

**THE INFLUENCE OF BUSINESS ENVIRONMENT ON  
STRATEGIES ADOPTED BY INTERNATIONAL AUDIT FIRMS IN  
KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
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## DECLARATION

This Research Report is my original work and has not been presented at any other University for the award of any degree.

Signed \_\_\_\_\_ Date \_\_\_\_\_

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**D61/83846/2016**

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

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## **DEDICATION**

This research project is dedicated to all members of my family. Special dedication to my husband, children, mother, and Holy Grounds Fellowship Church for their love, encouragement, and patience which made it possible for me to finish this project.

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I give thanks to The Almighty God who has given me the ability to write this research project. I acknowledge the assistance of my supervisor Dr. Mary Kinoti for guidance and Adolph Wagala. God richly bless them.

## **ABBREVIATIONS AND ACRONYMS**

<b>ICPAK</b>	Institute of Certified Public Accountants Kenya
<b>IFAC</b>	International Federation of Accountants
<b>PWC</b>	PricewaterhouseCoopers
<b>SPSS</b>	Statistical Package for Social Sciences
<b>SMEs</b>	Small and Medium Enterprises

## **ABSTRACT**

Firms are environment dependent and environment serving. Any significant change in the environment triggers changes in strategy hence change in organizational structure through the acquisition of relevant new skills to deal with the new environmental realities. The success of an organization is determined by both its internal and external environment as stated by Carroll et al. (2014) and hence many companies' operations depend on the environment for its raw materials and business processes. Documentation of a business strategy is an important aspect of starting and running a business. Thus meaningful business goals and objectives are achieved through setting a clear strategy. In determining a business strategy, a logical analysis of the environment in which a firm operates will both inform and influence the outcome of the business. The study investigated the influence of business environment on strategies adopted by international audit firms in Kenya. The objective of the study was to establish types of business environment facing international audit firms and how business environment affect strategies adopted by international audit firms. The study used a standard questionnaire to collect primary data from eighteen (18) international audit firms. However, only thirteen (13) of the respondent firms completed the questionnaire. The data was then analyzed using SPSS, and the findings presented using tables by giving descriptive statistics including frequencies and percentages. The research findings indicated that business environment within which the international audit firms in Kenya operates affects the strategies adopted by them and thus adjusting the firms' strategies to the changes in the business environment is vital for continuity of operation of the firms. The study concluded that business environment need to be scanned regularly and management strategies adjusted to suit the business environment. The study amongst other recommendations recommended more training and mentorship of lady partners so as to meet the one third gender rule in the engagement of audit partners. The limitation in this research entailed challenges in obtaining data due to confidentiality policy in audit firms. There were also challenges caused by hostile political environment during the electioneering period which paralysed transport on certain days and also some audit firms giving leave to their staff. There were also challenges relate to cost that included monies spent on transport to the audit firms, telephone call charges, email charges and opportunity cost due to time involved in conducting the research. The study suggested further research on the cause of fewer ladies' engagement at partnership level in audit firms and also a research on one specific business environment on strategies adopted by audit companies.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The business environment is classified into external micro and external macro environment. The external microenvironment includes suppliers, marketing intermediaries, competitors, customers and the general public within immediate company environment that affect business performance (Kew & Stredwick, 2017) while the external macro environment includes economic, social, political and legal environment, technological and demographic factors (Carroll & Buchholtz, 2014). Davis and Cobb (2010) established that external resource from a company's environment influences its behavior and profitability, hence businesses must adapt to both their internal and external environment.

This study is supported by the resource-based theory which provides a match between a company's internal resources, opportunities and the skills that present a viable gain and promote success in emerging markets (Kozlenkova et al., 2014). This theory argues that organizations are open systems and are environment dependent, and thus need to continuously respond and adjust to the changes in the unstable environment. The agency theory also partly supported this study and explained the correlation connecting agents and principals in the business. Audit firms perform agency services and hence the principal-agent relationship, as depicted in agency theory (Bakre, 2005).

The strategy and structure relations theory also supported this study. Smit & Trigeorgis, (2012) states that aligning structure with the strategy makes a business to achieve its mission and goals.

Kenyan audit industry entails both international and local audit firms. The international audit firms are those that operate across national boundaries while the local audit firms are the ones that have their presence only in Kenya, Hill (2008). The audit firms in Kenya offer a broad array of accounting and auditing services including external audit, internal audit, taxation services, business consultancy, management, risk assessment and control and also offer employment opportunities and career development (Wahogo, 2012).

### **1.1.1 Concept of Business Environment**

The business environment can be global, regional, or national. The global business environments are general factors exogenous to the home environment of the firm that determines decision making on the capability and utilization of resources. The regional business environment may cover cities, parts of states or entire countries while the national business environment, on the other hand, is the characteristics of the national economy in which the firm operates. Business environment can also be either external micro or external Macro (Carroll & Buchholtz, 2014). Business environment scanning is very crucial in the evaluation of business performance for some reasons, amongst them being the maximization of organization strength, minimization of weaknesses, exploitation of opportunities and defusing of threats. It also helps the firms to optimally utilize its resources as well as an understanding of the business environment and improved decision-making ability (Kumar, (2017).

Ansoff and McDonnell (1990) significant escalation of environmental turbulence implies the change from the familiar world to a new world of new customers, new technology, new competition, social control and contribution to the society. Chandler (1990) describes a company's internal capability to include its physical facilities, skills, and expertise of its employees and senior management. This includes excellent customer service and deploying a mix of resources that lead to competitive advantage. Carroll and Buchholtz (2014) however classified environment into the external microenvironment and external macro environment.

### **1.1.2 Concept of Strategy**

Johnson et al. (2008) describe strategy as a long-term organizational path while Grant (2010) repeats the same that strategy is about where the business is going in the long run. Strategic decisions can, therefore, be described as a firm long-term directive. Pearce and Robinson (2013) further explain strategy analysis to involve observing keenly the environment within which the business is based and operates. Corporate strategy can also be defined as a plan that has been set by an organization with the intent of achieving an organization's vision and prioritizing an organization objective in the threshold of enhancing successful competition and profit maximization (Meyer, 2017).

Porter and Lee (2015) highlight the significance of strategy to include allowing a firm to understand its fundamental goal apparently to make choices for competition. Understanding businesses it is engaged in and how to be unique in each market increases a substantial proposition value and helps it to identify synergies to create across business units and sites; and also to understand the organization's density and scope to enable its plans for volume for each condition. The strategy, therefore, forms a very fundamental

part of the successful operations of a business and its profitability. Pearce II & Robinson (2009) explains that organizations react to changing conditions in the environment by employing various strategies such as layoffs and sackings, reorganizing the marketing department, cutting costs, diversification, development of new products and services, adjusting target markets, price reductions, exports, corruption, and migration amongst others. Meyer and Pauline (2017) further state that business strategies are considered successful when they have proof of business progress, stiff competition, and significant financial performance. The management, therefore, needs to pay keen attention to the strategies adopted for successful growth.

### **1.1.3 Audit Industry in Kenya**

Audit industry is categorized under the accountancy profession and is controlled by the Institute of Certified Public Accountants of Kenya (ICPAK). ICPAK is served with the mandate of upholding, protection of public interest and accountancy profession regulation within the nation. ICPAK is both a member of International Federation of Accountants (IFAC) and Pan African Federation of Accounting. It draws its mandate from the Accountants Act 2008. The act highlights its functions to be; Promoting its members' standards of professional competence and practice; heightening intercontinental identification of the Institute; Advising the examination board on audit standards and policies; Advise the ministry of treasury and finance on accountability and other financial functions as per the ICPAK act (Accountant Act 2008).

