buyers' net benefit incrementally; innovation without value can be too strategic or technological-driven (Kim and Mauborgne, 1999). Value innovation is a radical change and quantum leap in an organization, achieved through the process of creative quality. However, there is some difference between these concepts: breakthrough and disruptive innovation involves a high degree of expectation of technological breakthroughs and structural changes in the organization; the entrepreneur is the major input in producing creative destruction (Schumpeter, 1934); knowledge and novel ideas are the major inputs for value innovation. Unlike the old "technology-push" theory, value innovation can occur with or without technological breakthrough. Indeed, technological innovation does not necessarily produce value innovation (Kim and Mauborgne, 1999).

2.4.4 Risk Aversion

According to Tidd, Bessant and Pavitt (2006) refer to the fact that 72% of product innovations are failures. This statistic underlines the fact that the majority of the innovative activities conducted by organizations fail. Any activity with such a poor rate of success is necessarily regarded as very risky, and the organizations keen to implement are likely to be influenced by the general principal of risk aversion. In other words, it would be normal to assume that organizations would avoid some of these risky activities in order to ensure their survival. Uncertainty is a major feature of innovations strategies, and concepts such as trial and error, search, and learning are used to integrate it. However several scholars underline at the same time that because of a "pro innovation bias much innovation research tends to stress that innovation

benefits its producers and users, and simultaneously ignores the risks of the associated change processes” (Meeus and Oerlemans, 2000, p. 42).

Organizations face changes in the environment by adopting adaptation strategies. Organizations are able to adapt to new contexts by acting on their strengths and weaknesses in satisfying ways. Adaptation strategies are always the result of a change in organization’s routines, and can be achieved in three main ways. An organization may change when it reorganizes existing routines in a new way, or imitates the routines of other organizations or when it creates new routines based on search. Because these three ways to change help the organization to face changes in its environment, the adaptation perspective assumes that adaptation strategies reduce organizational mortality (Schwarz and Shulman, 2007). As mentioned by Meeus and Oerlemans (2000, p. 42) “Due to its pro-innovation bias and its adaptationist perspective much innovation research tends to stress that innovation benefits its producers and users, and simultaneously ignores the risks of the associated change processes”. According to Carroll and Teo (1996, p. 620), in this perspective “change is assumed frictionless, relatively cost free and without major risk”. This situation can be viewed from several angles. The adaptation perspective links innovation to progress (Nelson, 1995) and in the long term, the outcome of innovation is assumed to be higher than the global cost of the errors incurred during the innovation process.

2.4.5 Lack of Resources

Some strategies fail because not enough resources were allocated to successfully implement them. Lack of resources is generally a bigger threat to capital-intensive strategies. Kubinski (2002) observed this failing in both “fast-growth, new companies that feel understaffed due to growth demands” and companies “under heavy competitive pressure” who felt they could not spare resources to drive strategic innovation.

It is very critical to include the financial evaluation of a (draft) strategic plan in the process – in part to ensure the strategy does not inadvertently destroy shareholder value and in part to ensure that sufficient resources (especially capital dollars) will be available to achieve implement. The process can be relatively simple – crafting a base case financial model and layering the impact of strategies on top of that base case. Alternatively, the process can be highly sophisticated, including an analysis of alternative funding sources, the impact of merger synergies on financial performance, and other considerations. Regardless of the degree of modeling sophistication employed, CEO's can expect to make smarter strategic choices up-front and to deploy limited resources more effectively as a result, (Lynch, 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used in the research. The chapter adopted the following structure: the research design, target population, and data collection methods and data analysis method to be used.

3.2 Research Design

The study was modeled on a case study design. Kothari (1990), defines a case study as a powerful form of qualitative analysis and involves careful and complete observation of a social unit be it a person, family, cultural group or an entire community and/or institution. This study focused on factors affecting innovation at Nestle (K) Ltd. The results were expected to provide an insight in understanding how the company undertakes innovation process, identifying the challenges faced in the innovation process as well as how the same challenges are dealt with.

In light of this therefore, a case study design is deemed the best design to fulfill the objective of the study as only a few members of staff are knowledgeable to the research area. Further, it allowed the researcher to prop further an interviewee in case the answer to a particular question was not adequately answered at a given point since the design was face to face interviewee.