External auditing has advanced from a regular examination of financial statements and books but an important part of the management process which has been influenced by; technological improvement, globalization, data volume increase and a well-built

intensification in the complexity of laws and standards governing the requirements for professional audit registration procedure. Auditing profession has however faced challenges of credibility crisis arising from business collapse, counterfeit financial report scandals and businesses collapse (Temkim, 2008).

#### **1.1.4 International Audit Firms in Kenya**

Kenya currently has eighteen international audit firms as provided by the Institute of Certified Public Accountants of Kenya in their February 2017 audit firms in Kenya. Doty (2014) states that external audit is considered relevant and reliable by investors as it bridges the gap between traders who need the capital and the investors who can provide the capital. Koonce et al. (2015) added that external audit assures the public on the relevant use of monies invested and ensure that the financial records are reasonably kept. The federal Securities and Exchange Commission further requires companies that are publicly owned to have financial statements examined by an auditor.

Several questions on auditing profession have been raised namely, independence, consulting services appropriateness, and the general certified obligations, some of which have impacted on the international audit firms. The closure of Chase bank in 2016 after being honored by Delloite as the best company to work for in Kenya in 2014 and 2015 (Herbling, 2016) raised questions by the public on the credibility of the audit profession. The accusation of Ernst and Young by Capital Markets Authority to be involved in helping Uchumi Supermarkets cook books (Wasuna, 2016) amongst others are a few issues that have risen in Kenya raising questions on the audit profession. The regulatory bodies need to increase its supervisory role to boost the integrity of the audit profession.

## **1.2 Research Problem**

The success of any firm is determined by how well it adapts to the changing business environment and for this reason changes in the environment triggers changes in strategy. Determination of a business strategy, therefore, requires a logical analysis of the perspective influencing the impact and success within which firms operate (Senge, 2014). International audit firms have undergone various challenges arising from the respective business environments worldwide which explain the necessity of strategic alignment to change in business environment (Temkin, 2008). For instance, corporate scandals in 2013 led to over-regulation that threatened the membership of the audit profession and posed a challenge to both international and local audit firms that majority of them may not survive. In the same line, a mandatory audit firms' rotation debate conducted in South Africa to be part of the draft legislation was substituted with audit partner rotation after five years.

Companies in Kenya are required to appoint an auditor annually by the Companies Act, section 159 and hence the engagement of international audit firms by some companies. The international audit firms in Kenya are affiliates of global accountancy groups, and thus the standard of service execution and delivery must meet the global threshold for a successful business. The big four, namely Ernst and Young, PricewaterhouseCoopers, Deloitte, and KPMG despite having dominated the audit market in Kenya in the past years have faced stiff competition from other international audit firms and the local audit firms (Wahogo 2012). International audit firms have experienced challenges in technological change coming from cloud technology which requires them to adopt cloud accounting software to become more efficient. The audit firms, therefore, need to change

this challenge into opportunity through innovation and capacity building of its staff (Leavitt, 2009).

Pearce and Robinson (2013) on their research in planning for domestic and global competition established that companies rely on their external environment for survival while Rosli (2012) explains the importance of strategy flexibility to the changing environment as a contributor to a successful business. Wahogo (2012) established that the dynamism of audit services environment currently is posing a lot of challenges to all financial audit firms and some of the forces that have significantly impacted on the audit services sector include intense competition, globalization, increased regulation and political reforms amongst others. Richard (2008) further explains that related diversification in the audit firms is meant to help the audit firms grow into other profitable markets. Mwando (2012) proposed a further study on not only the mid-tier audit firms but entire audit industry. This research, therefore, seeks to explore the influence of business environment on strategies adopted by the international audit firms in Kenya. What is the influence of business environment on strategies adopted by the international audit firms in Kenya?

### **1.3 Objectives of the Study**

The objectives of this study are:

- (i) To establish the types of business environment facing international audit firms in Kenya.
- (ii) To establish how the business environment affects strategies adopted by international audit firms in Kenya.

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

The result of this research will be crucial to various stakeholders. These results will be useful in providing the basis for further research as it will form part of the Nairobi University e-repository and will also be published in a journal, thus, will, therefore, contribute to broader literature knowledge in the field of business environment and strategy.

Regulatory authorities will use this study to put in place regulatory framework necessary to regulate and develop the audit industry. ICPAK which is the regulatory body for the audit firms will use these findings to improve its supervisory role and to develop effective training programs for practicing auditors. KASNEB may use the conclusions of this research to improve on their syllabus.

The policymakers, for instance, the government, will use this research to formulate a statutory framework to control and expand the audit sector. Auditing being a requirement of the Kenya's company's act, section 159, the government may find the information on from these findings useful when developing policies that affect the international audit firms in Kenya.

Practitioners especially the international audit firms will use the results of this study to do regular review and evaluation of the firm's strategies in enhancing appropriate adjustments to business turbulence environment for survival. The senior management of audit firms will use these findings to improve on strategy formulation, implementation, and evaluation as they take into consideration the changes in the environment. Financial and strategic leaders will use the results in formulation and assessment of applicable business strategies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter highlights on the relevant theories under this study, their criticisms and how they apply to this study. It also emphasizes the different types of business environment and types of business strategies.

#### **2.2 Theoretical Foundation for the Study**

The following theories were discussed, resource-based theory, agency theory and structure and strategy relations theory.

##### **2.2.1 Resource-Based Theory**

Barney Jay proposed this theory in 1991 and defined the resource-based theory as a strategic resource that is valuable, exceptional, difficult to imitate and not- substitutable. Barney also believed that resource-based theory contends on having vital resources that provides a business with opportunity to develop the competitive advantage over its rivals. The resource-based theory further state that a firm's strategy should be based on what it owns and eludes that not all resources are valuable, Barney (2001).

D'Aveni et al. (2010) criticized the theory by arguing that the theory describes the existence of competitive advantage but fails to state the dynamics of resources promoting turbulent environment competitive advantage. Vanessa et al. (2013) believe that there is the need for considering resources and the environment while focusing on developing non-strategic resource without overlooking any aspect as in the case of resource-based theory. Kraaijenbrink et al. (2010) supported the resource-based theory and asserted that

strategic resources resulting in competitive gain are defined as per the value and rarity. Nonetheless, worth and rarity are not linked with resource concept but with strategies and resources developed when utilizing resources. Connor (2002) on the other hand argues that the resource-based view is not applicable to smaller firms as it's hard to base competitive advantage on smaller company's static resources, small businesses thus falls beyond the bounds of the resource-based view. Miller (2003) recommends the resource-based theory and states that resources which companies require for generating a sustainable competitive advantage are specific resources that are difficult to acquire. He also, on the contrary, criticizes the theory as he agrees that competitive edge cannot be achieved in the continually changing environment but is temporary and not sustainable. Barney (2001) conveys that innovation and change are paramount on the verge of staying ahead of the competition.

The resource-based theory is relevant to this study as it helps international audit firms identify the valuable and rare resources they have to build their strategies on. Tywoniak (2007) affirms that resource-based theory significance appears more significant in strategizing structures. Barney (2001) agrees that resource based logic is crucial as it helps managers to utterly understand the typologies of resources that promote the generation of sustained strategic advantage.

### **2.2.2 Agency Theory**

Agency theory was formed by Stephen Ross and Barry Mitnick. Ross developed an economic theory of agency whereas Mitnick developed institutional theory. All the same, the approaches of Mitnick and Ross were both based on similar concepts. Ross discovered the study of an agency about the problem of compensation where the agency

was listed regarding incentive problem essence. Mitnick, on the other hand, added the commonly used insights for institutions around the globe which have evolved into dealing with institutional agencies while responding to the imperfect relationship of companies (Shapiro, 2005). The agency theory uses the allegory of agreement to conceptualize three problems that emerge from the first delegation of duty to an agent in a case where the principal has little direct lapse (Bergen et al., 1992; Eisenhardt, 1989).

The first setback is Goal irregularity when the director perceives that the agent's goal arises from the principal interests. The second issue is Risk asymmetry, where the principal observes that the agent may possess different attitudes towards risk and consequently differing risk decisions. The third crisis is information unevenness which occurs when one party holds information that the other party desires but do not have. Tipuric (2008) supports the agency theory to be a framework for analyzing conflicting interests between the primary stakeholders and development of mechanisms for resolving conflicts. He, however, observed that the determination of principal-agent relationship depends on the concurrent and differential interplay among the goal, risk and information asymmetries rather than anyone. Carlson et al. (2008) observed that goal asymmetry arise when an agent fails to understand Principal's requirements leading to failure to align their actions with the principal's demands.

An agency relationship exists in a situation where principle delegates work to an agent. In this study, the international audit firms may be seen as agents who have been entrusted audit and accountancy assignments by their respective clients. The individual clients are consequently regarded as Principals under the agency theory, and they form part of the business environment. Audit and accountancy services are however not necessarily

performed based on the Principal's interests but according to international auditing standards, international accounting standards, and international financial reporting standards and laid down policies and procedures. This could result in goal asymmetry problem particularly when the purpose of the principal is not aligned with these criteria. The auditors are required to make independent audit opinion on the financial statements examined based on their professional expertise without taking into consideration the entire interest of the principal or client. There are circumstances where the auditor's independence has been compromised resulting to an accountant giving a clean opinion where it could have given a qualified opinion leading to negative impact on the beneficiaries of the audit report and thus contributing to risk asymmetry problem. Most external audits are done on a sample basis; this may create a limitation of auditor accessing the entire information of business leading to information asymmetry problem.

### **2.2.3 Structure and Strategy Relations Theory**

Structure and strategy relations theory was proposed by Chandler in his American conglomerates four case studies thesis which had dominated America industries from the 1920s onwards. The four case study thesis included Sears Roebuck General Motors, Standard Oil of New Jersey and Du Pont. Chandler recognized that structure followed strategies; he thus explained the need for a restructure that arises from a strategic shift driven by new technology, innovation and market changes (Chandler, 1962). Hall and Saias (1980), criticized the suggestion that structure followed the strategy and pointed out that a multi-divisional structure puts a firm towards a multinational approach. Mintzberg (1990) however, argued that relationship between strategy and structure is reciprocal.

Ansoff (1965) supported Chandler (1962) view and stated that administrative structure satisfies the needs that a firm's strategy necessitates.

Ellinger and Daugherty (2015) research established that companies with specialized department perform better when they devote resources to well defined functional interfaces. Del. (2009) confirmed that a firm's structure determines the locus of authority for every position in a company and thus contributes to resource configuration. Miller and Friesen (1978) advised on the importance of firms aligning their structures to its internal and external environment. The flexibility in adjusting the existing firm's structure, which in this case is the internal environment, to firm's strategy makes structure and strategy relations theory a very fundamental theory in this study. A significant change in external environment leads to change in strategy which in turn will result in a change in organization structure by acquiring skills to deal with the new environmental realities (Grant 2010).

### **2.3 Types of Business Environment**

The international audit firms may be influenced by two primary types of business environment which include the external microenvironment and external macro environment.

#### **2.3.1 The External Micro Environment**

The external microenvironment is also known as internal environment of business which are factors such as suppliers, competitors, customers, marketing intermediaries, and the general public within immediate company environment that affect company performance (Kew & Stredwick, 2017). The suppliers provide raw materials and components, labor

input and sometimes financial credits to the organization and their consistency in supply enhances operations. Firms which have faced challenges of the limited stock of raw materials need to large stock volumes of raw materials to avoid interrupted transformation process.

Market intermediaries serve the purpose of selling and distribution of a durable product to final buyers as they act as a link between the business firm and its absolute buyers. Marketing intermediaries' entails agents and merchants like retailers and distribution companies and their primary role is to stock and transport goods from the manufacturing site to the buyers. They can also consist of service agencies such as consulting and advertising firms, marketing research and advertisement organizations that support business firms in promoting, targeting and selling their products to the right market (Singh, 2015). Customers are individuals, businesses, industries, government and other institutions that absorb the output of an organization and the existent company on the verge of meeting their demands. Firms, therefore, need to make continuous efforts of improving product quality if they intend to attract customers.

Competitors in the external macro business environment are companies that compete with each other in all business field areas. Monopolistic and absolute monopolies markets compete with each other for product sale by pricing. There are also non-pricing competitions whereby firms engage in competition through events sponsoring and aggressive advertising in the endeavor of proving their superiority nature to their company products (Steers & Nardon, 2014). The general public remains a significant stakeholder in the external micro business environment as they impact on a cooperative ability to achieve their goals. The public as a whole is consistent with environmentalists,

local groups, citizen associations and consumer protection groups that influence on the components in secure environments.

### **External Macro Environment**

External Macro Environments are forces and institutions that do not operate within an organization but have the potential of impacting on the company's performance. The external business macro environments are unique as firm management cannot control them, and hence the companies are forced to adjust to fit into external macro environment forces. Factors influencing external business macro environment are categorized into; Economic, social, political, legal, technological and demographic factors (Carroll & Buchholtz, 2014). Economic environments are economic systems that exist in the nature and structure of the economy, government policies, and government foreign investment policies and the phase of business cycle. Fiscal, international trade and government foreign investments are also part of government economic policies that present opportunities and threats for business cooperatives. However, since 1991, there has been an evolution in economic policies which have fostered changes in macroeconomic business environments especially in private sector firms (Carroll & Buchholtz, 2014).

Social and cultural environments determine how modern businesses are carried out. This is due to the societal construction of norms, beliefs, values, and attitudes that people held signs in deciding business operations. The social obligation of business firms is to protect the community social interests on the verge of promoting societal well-being, corporate productivity, and business social welfare. Political and legal environments in macro external business environment relate to the government and the policies that the government has established to promote the successful operation of the business within a

given niche. Companies operations in most countries are closely related as they are registered under the laws of the nation they operate. In Kenya, businesses are registered under the ministry of industry, trade, and cooperatives ("Business and Company Registration in Kenya," 2017). Companies registered in Kenya are expected to operate as per the Constitution of Kenya and legal policies structured by the government in authority. Some of the standard requirements for operations of the business in Kenya include successful registration of business, tax compliance certificates, possession of a city council business permit, health-related permits and fire safety certificates ("Business and Company Registration in Kenya," 2017).

The existent technology influences technological environments in the macro external business environment. Technology in business operations is the type of services regarding machines that determine the process of goods and services manufacturing (Carroll & Buchholtz, 2014). Demographic environment applies to human population growth, size, life expectancy, technological skills, labor force and educational skills. The community environment impacts on business firms as new workers are more often recruited from outside the companies based on their ability and expertise. Labor forces in a country usually keep changing thus causing a change in an organized labor force. Demographic environments impacts on the supply and demands of businesses as firms obtain their work reinforcement from the outside labor force (Carroll & Buchholtz, 2014).

## **2.4 Types of strategies adopted by international audit firms in Kenya**

### **2.4.1 Differentiation Strategies**

Porter (2008) identifies differentiation as one of the sustainable competitive strategies. Nguyen, (2017) defined Product differentiation strategy as a technique that is used by companies that have a competitive advantage over rival businesses, and it helps in stabilizing organizations, attracting more customers and increasing a company profit income. Differentiation strategy pays less attention to product pricing but prides in commanding a high price as a firm offers high-quality services and products to its clients. This study reveals that differentiation is a strategy used by audit firms to compete against their rivals.