3.3 Data Collection

The study used primary data, which was collected through face to face interview with the researcher. An interview guide was used to collect data on the innovation process adopted by Nestlé (K) Ltd. The interview guide was divided into three sections covering; background

information of the firm, innovation process at the firm and challenges encountered in the process. The respondents consisted of two members in senior management team and four members in the product development division. These respondents were considered to be involved in the formulation and implementation of policies regarding innovation in the firm and also involved in actual development of new products. Hence, the researcher deems that the two categories of staff are in a position to offer valuable information regarding the firms' innovation process. Secondary data was collected from organization's documents such as annual reports, strategic plan and end term evaluation.

3.4 Data Analysis

The data collected was analyzed by use of content analysis techniques. The information was analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy. In the event that the responses from the respondents are conflicting, the analysis were done by selecting the most common responses and infer conclusion based on the same. The content analysis technique was used because it assists in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trends. Similar studies in the past like those done by Armule (2003) who researched on the response of the family planning association of Kenya to changes in its operating environment and Kandie (2001) -in his study - Strategic responses by Telkom Kenya Ltd in a competitive environment used this technique of content analysis to analyze data collected from their case study

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The research objective was to establish the factors that affect the choice of innovation strategies at Nestle (K) Ltd. This chapter presents the analysis and findings with regard to the objective and discussion of the same and is divided into three sections namely; respondents profile, innovation strategies at Nestle and factors that affect innovation strategies at the company. The study targeted a total of six senior Managers all of whom responded.

4.2 Respondents' Profile

This part of the interview guide was intended to assess the capacity of the respondents to answer the questions on the interview guide and also whether they were versed with the subject matter of the study. The respondents comprised of six senior managers of the company namely; Business Controller, Regional Sales Controller, Regional Brand Manager, Regional Product Development Manager, Regional Talent and Development Manager and company's Sales Manager. These respondents were purposely selected by the researcher because they were deemed to be dealing in the company with issues relating to innovation strategies of the company. In total; the researcher interviewed all the targeted five respondents. All the respondents interviewed had university degrees with 3 of them having Masters Degrees. Their work experienced spans a total of 41 years in various departments within the organization and other firms in the beverage industry. In addition, the views of both genders were represented in the interviewees because three of the respondents were female against three men. This meant that the views expressed by the respondents were not gender biased.

One observation made from the results of the interview was that two of the respondents, representing 40%, on being asked whether they will wish to change their current jobs answered in the affirmative. The reasons given were that they felt the amount of work they undertake in the organization does not commensurate with the level of compensation they get as well as in some cases difficult to achieve targets. However, the other three respondents, 60% the sample, indicated their satisfaction with their current duties, highlighting various opportunities available within and without the organization such as career development, interaction and solving customer complains, and the new challenges that come in the course of their duties. All these helped in personal development of the respondents and thus creating a motivated workforce. With their solid background in the affairs of the organization, the respondents were found to be knowledgeable on the subject matter of the research and thus help in the realization of the research objective.

4.3 Innovation Strategy in the Organization

This section of the interview guide sought to establish from the respondents the type of innovation strategies that are used at Nestle.

The Managers were asked to indicate the type of innovation strategies that are used in the Company. The interviewees noted that the firm has a five year strategic plan that rolls over from one period to another with evaluation being done semi-annually to assess the progress and correct any deviations from the plan that is registered. The organization has realized the importance of involving all employees in the process. To this regard, the respondents noted that at Nestle, innovation decision has been a preserve of the senior management and the execution process has been left to the middle and lower level cadre of staff. The present top down approach being practiced in the organization as far as innovation process is concerned was however

found out to be adequate especially in the present day competitive business environment that the company is facing. They felt that in order for the company to proactively identify opportunities in the market especially in the beverage sector, all staff should be encourage to give their input especially in the lower level who are thought to be privy to the market conditions in the 'ground'. This finding on the need for an organization innovation strategy to be an all-inclusive exercises is similar to that made by Ettlíe, (2003) while researching on the role of employees in an organizational innovation process.

Several measures were pointed out by the respondents to have been taken by Nestle to try and the increase the level of success in implementing the innovation strategies. Some of the measures that were highlighted include that a number of meetings are routinely made on weekly basis to assess progress of strategy objectives of various business units and in these meetings, challenges are identified and development of action plans are executed. Continuous improvement of process including leadership development and goal alignment as a way of developing the path to achieving strategy objectives is also being undertaken. The recognition of the role of internal resources for strategic goals as Barney (1991) referred to has also become a key factor in the organization. The respondents noted that the organization has lately directed its focus on staff development through directing its training on achievement of performance with a view of encouraging high performing talent as well as developing plans for all staff in the organization. In addition, it was also noted by the respondents that focus towards ownership as an enabler to achieve strategy objectives has become the norm at Nestlé.

In the course of implementing innovation strategies, the researcher also sought to establish how the management at Nestlé ensures its strategies are well implemented. The interviewees noted that the management always ensures that markets are aligned to the objectives and at the same time makes sure that the staff understands the objectives, there is a continuous tracking of actual

performance on periodic basis, resources are availed such as brand support budget that a particular market requires so that markets require to invest in consumer and trade activities in a timely manner. In addition where necessary, the management will routinely engage with the government/state officials to ensure that an enabling environment exists to guarantee business success.

The researcher also sought to establish the common types of innovation at Nestlé. The respondents pointed out that the common types of innovation in the organization are product and process innovation.

4.3.1 Product Innovation

The respondents were asked to comment on Product Innovation and they agreed unanimous that Nestle is a pace setter in the Beverage industry. The organization has undertaken a deliberate step to reshape its product innovation to suit the needs and suitability of the market. The business development team develops all the products after market research which helps in identifying the opportunities existing in the market and how the same can be exploited to meet the requirement of the market and also boost the income of the organization. According to the respondents, the above process has enabled the organization to build a current product range of over 22 products. The product mix developed so far has helped the organization to remain the leader with a current market share of 48% of the beverage industry in Kenya.

4.3.2 Process Innovation

The respondents concurred that in the case of Nestle, its ability to increase and maintain its market share has been from the effort it has put in updating and modifying its processes of offering the services in the Beverage industry that has witnessed increased number of entrants especially in the last ten years. The respondents noted that the organization has installed a state

of the art manufacturing plant that is a leader in the blending and packaging of the firm's products to meet the increasing demand especially in the East and Central Africa regional that has had the demand of its products increasing more rapidly. As a matter of fact, the respondents noted that this capability has enabled the organization to retain the leadership in quality beverage in the country and that currently, the organization is automating its process that are spread regionally to ensure that all standards are uniform across and it is expected that by the end of the year 2012, the new system will be operating seamlessly. The respondents pointed out that the organization has in addition invested massively in ensuring that their services and products reach as many customers as possible.

4.4 Factors Affecting Innovation Strategies

Despite the great steps that have been taken by Nestle in developing new products and processes, the respondents identified a number of challenges that faces the organization in implementing these innovations. These challenges as listed by the respondents include; market changes, entrepreneurship, and lack of adequate resources.

4.4.1 Market-Focused Learning Capability

In this section, the researcher sought to find out from the respondents, how market related innovation challenges were being handled by the organization. On the question of how the respondents consider the capacity of the organization staff to learn and scan the market on changes in the business environment to innovate new products, the respondent's answers were varied. Some respondents noted that the capacity of marketing employees to this extent was of high capacity and that Nestle has a Research Centre that undertakes research on products before their launch. However, the respondents pointed out that the research could be enhanced if local consumer research bodies are utilized to provide a clear perspective of such initiatives once

products have been developed as well as tap the ideas of local staff when developing products for specific markets. In addition, it was also noted that the present day ability is not sufficiently developed and this is evidenced by the fact that in the past two years the company has not realized strong growth when compared to peers and other industries in East Africa.

There is need of the skills on innovation strategies developed by an organization to be retained in the firm in case of an employee loss. This requires therefore that a knowledge management system be developed such that all the expertise gained by an employee through training can be transferred to another member of staff. However, it was noted by the respondents that the organization is yet to develop programmes targeting the building and development of innovation skills to staff of all cadres.

The other important feature of the innovation process is the need of it to be adaptable to the changing marketing conditions and challenges in the business environment. The researcher therefore sought to establish the extent of adaptability of the knowledge gained in the process of innovation at Nestlé. The responses from the interviewees were varied in this regard. Some of the respondents pointed out that knowledge is adaptable; and has been used to inform adaptations based on changes in business environment. This however needs to be enhanced by focusing on basing adaptations to the local market as compared to other markets that do not necessarily represent similar market dynamics. However, other respondents noted that this is an area that needs to be developed, though various researches are conducted to scan the competitive landscape etc the degree of this knowledge is not satisfactory to guide proper planning and adapting of the organization to changing business circumstances.