### **2.4.2 Human resource management strategy**

Strategic human resource management is a plan to attract, retain and develop a workforce which can adhere to the present and future demands of the company. The company needs to reward talent and innovation, train its staff to improve their quality of service delivery, work with its staff in a collaborative manner and organize succession plans. The company also need to hire competent staff, compensate and motivate them for effectiveness in service delivery as well as have disciplinary measures in place (Anon, 2017).

Tadesse (2011) established that establishing an adequate and well organized human resource planning system is a strategic move for the organization to meet the dynamism of the labor environment and successfully attain the desired target of the company. Thompson, (2012) established that a business needs a workforce with the right skills to

achieve its goals. Stokker and Hallan (2009) state that having the right person, doing the right job, with the right skills and at the right time will boost a company's performance.

### **2.4.3 Outsourcing strategies**

Outsourcing strategy is an arrangement where one organization provides a non-core service to another company to save on the costs, acquire knowledge a firm does not have, get quality service, help sort staffing issues and to concentrate on core competencies. It, however, has strategic supplier dominance matters, identifying the core competencies and strategic vulnerabilities amongst others (Anon, 2017). Kakumanu, (2006) advises the management to weigh the merits and demerits of outsourcing and make a strategic decision as per the company's objectives.

Agharahimi et al. (2012) established that outsourcing has a significant advantage in the short-term but also has negative consequences. The company will almost certainly lose some of the skills that are outsourced, and thus management needs to know when outsourcing is hurting and when it is a benefit to the firm's performance. Chen (2014) established the significance of evaluation and selection of the best service company before outsourcing.

### **2.4.4 Technological strategies**

Improvement in technology has led to the rise in firm productivity and reduced the unit cost of output and given firms mileage over their rivals resulting in a transformation of high competitive strengths. Technology in the age of globalization has prompted competition of organization products in the international markets thus hindering the firms with outdated technology from global competition. Computerization, use of email, twitter,

facebook, Google ads, and e-commerce amongst others has improved quality of services, efficiency, effectiveness and reduced costs (Carroll & Buchholtz, 2014).

Leavitt, (2009) established that audit firms need to be innovative to catch up with the technological changes to keep remaining relevant. Ngai et al., (2015) highlights the importance of businesses participating in social media as a contributor to growth in customer base. Customers are able through technology to access information through organizations' websites and Facebook page and get more information about the respective audit firms and make a decision on the list of audit firms they can consult for audit work.

## **2.5 Business Environment and strategies adopted by audit firms**

According to Kumar (2017), the business environment scanning helps the company in understanding the decision making the ability of the company. Pearce and Robinson (2013) on their research in planning for domestic and global competition established that firms rely on their external environment for survival and thus employing strategies such as training, layoffs, diversification and reorganizing the marketing department amongst others for survival. Pearce and Robinson affirm that strategy helps an organization to cope with changes in the environment. Senge, (2014) stated that a logical analysis is important in making decisions on strategy. Rosli (2012) on his study of the competitive strategy of Malaysian small and medium enterprises found out that flexibility in business strategies contributes greatly to profitability and stated further that businesses have given priority to the management of a company, marketing, and human resource management as the leading competitive strategies for a successful business. According to Grant (2010), strategic fit between an organization's strategy and environment enhances the survival and success of an organization.

Wahogo (2012) in her study of response strategies to changes in the environment by financial audit firms in Nairobi, Kenya established that dynamism of the audit service environment is causing a challenge to audit firms. In her study, she sampled (30) thirty audit firms and found that most audit firms concentrated more on differentiation and focused strategies than cost leadership strategy. In her study, human resource and marketing efficiency took the lead as primary operational level responses to the changing audit services environment. Nancy (2013) in her research on strategic responses adopted by textbook publishers in Kenya to environmental challenges established the environmental obstacles to include stiff competition, technological advancement, corruption, government policy, incompetent human resource amongst others. She, however, found the strategic responses to include aggressive marketing, diversification, outsourcing and computerization amongst others. Mwando (2012) established that diversification boosts the growth of audit firms. Patrose (2016) on his study on strategies used by PriceWaterhouseCoopers Kenya to gain a sustainable competitive advantage found that diversification increases the profitability of audit firms.

## 2.6 Summary of Empirical studies and Research Gaps

Name of researcher & Year	Topic of study	Research Gap
Senge, (2014)	Strategies and tools for building a learning institution	He focused on a learning institution and not international audit firms.
Rosli (2012)	Competitive strategy of Malaysian small and medium enterprises	Concentrated on only competitive strategy and the context of study was Malaysia
Pearce and Robinson (2013)	Strategic management: Planning for Domestic and Global competition	focused on planning and competition
Wahogo (2012)	Response strategies to changes in the environment by financial audit firms in Nairobi	focused on audit firms in Nairobi
Nancy (2013)	Strategic responses adopted by textbook publishers in Kenya to environmental challenges	Researcher suggested further research on international audit firms
Mwando (2012)	Related diversification as a strategic orientation amongst mid-tier audit firms in Kenya	Researcher proposed a new study of not only small and medium audit firms. This study partly fills that gap.
Patrose (2016)	strategies used by PriceWaterhouseCoopers Kenya to gain a sustainable competitive advantage	Focused on PriceWaterhouseCoopers

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter is structured into research design, target population, data collection and data analysis and presentation techniques.

#### **3.2 Research Design**

Chandran (2004) defines research design as an arrangement of conditions for data collection and analysis with an aim of combining their relationship with the goal of the research to minimization of procedures. It entails the several factors a researcher should consider and adhere to when carrying out a research project (Robson, 2014). The purpose of the research determines the choice of a research design, kinds of data to be collected, sources of data and related costs, among others (Chandran, 2004). The study applied cross-sectional descriptive survey research designs which are concerned with finding out who, what, where, when, and how of the phenomenon, Cooper and Schindler (2013).

#### **3.3 Population of the study**

Smith and Ablum (2012) explain population to include individuals, businesses, and households that researchers base their research. The target population of this study involved the 18 (eighteen) sizeable international audit firms in Kenya as per the Institute of Certified Public Accountant Kenya (2017) list of audit firms (See Appendix I). Census study was conducted for this study because the sample population was small.

### **3.4 Data Collection**

Data was collected using primary data, and semi-structured questionnaires which had both open-ended and closed-ended questions. The respondents were the representatives in the senior management of the eighteen audit firms. The secondary data was gathered from websites, textbooks, newspaper articles, journals, and annual reports, previous studies and Institute of Certified Public Accountants of Kenya amongst others.

Questionnaire was used as the data collection instrument and it had four parts of which Section A entailed the general information of the respondent, Section B general information of the company, Section C business environment and Section D Strategies adopted by international audit firms. A questionnaire was used because it was simple, encouraged frankness on sensitive issues and easy to prepare and administer, less costly and also straightforward approach to the study of beliefs, values, motives, and attitudes (Robinson, 2014).

Semi-structured questionnaires which had both open ended and closed ended questions were partly administered by a trained research assistant and also self-administered through the drop and pick in some firms by the researcher. This was because of the geographic distance between the international audit firms in Kenya. The researcher is a practicing auditor, and therefore the engagement of the research assistant would help eliminate suspicion from some audit firms who may view the researcher as a competitor looking for information.

The respondents included one partner, one audit manager and the head of the human resource or supervisor from each of the eighteen audit firms. This was because they are

part of the senior management who are involved with the strategic decisions of the audit companies.