4.4.2 Scale of Entrepreneurship

The researcher sought to establish how the organizations competitive orientation influences the innovation process. The respondents noted that the availability of knowledge that is documented and the ability to interact globally provides a key aspect that can influence and build innovation. They equally noted that the bargaining power of customers is considered in the innovation process so as to ensure that the organization gets the support of distributors, who are key to ensuring success of new products. Usually introductory offers will be given to customers to get their 'buy-in' during new launches and also to make sure that they have enough resources such as distribution tools to properly sell the new product. The noted that the innovation process at Nestlé is carried out mainly to enhance the firms growth, protect profitability, improve on cost as well as for purposes of compliance.

In the local market, the respondents noted that Nestlé is proactive however, as an organization within the larger global unit, much more needs to be done in terms of building an atmosphere that allows risk-taking and thus increase risk-taking propensity. The risk taking propensity is low in the organization though the tools are being developed by the organization. Tools such as trade research to measure distribution levels and product off-take (Retail Trade Audits) are not conducted right now. Also Brand Health Trackers which seek to get information from consumers on consumption habits, their disposition towards brands, are not done consistently. This deficiency impacts negatively on a firms innovation capability as market information is limited in availability and also flexibility in reacting is compromised.

4.4.3 Lack of adequate resources

On the question of whether Nestle faces any resource constraints in the process of innovation process, the respondents indicated that financial constraints were not a major factor. However there is need to allow staff to try out new ideas without fear of retribution if things don't work

out as planned. These calls for programs that enable staff make calculated risks if working on new ideas that are considered innovative. They are not adequate for a proper innovation strategy as a lot needs to be invested behind innovations, right now the focus is on getting the most out of existing lines of business.

Several measures have however been taken to counter the lack of adequate resources constraint. The interviewees pointed out that Nestlé has developed knowledge sharing in the intranet that allows staff to interact and learn from internal resources. Staff is being given opportunity to learn/ gain experience in other markets allowing development of global leadership, building new perspectives and experiences that are a recipe for innovation. Other respondents noted that currently the priority is to consolidate strengths in existing business because of the competitive landscape and more attention will need to be placed here in future.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

As a market leader in the beverage industry, Nestle (K) Ltd has made great efforts in its bid to continue being a market leader in the country through innovation of new products and services. A numbers of areas have registered impressive levels of innovation in the organization.

The organization has undertaken a deliberate step to reshape its product innovation to suit the needs and suitability of the market. The business development team develops all the products after market research which helps in identifying the opportunities existing in the market and how the same can be exploited to meet the requirement of the market and also boast the income of the organization. The organization has come up with products and services that meet the needs of specific market and has been differentiated and tailored to these markets.

Towards the realization of the product innovation at Nestle, the company develops strategic plans that are reviewed bi-annually. The innovation strategy approach employed in the firm is top down whereby it's only the top and middle level management teams that are involved in the actual design of the innovation strategy. A number of deliberate moves have been taken by the organization to increase their level of success in the product innovation. These steps include; increasing the number of meetings that aim at assesses progress of strategy objectives of various business units and in these meetings, challenges are identified and developments of action plans are executed. The organization has also improved on the aspect of leadership development and goal alignment as a way of developing the path to achieving strategy objectives as well as increasing their attention to the utilization of internal resources such as manpower in realizing

the organization innovation process. The two popular innovation processes in the organization is the product and process innovation.

The challenges that the organization faces in its innovation process include market focused learning capability, the entrepreneurship behavior and scarce resources in the organization. The marketing staff as well as in the business development were found to be less proactive in identifying opportunities in the market and it was found out that the research could be enhanced if local consumer research bodies are utilized to provide a clear perspective of such initiatives once products have been developed as well as tap the ideas of local staff when developing products for specific markets. Innovation process is a risk taking venture and for it to be successful the management of a firm will need to be risk takers and at the same time be proactive. However, it was noted that Nestle is proactive in the local market but the same cannot be said in the global business set up. Financial constraints and a lack of better trained manpower were also noted to be a concern in the development of innovation process in the firm.

5.2 Conclusion

From the research findings and the answers to the research questions, some conclusions can be drawn about the study.

The beverage industry is challenged by the emergence of new technologies, products, markets and competitors and these necessitates flexibility and adaptability in order to achieve competitive advantage. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation. Innovation helps to search for a favorable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition.

For successful innovation process in any organization, there needs to be an understanding and communication among all the stakeholders in the organization of the need to be innovative so that they can overcome most of the challenges of innovation. The type of innovation being undertaken by a firm depends with the prevailing circumstances at a particular period and that will explain the adoption of incremental and radical innovation by any firm. The implementation of the innovation is normally conducted using an innovation process and these will assist the company to know where they could have gone wrong in case the innovation does not yield the expected results.