### 3.5 Data Analysis

After data collection, data were examined for completeness and clarity before being sorted, edited, coded, tabulated and analyzed using descriptive analysis and SPSS. The results were analyzed using analytical data such as mean, percentage, frequency; and standard deviation and then presented using tables. The influence of business environment on strategies was analyzed using Chi-Square test which measures the relationship between two variables to test goodness of fit and independence and also to calculates the difference between observed and expected data values. The formula for Chi-square test is,

$$\chi^2_c = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where  $c$  = Degree of freedom,  $O$  = Observed value,  $E$  = Expected value

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION OF RESULTS**

#### **4.1 Introduction**

This section covers the analysis and findings of the research on the influence of business environment on strategies adopted by international audit firms in Kenya. The objective of this study was to establish the types of business environment facing international audit firms in Kenya and to establish how business environment affect strategies adopted by these firms. The data were analyzed using SPSS and descriptive statistics by use of mean and percentages as shown in the following sections.

#### **4.2 Response Rate**

Out of the 18 international audit firms in Kenya, five did not respond and therefore are not included in this study as they either declined to participate in the research or did not fill in the questionnaire. The response rate was therefore 72.2%. Mugenda and Mugenda (2003) state that a response rate of 50% is adequate for analysis and reporting while 60% is good but the rate of 70% and over is very good. The response rate of 72.2% is therefore very good and adequate for analysis of this research.

#### **4.3 Background information**

##### **4.3.1. Department of the respondents**

The respondents were asked to indicate the department where they worked. The findings are as illustrated in table 4.1.

**Table 4.1: Department of respondents**

<b>Department</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Audit	10	76.9
Tax or advisory	1	7.7
Audit, tax, and advisory	2	15.4
<b>Total</b>	<b>13</b>	<b>100.0</b>

Source: Research data

The study revealed that majority of the respondents were from audit department and they comprised of 76.9% followed by 15.4% who were senior staff supervising more than one department. Smith and Ablum (2012) describe population as individuals that researcher base their research. The study was therefore based on these departments per every audit firm.

#### **4.3.2 Distribution of respondents by position**

The respondents were asked to state their place in the departments they worked, and the response is as illustrated in table 4.2.

**Table 4.2: Respondents distribution by position**

<b>Position</b>	<b>Frequency</b>	<b>Percent</b>
Partner	1	7.7
Manager	11	84.6
Supervisor/Associate	1	7.7
<b>Total</b>	<b>13</b>	<b>100.0</b>

Source: Research data

As shown in table 4.2, respondents were of three categories of partner, manager or Supervisor. The audit managers were the major respondents with a percentage of 84.6% followed by partners and supervisors which tied with a mean of 7.7 each. Partners and managers are the senior management involved in strategy formulation, implementation and monitoring in audit firms as evidenced by this study and findings by audit Wahogo (2012) in her research on response strategies to changes in the environment by financial firms in Nairobi, Kenya.

#### **4.3.3 Registered Practising members of ICPAK**

Respondents were asked whether they were registered practicing members of ICPAK and the results were as illustrated in table 4.3 below.

**Table 4.3: Registered Practising members of ICPAK**

<b>Practising Member</b>	<b>Frequency</b>	<b>Percent</b>
Yes	8	61.5
No	5	38.5
<b>Total</b>	<b>13</b>	<b>100.0</b>

Source: Research data

The study revealed that only 61.5% of the respondents were practicing members of ICPAK while 38.5% were not. It is the requirement of the regulatory body ICPAK that partners authorized to sign an audit opinion must be active practicing members of ICPAK. Managers need not to necessarily be active practicing members of ICPAK.

#### 4.3.4. Role of the respondents in management strategy process

The respondents were asked their principal role in the strategic management process, and the response was as indicated in table 4.4 below.

**Table 4.4 Role of respondents in management strategy process**

<b>Stage of strategy</b>	<b>Frequency</b>	<b>Percent</b>
Goal setting, analysis, and Formulation	2	15.4
Implementation	6	46.2
Monitoring and evaluation	3	23.1
Total	11	84.6
Missing System	2	15.4
<b>Total</b>	<b>13</b>	<b>100.0</b>

Source: Research data

The study demonstrated the various roles played by the respondents in the respective stages of strategy with more of the respondents involved at implementation stage with a percentage of 46.2%, followed by monitoring and evaluation at 23.1% and formulation at 15.4% while 15.4% of the respondents never indicated their role in strategy.

Porter et al. (2015) established that Strategy management is very critical in the day to day management of the organization and included goal setting, analysis, strategy formulation, implementation and monitoring and evaluation as main processes in strategy.

#### 4.3.5 Partnership gender distribution in the audit firms

The respondents were asked to indicate the number of partners who work for their organization and the number of female partners and the responses was as illustrated in table 4.5 below.

**Table 4.5: Partnership gender composition**

<b>Partners</b>	<b>N</b>	<b>min</b>	<b>Max</b>	<b>Sum</b>	<b>Mean</b>	<b>Std. Deviation</b>
No of Partners	13	1	29	77	5.92	7.675
No. of lady Partners	13	0	5	15	1.15	1.405

Source: Research data

The study showed that out of 77 practicing partners from the thirteen respondents, only fifteen were female with a mean of 1.15 and a standard deviation of 1.405. It is the requirement of the government of Kenya to comply with a third gender rule in the employment of staff. This finding shows that the audit firms studied had not complied with this legislation.

#### 4.3.6. Client Base of the international audit firms in Kenya

The respondents were asked to indicate the leading client base in their company, and the results were as shown in table 4.6.

**Table 4.6 Client Base of the international audit firms in Kenya**

<b>Group of clients</b>	<b>Frequency</b>	<b>Mean percentage</b>
Limited liability companies	10	77%
Not for profit organizations	3	23%

Source: Research data

Table 4.6 illustrates the mean percentages of the response by respondents. Limited companies scored the highest mean of 77%, followed by not for profits clients 23% mean. The study disclosed that limited liability companies is the highest clientbase for most international audit firms.

#### **4.4 External Business environment influencing international audit firms in Kenya**

The respondents were asked to state the extent to which they agreed or disagreed with a number of statements related to external business environment using a five-point Likert scale of 1-5 where a mean of (1) represented a very low extent, (2) a low extent, (3) a moderate extent, (4) a great extent (5.0) a very great extent. The respondents were asked whether the business environment which the audit firms operate is turbulent and the response was to a great extent with a mean of 4.3.

##### **4.4.1 The influence of external Macro environment on the international audit firms in Kenya**

The respondents were asked various questions touching on the influence of external macro environment on international audit firms in Kenya and the results were as illustrated in Table 4.7 below.

**Table 4.7: The influence of macro business environment on international audit firms**

<b>Statement</b>	<b>Efficiency</b>	<b>Mean</b>
The environment the audit firms operate is turbulent, and this affects our strategy	8	4.1
Political instability lowers the profitability of businesses.	11	4.8
Government legislation affects the operations of audit firms	8	4.2
Low economic activities affect the operations of an audit firm.	9	4.3
The location of a business determines the type of client it attracts.	9	3.4
Use of computerized systems enhance quality of audit services.	11	4.8
<b>Mean of mean</b>		<b>4.3</b>

**Source:** Source: Research data

The respondents were asked whether political instability lowers the profitability of audit firms and the response was to a very great extent with a mean of 4.8. The respondents were also asked whether government legislation affects the operations of international audit firms and the response was to a great extent with a mean of 4.2. The respondents were questioned whether low economic activities affect the operations of an audit firm and the answer was to a great extent with a mean of 4.3. The respondents were also asked whether the location of a business determines the type of client it attracts and the

response was to a moderate extent with a mean of 3.4. Respondents were asked whether the use of computerized systems enhance the quality of audit services and the response was to a very great extent with a mean of 4.8. The overall mean indicates that the external macro environment influences the operations of international audit firms to a great extent with a mean of 4.3. Carroll & Buchholtz (2014) established that macro external environment dramatically affects the activities of companies as they are beyond their control and stated forces affecting the external business macro environment to include political, legal, economic, demographic, and technological factors.

#### **4.4.2 The influence of external Micro-environment on the international audit firms**

The respondents were asked various questions touching on the influence of external microenvironment on international audit firms in Kenya and the results were as illustrated in Table 4.8 below.

**Table 4.8: The influence of the external micro-environment on international audit firms in Kenya**

<b>Statement</b>	<b>Efficiency</b>	<b>Mean</b>
Consistency in supply enhances the operations	9	3.2
Both existing and potential clients need to be given equal attention to retain and attract them	10	3.8
Customer care officer is vital	6	3.3
Medium audit firms are a threat to Big 4	5	3.0
The general public are key stakeholders in the business environment	10	3.7
<b>Mean of mean</b>		<b>3.4</b>

Source: Research data

Respondents were asked whether they agree or disagree with the statement that states that consistency in supply enhances the firm's operations and the response was to a moderate extent with a mean of 3.2. The respondents were asked whether both existing and potential customers needed equal attention to retain and attract them and the response was to a great extent with a mean of 3.8 and whether having a customer officer was vital and the reply was to a moderate extent with a mean of 3.3. Respondents were also asked whether small and medium audit firms were a threat to the Big Four audit firms and the response was to a moderate extent with a mean of 3. The Researcher was further interested to find out the place of the general public in audit firms and asked the question relating to whether the general public are potential stakeholders in the business environment and the response was to a great extent with a mean of 3.7. The study, therefore, shows that external microenvironment influences the international audit firms in Kenya to a moderate extent with a mean of 3.4. Kew & Stredwick (2017 states that external micro environment is also known as internal environment of business and entails factors such as suppliers, customers, competitors, the general public and market intermediaries.

#### **4.5 Strategies Adopted by international audit firms in Kenya**

Several strategies are applied by international audit firms in Kenya in responding to the changes in the external environment. The researcher however for this study only dwelt on the four main strategies employed by the international audit firms which included differentiation strategies, human resource strategies, outsourcing strategies and technological strategies. Respondents were asked various questions relating to various strategies that international audit firms use, and the results were as illustrated in table 4.9.

**Table 4.9 Strategies Adopted by international audit firms in Kenya**

<b>Strategy</b>	<b>Statement</b>	<b>Efficiency Mean</b>	
Differentiation	We provide other services apart from audit and accountancy	<b>12</b>	<b>4.9</b>
	Staff retention strategies are in place	7	3.5
Human Resource	We take disciplinary measures as per the human resource manual	9	4.1
	We award talent and performance through bonuses & promotion	7	4.9
	Our firm maintains high professional ethics and has employee guide	10	4.8
	Our firm does team building activities at least twice a year	10	3.1
	Qualified and continuously trained workforce enhance quality service delivery	13	5.0
	We conduct staff appraisals and training of our workers and also sponsored external training to our staff to remain relevant in the market.	13	5.0
	The top management provided leadership in strategy formulation, implementation, and monitoring	13	5.0
<b>Mean for HR</b>			<b>4.3</b>
Outsourcing	Outsourcing is only advantageous to a firm in the short run	8	3.4
	Engaging a technical analyst helps in identifying the technical indicators and particular actions to take	8	3.9
<b>Mean for Outsourcing</b>			<b>3.7</b>
Technological	Our firm uses an audit software	12	4.9
	Use of accounting and audit software boosts the efficiency and profits of a company	10	5.0
	Social media can be away of growing customer base	5	2.4
	Our firm has put in place safeguards to its data and information against unauthorized access	10	5.0
	Our firm does automated backup of its data daily	8	5.0
<b>Mean for technological</b>			<b>4.5</b>

Source: Researched data

The respondents were asked whether they diversify by providing other services apart from audit and accountancy services and the response was to a very great extent with a mean of 4.9 and frequency of 12. Differentiation is, therefore, a key strategy used by audit firms to gain competitive advantage. Porter (2008) argues that sustainable competitive advantage is aimed at boosting a firm's profitability. Service differentiation is, therefore, a technique used by audit firms as a competitive edge against their rivals.

The respondents were asked to affirm whether they have staff retention strategies and the response was to a great extent with a mean of 3.5. Clients were also examined whether they exercise disciplinary measures on their staff and the answer was to a great extent with a mean of 4.1. Respondent was also asked to indicate whether they award talent and performance through bonuses and promotion and the response was to a very great extent with a mean of 4.9 and a frequency of 7. Respondents were also questioned whether they maintain high professional ethics and have employee guide and the response was to a very great extent with a mean of 4.8. The respondents were asked whether they conduct team building activities and the acknowledgment was to a moderate extent with a mean of 3.1. Respondents were asked to state whether qualified and continuously trained workforce enhance quality service delivery and the response was to a very great extent with a mean of 5. The study shows that human resource strategy is a crucial strategy employed by audit firms to a great extent at an overall mean of 4.3. Tadesse (2011) established that establishing an effective and well organized human resource system is a strategic move for the organization to meet the dynamism of the labor environment and successfully attain the desired target of the company.

The respondents were asked to state whether outsourcing is only advantageous to a firm in the short run and the response was to a moderate extent with a mean of 3.4.

The respondents were also asked whether engaging the services of a technical analyst to identify the technical actions and particular actions to be taken at a particular time and the response was to a great extent with the frequency of 8 and a mean of 3.9. The study, therefore, showed that outsourcing strategies were adopted by audit firms to a great extent at a mean of 3.7. Agharahimi et al. (2012) established that outsourcing has a significant advantage in the short-term but at the same time being associated with negative consequences such as the hollowing of corporations and the depreciation of firm capabilities, that is, over time.

The respondents were asked whether they use audit software and the response was to a very great extent with a mean of 4.9. The respondents were also asked whether the use of accounting software boosts efficiency and profitability and the response was to very great with a mean of 5 and a frequency of ten. The respondents were also asked whether social media could be a source of growing customer base and the response was to a low extent with a mean of 2.4. The respondents were asked whether audit information needed to be treated with a high level of confidentiality and access limited to only authorized authorities and also whether it backs its data and the response in both cases was to a very great extent with a mean of 5. The overall results, therefore, showed that technological strategies are adopted by international audit firms in Kenya to a very great extent. Leavitt, (2009) established that audit firms need to be innovative to catch up with the technological changes to keep remaining relevant. This study, however, disagrees with Ngai et al., (2015) who stated that it is essential for businesses to participate in social

media as a contributor to growth in customer base. In this study, social media contributed to a low extent in the growth of customer base.

Differentiation is technological strategies are therefore the leading strategies adopted by international audit firms in Kenya followed by human resource strategies and outsourcing to a great extent.

#### **4.6 Influence of Business Environment on Strategies adopted by audit firms**

This section discusses findings on the influence of business environment on strategies adopted by the international audit firms in Kenya. The researcher was interested in finding out the level to which changes in the business environment impact on the strategies adopted by the international audit firms in Kenya. To measure respective environment, an overall index for that particular environment was calculated by getting the average scores for the variables (questions) related to it for each respondent. The scores were in the range of 1-5 where five implied implementation to a "Very great extent" while 1 was to "Very low extent." The same was done for the strategies. The results were then coded appropriately, and the Chi-square analysis was done by cross-tabulation, and the results were as shown in Table 4.10 and 4.11 which illustrates the influence of external macro environment and external microenvironment influence of strategy respectively.