The organizational structure adopted by a firm should ensure that it promotes innovation in the whole organization. The same applies with the culture which should be seen as a medium that permeates the organizational system, influencing its other elements and being influenced by them. The management of the companies should not fear innovation in risky businesses as it will be rewarding at the end of it. They should avail all the resources to the organizations innovation team so that they can continue innovation so as the organization can gain the necessary competitive advantage.

5.3 Recommendation

This study makes several recommendations for policy implementation and also suggest for further research.

5.3.1 Recommendations with policy Implication

Foremost, the study established that the Nestlé innovation strategies approach is top-down and this approach was found to exclude most of the staff in getting involved in such important exercise. As a result it is recommended that the organizational strategy should be all inclusive and preferably a bottom up approach be adopted and although it might be expensive, its cost

benefit analysis will suggest the approach. What this means is that the process of innovation process should be all inclusive to both internal and selected external stakeholders who will be affected by the innovation strategy.

Secondly, the study found out that the innovation process in a firm is time and resource consuming. The process should not hurried much and beverage firms should adopt the most economical procedure offer less waiting time and a higher spatial convenience than traditional process and thus attractive to a large and quickly growing segment of customers. However, before making large-scale investments in a given process it is recommended that the relevant customer segments are identified and that attempts should be made to predict the development of their sizes.

5.3.2 Recommendations for further research

The study confined itself to Nestlé (K) Ltd and the findings may not be applicable in other sectors or even other firms operating in the industry. It is therefore recommended that the study is replicated in other manufacturing firms to establish the challenges of innovation process in their organizations.

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APPENDICES

APPENDIX I

LETTER OF INTRODUCTION

University of Nairobi
School of Business
Department of Strategic Management
P. O. Box 30197
Nairobi
17th September, 2012

Dear Respondent,

RE: COLLECTION OF DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on factors affecting choice of innovation strategies in Nestlé Kenya Limited.

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying Interview Guide. The information/ data you provide will be exclusively for academic purposes. My supervisor and I assure you that the information you will give will be treated with strict confidence.

Jane Muiruri
D61/ 7117/ 2006

Dr. J. M. Munyoki
Supervisor

APPENDIX II

INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

1. To determine the factors affecting choice of innovation strategy at Nestle (K) Limited.

1.) Background Information on the interviewees

- What current position in the organization do you hold?
- For how long have you been holding the current position?
- Would you change your current duties if given a chance?

2.) Innovation Strategy in the Organization

- What duration does the organization strategy cover?
- What level of employee involvement is present in development and implementation of innovation strategy?
- In your opinion, do you consider the present level of involvement adequate in realization of the organizations innovation strategy?
- What approach of strategy development do you consider the management to be adopting in the organization?
- What measures does Nestlé's top management undertake to ensure successful implementation of its strategies?

- How does Nestle maintain a balance between preventing failures and promoting success simultaneously to ensure effective implementation of strategies and execution? Please elaborate
- What measures does Nestlé's top management undertake to ensure successful implementation of its innovation strategies?

3.) Factors Affecting choice of Innovation Strategies

Market-Focused Learning Capability

- How do you consider the capacity of the organization staff to learn and scan the market to identify the changes in the business environment to innovate new products?
- How frequently does the staff concerned with developing new products collect and disseminate marketplace information to other concerned staff? Do you feel the current rate is adequate and if not how can the same be improved?
- In your view, does the organization integrate effectively the knowledge gained through training and development programs on innovation to other organizations employees?
- How adaptable is the knowledge gained by the organization in meeting the changes in the business environment?

Entrepreneurship

- Do you consider the organizations competitive orientation to influence your innovation process? If yes, how is the same achieved?
- How do you consider the organizations ability to rapidly react to change flexibly and adroitly? Do the same have an effect on the firms' innovation capability?

- Do you consider the organization to be pro-active and having risk-taking propensity?

How is the same realized?

- Will you say your organization has achieved specific capabilities, which distinguish the firm from its competitors and enable it to face the variability of the environment?

What are some of these capabilities?

a.) Lack of adequate resources

- Do you have any resource constraints hindering innovation strategy in the organization?

- In your opinion, are the available resources (Physical, financial, technological and human) adequate for your innovation strategy?

- Are there measures which have been taken by the organization to avail enough resources to enable it to implement its innovation strategy adequately?