**Table 4.10: Influence of external macro environment on Management strategies**

<b>Strategy</b>	<b>Chi-Square Statistics</b>	<b>Degree of Freedom</b>	<b>Probability Value</b>	<b>Frequency</b>
Differentiation	13.000	2	0.002	11
Human Resource	5.318	1	0.021	9
Outsourcing	2.758	1	0.97	7
Technological	1.477	1	0.224	8

Source: Researched data

The results showed The Chi-Square test showed that the relationship between the external macro environment and differentiation strategies are statistically significant at 5% significance level, that is, the probability value of 0.002 was less than 0.05.

The Chi-Square test showed that the relationship between the external macro environment and human resource strategies are statistically significant at 5% significance level, that is, the probability value of 0.021 was less than 0.05.

The Chi-Square test showed that the relationship between the external macro environment and outsourcing strategies are not statistically significant at 5% significance level, that is, the probability value of 0.097 which was greater than 0.05.

The Chi-Square test showed that the relationship between the external macro environment and technological strategies are not statistically significant at 5% significance level, that is, the probability value of 0.224 was greater than 0.05.

The study shows that the external macro environment influences differentiation and human resource strategies significantly and has low influence on the outsourcing and

technical strategies. Robinson (2013) explains that strategy analysis involves observing keenly the environment within which the business is based and operates and adjusting to it to be successful.

**Table 4.11: Influence of external microenvironment on management strategies**

<b>Strategy</b>	<b>Chi-Square Statistics</b>	<b>Degree Freedom</b>	<b>of Probability Value</b>	<b>Frequency</b>
Differentiation	0.430	2	0.807	11
Human Resource	1.051	1	0.305	9
Outsourcing	2.026	1	0.155	7
Technological	0.133	1	0.715	8

Source: Source: Researched data

The Chi-Square test showed that the relationship between the external microenvironment and differentiation strategies are not statistically significant at 5% significance level, that is, the probability value of 0.807 was higher than 0.05.

The Chi-Square test showed that the relationship between the external microenvironment and human resource strategies are statistically insignificant at 5% significance level as the probability value of 0.305 was greater than 0.05.

The Chi-Square test showed that the relationship between the external microenvironment and outsourcing strategies are statistically insignificant at 5% significance level as the probability value of 0.155 was greater than 0.05.

The Chi-Square test showed that the relationship between the external microenvironment and technological strategies are not statistically significant at 5% significance level as the probability value of 0.715 was higher than 0.05.

The research, therefore, shows that the relationship between external microenvironment and human resource, outsourcing, differentiation and technological strategies were insignificant. Rosli (2012) on his study of the competitive strategy of Malaysian small and medium enterprises found out that businesses have placed a high emphasis on the management of a company and human resource management as the leading competitive strategies for a successful business. This study however shows that external micro environment does not have any significant influence on human resource strategies.

#### **4.7 Discussions**

Based on the research findings and in line with the study's research objective, which aimed at establishing the types of business environment facing international audit firms in Kenya and determining how the business environment influence strategies adopted by international audit firms in Kenya. From this study, it is evidenced that political instability, inadequate technology, and noncompliance to legal requirements affect the growth and profitability of the firm to a very great extent while low economic activities affect the firm's operations to a great extent. It is also evidenced that most international audit firms have not met the threshold of one third (1/3) gender rule regarding partnership engagements. The study also shows that the leading age bracket in international audit firms ranges between 26-35 years.

The study further reveals that both existing and potential customers need to be given equal attention to a great extent to retain and attract them. The research shows that limited companies form the major client base for most international audit firms followed by not for profit organizations. It is evidenced by this study that qualified and continuously trained workforce enhance quality service delivery to a very great extent while the general public is key stakeholders in a business environment to a great extent. From this study, it is also evidenced that technological, political, legal and economic environment to a great extent influence the strategy adopted by international audit firms in Kenya, while social environment and demographic environment affect strategies adopted by international audit firms in Kenya to a moderate extent. The study further reveals that email is the leading form of communication in audit firms.

The research demonstrated that the firms gave more attention to human resource strategies and technological strategies in comparison to other strategies. The investigation also revealed a very minimal growth annually on the number of practitioners who register for practice. The study further shows that macro external environment impacts more on the international audit firms' strategy than the microenvironment. Carroll et al. (2014) state that external macro-environment factors are beyond the control of the organization and hence impact on the companies than the external microenvironment.

#### **4.7.1 Comparison with theory**

This study revealed that audit firms to a very great extent believed that a competent and continually trained workforce yielded great benefits to the companies. The companies to a great extent rewarded performance of employees through bonuses and promotion as a way of motivating them. Human capital was therefore considered a valuable rare

resource that the international audit firms invest on in building effective strategies. The results of this study support resource-based theory of possession of vital resources such as the competent human resource that provides a business with an opportunity to develop the competitive advantage over its rivals. This therefore implies that human capital is a valuable and rare resource in the international audit firms in Kenya and hence staff retention is crucial for the firm's consistent growth. It is also evidenced by this study that to a moderate extent the audit firms outsourced non-core activities and spent more time in the core activities and hence supporting the resource-based theory. Despite the retention strategies that audit firms had put in place, they still suffered staff turnover which implies that the companies don't need to overlook nonstrategic resources too. Outsourcing however as revealed in this study, becomes expensive in the long run, and thus work against the resource-based theory principle.

The study further confirms that the international audit firms are agencies that are delegated work by their respective clients and hence the study supports the agency theory. All the audit firms studied carried out non-auditing services such as tax consultancy, human resource advisory, and secretarial services amongst others. Most of them acted as tax agents between their clients and Kenya Revenue Authority. The ones with secretarial arms helped to file company returns on behalf of their clients with the Attorney General's office. It is evidenced from this study that the top management provided leadership in strategy formulation, implementation, and monitoring to a very great extent and the firms were reviewing their strategies to a moderate extent to be able to adjust to the changing environment, thus supporting the structure and strategy relations theory.

#### **4.7.2 Comparison with other studies**

Porter (2008) states cost leadership as one of the competitive strategies companies use to gain the competitive edge. However, on the contrary, 100% of respondents illustrated that quality services earned them more clients compared to charging low professional fees. The study confirmed that use of computerized systems enhance the quality of audit services and hence agrees with Porter (2008) who stated technology as an environment businesses have to match to survive. All respondents had implemented audit software to enhance the quality of their services.

Chandler (1990) describes a company's internal capability to include its physical facilities, skills, and expertise of its employees and senior management. This includes excellent customer service and deploying a mix of resources that lead to competitive advantage. This study confirms that to a great extent that good customer service helped in the retention of existing customers and attracted potential customers. Pearce and Robinson (2009) explained that firms react to changing conditions in the environment by employing various strategies such as developing new products and diversification amongst others. It is evidenced from this study that all the international audit firms studied did not only provide audit and accountancy services but also provided other services such as tax advisory, human resource consultancy and company secretarial services amongst others. Richard (2008) established that diversification in audit firms boosts their profitability in other markets.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS, IMPLICATIONS OF STUDY AND RECOMMENDATIONS**

#### **5.1 Introduction**

This section outlines the summary of findings, conclusions, implications of the study, suggestions for further research and limitations of the study.

#### **5.2. Summary of findings**

The research findings revealed that business environment influence strategies adopted by the international audit firms to a great extent. Both the external micro and macro environment are essential for prospects of an organization. It further indicated that international audit firms prioritize in differentiation as the principal competitive edge than cost leadership. The study reveals that most international audit firms have not been able to meet a third gender rule at the partnership level. The international audit firms viewed the big four and medium audit firms as their main competitors and information in all the firms were held with a lot of confidentiality by the fact that none of the respondents had exchange programmes with another firm. The findings also disclosed that the 2017 election process and politics had negatively impacted on the economy and normal operations of the audit firms which may reduce their profitability for the current year. Most of the audit firms gave their staff an annual leave during the August polls and October repeat polls due to political uncertainty.

This study reveals that diversification is not only crucial for mid-tier audit firms as published by Mwando (2012), but it is also a very important practice by the international audit firms. The study also established that most international audit firms award bonuses to their staff annually to motivate staff and help in retaining them. All the firms conducted staff appraisals and training of their workers and also sponsored external training to their staff to remain relevant in the market. The study revealed human capital as a valued resource to a great extent and all the firms studied had a human resource policy manual. International audit firms conducted team building activities to enable their staff to bond. The study further revealed that location of an audit firm determines the kind of clients an organization attracts to a moderate extent. Limited companies and not for profit organizations pulled the highest client base in the international audit firms while partnerships and sole proprietors were the least in the client base of international audit firms. The study further reveals that email was the best means of communication in the international audits.

### **5.3 Conclusions of the study**

The researcher drew conclusions based on the research findings (in Chapter Four) and in line with the study's research objective, which aimed at establishing types of business environment facing international audit firms in Kenya and how business environment affect strategies implemented by international audit firms in Kenya. Management of international audit firms view regular scanning of the business environment as a crucial management process to enable management to adapt to changes in the business environment to remain successful and relevant. Both internal and external environment of a firm affects its operations and therefore must be evaluated and strategy adjusted to suit

the prevailing business environment and structures streamlined to follow strategy. The study also concluded that business environment affects strategies adopted by international audit firms due to changes in the technological environment that compels businesses to be creative and innovative to sustain a higher level of differentiation in its services to keep up with the competitive environment and establishment of an efficient, effective and well organized human resource power to meet the dynamism of the labor environment.

#### **5.4 Recommendations**

The study recommends that international audit firms in Kenya need to mentor more lady auditors at the senior level to be able to meet the one third gender rule in the engagement of audit partners. The researcher also recommends that international audit firms should pay more attention to the threats from macroenvironment to be able to adjust appropriately so as to remain successful in business. Audit firms need to give more attention to human resource capital, technology and legal environment as they impact the business more as compared to other strategies as revealed by this study.

#### **5.5 Limitations of the study**

The research covered international audit firms that could be identified by ICPAK; there could be likelihood of some audit firms that have international affiliations but were not covered in this research. The political instability during the electioneering period in August and October 2017 resulted to time constraints as most of the senior management wanted to utilize the little time they had on their business and not responding to questionnaires hence this led to the longer time in data collection. Some audit firms declined to respond due to confidentiality policy in place. There was high opportunity

cost due to much time that was spent on coding, data collection and analysis and also transport, telephone calls and email communication also added to the cost.

## **5.6 Suggestions for further research**

This study covers the influence of business environment on strategies adopted by international audit firms in Kenya which comprises the broader environment and strategies. There is need therefore to identify one business environment and study its influence on the strategies adopted by audit firms to enhance a more detailed study or a study of influence of business environment on a particular international company for instance any of the Big Four especially if one can fully access information by reason of being an employee or any other way. There is also need to investigate why there are few ladies in the partnership of audit firms. The researcher also recommends further study on other strategies adopted by international audit firms excluding the four majorly discussed in this study.

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# APPENDICES

## Appendix I: Introduction Letter

  
**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**

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Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE... 10<sup>TH</sup> OCTOBER, 2017

**TO WHOM IT MAY CONCERN**

The bearer of this letter... EUNICE AKOIH OJOKO

Registration No... D61183846/2016

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
PATRICK NYABUTO  
SENIOR ADMINISTRATIVE ASSISTANT  
SCHOOL OF BUSINESS

## Appendix II: Questionnaire

**Instructions:** This questionnaire contains questions relating to the influence of business environment on strategies adopted by international audit firms in Kenya. The Data collected will be used strictly for academic purposes and treated with utmost confidentiality. Kindly tick as appropriate or put your response in the space provided.

### Section A: General information of the respondent

1. Indicate the department you currently work.
2. What is your position in the department?
3. Are you a registered practicing member of ICPAK?
4. What is your principle role in this position as corporate strategic planning is concerned?

### Section B: General information of the firm

1. Kindly indicate the name of your organization
2. Indicate when the organization was registered in Kenya
3. How many partners work in your organization?
4. How many lady partners does your firm have?
5. How many employees does your firm have?
6. How many employees are registered by ICPAK for practice?
7. What is the leading age bracket in your firm?
  - 20 to 25 years [    ]
  - 26 to 35 years [    ]
  - 36 to 40 years [    ]
  - Over 40 years [    ]



and retain them.					
Customer care officer is vital					
Medium audit firms are a threat to the Big Four					
General public is a vital stakeholder in the business environment.					

### Section D: Strategies

1. State the extent to which you agree or disagree with the statements below (tick appropriately)

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

Low Extent [2] Very Low Extent [1]

Statement	1	2	3	4	5
We provide other services apart from audit and accountancy.					
Staff retention strategies are in place.					
We take disciplinary measures as per the human resource manual.					
We award talent and performance through bonuses and promotion.					
Our firm maintains high professional ethics and has employee guide.					
Our firm does team building activities atleast twice a year.					

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Qualified and continuously trained workforce enhance quality service delivery.					
We conduct staff appraisals and training of our workers and also sponsored external training to our staff to remain relevant in the market.					
The top management provided leadership in strategy formulation, implementation, and monitoring.					
Outsourcing is only advantageous to a firm in the short run.					
Engaging a technical analyst helps in identifying the technical indicators and particular actions to take					
Our firm uses an audit software.					
Use of accounting and audit software boosts the efficiency and profits of a company.					
Social media can be away from growing customer base.					
Our firm has put in place safeguards to its data and information against unauthorized access.					
Our firm does automated backup of its data daily.					

2. What is the leading mode of written communication to your staff?  
Email [    ]  
Internal memos [    ]  
Staff WhatsApp [    ]
3. Does your firm get involved in corporate social responsibility?  
Yes [    ]  
No [    ]
4. Between charging a low fee and quality audit exercise, which one do you think can earn your company more clients?  
Low professional fees [    ]  
Quality audit work [    ]
5. Are the supervisors able to review the work of their juniors from a remote location within and outside the country?  
Yes [    ]  
No [    ]
6. What client retention strategies does your firm use?
7. What employee retention strategies does your company use?
8. Which companies do you consider as your significant competitors to watch?
9. What are some of the strategies that your company employs to remain unique in the current competitive environment?

10. Does your firm outsource non-core services to another organization?

Yes [ ]

No [ ]

11. To what extent does your firm experience staff turnover annually?

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

Low Extent [2] Very Low Extent [1]

12. Does your firm have an exchange program with another business?

Yes [ ]

No [ ]

13. Apart from auditing, which other services does your firm offer?

14. What can you recommend to your business to help improve on growth on the quality clientele that will boost the profitability of the company?

### **Appendix III: List of International Audit Firms in Kenya**

1. Ernst and Young
2. KPMG
3. PricewaterhouseCoopers
4. Deloitte and Touche
5. WIA East Africa
6. Mazars
7. Horwarth Erastus and Co.
8. KKCO East Africa CPAs
9. PKF
10. RSM East Africa
11. AAC Kenya
12. Grant Thornton
13. Baker Tilly Meralis
14. BDO East Africa Kenya
15. Carr Stanyer Gitau and Co.
16. Kreston KM and company
17. Parker Randall Eastern Africa
18. UHY Kenya

**Source:** ICPAK (2017) list of audit firms