STRATEGY IMPLEMENTATION CHALLENGES IN STATE CORPORATIONS: THE CASE OF AGRICULTURAL FINANCE CORPORATION KENYA

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

Signature ....Date ....

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D61/83763/2016

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

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DEDICATION

I dedicate this project to my family for their great support and encouragement towards the completion of this study.

ACKNOWLEDGEMENTS

I thank the almighty God for granting me the grace and energy to complete the research project.

Much thanks to my supervisor Prof. Bitange Ndemo for the sacrifice, support, and guidance throughout the project.

I am most grateful to my family especially my wife who kept encouraging me despite the challenges I faced. Special thanks to my colleagues at work for their support and encouragement through this process.

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LIST OF ABBREVIATIONS AND ACRONYMS

AFC	Agricultural Finance Corporation
DFI	Development Financial Institution
NARC	National Rainbow Coalition

ABSTRACT

Strategy implementation is tougher and more time consuming than strategy formulation. The process requires action-oriented and operations-driven people and systems management activities of leading, motivating, organizing, engineering business processes, and creating strong fits between strategy and how the organization does things. The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. The objective of this study therefore was to establish the challenges faced by Agricultural Finance Corporation in the implementation of strategy. Some researchers note that organizations fail to implement up to 70% of their strategic plans. The research adopted a case study research design. The study employed a face to face interview with selected management staff from both top and middle levels as a primary data collection method. An interview guide was employed as the sole research instrument. The collected data was then analyzed by content analysis. The study established that inadequate financial resources posed the major challenge given that AFC is a Financial Institution and liquidity is crucial. The organizational structure was found to be appropriate, however, the many decision making levels and different loan approval limits hindered successful strategy implementation by making loan processing periods unnecessarily long. The study found that the culture of AFC needed to change to remove the perceived difference between the branch network and head office as this resulted in lack of trust. Another challenge faced by AFC was poor communication of strategic plans with some respondents not aware of the contents of the strategic plan. The corporation must adopt a better communication plan and involve all staff in the formulation stage of the plan in order to enhance ownership. It was evident from the study that AFC staffs were de-motivated. Most respondents cited lack of fit between performance and reward policy as the de-motivating factor. There were uncontrolled external factors identified by the study which included lack of political goodwill, negative client attitude, government policies, and agricultural finance related risks. Organizations operate in turbulent ever-changing environments and must therefore align themselves to the environment for survival.

CHAPTER ONE: INTRODUCTION

1.1 Background

Businesses operate in a very turbulent environment. Many organizations have been forced out of business and many others are struggling to survive. Even though most companies have adopted strategic management practices in their businesses, there seems to be a challenge in the implementation of chosen strategies. This therefore makes this study relevant and timely. Strategic management entails having a clear corporate vision, mission, corporate planning, setting strategic goals and objectives, strategy implementation and evaluation. However, this comes with many challenges with only a few conceptual models for strategy implementation. Most companies come up with very good strategic plans but fail to implement those plans (Wambugu, 2006). Reasons that have been given as what causes the success or failure of strategy include the fit between the structure and the strategy, management commitment, communication, employee awareness and understanding of strategy, capabilities, the allocation of resources, the organization culture, uncontrollable environmental factors, leadership, competing activities, rewards as well as the nature of the strategy (Beer & Eisenstat, 2010).

The stakeholder Theory of strategic management suggests that managing an organization requires business ethics, morals and values. The duties of a Manager in a company affect not only the owners but also the other stakeholders. A stakeholder is seen to be anyone with interest in the conduct of business in the company and not necessarily those who stand to gain financially form the business. These could include the company employees, customers, suppliers, and the general public (Freeman, 1984). According to McKinsey 7-S framework, seven interdependent elements or aspects internal to the organization exist that must be aligned to the environment if it is to be successful in achieving its objectives. These are strategy, structure, systems, skills, staff, style, and shared values. The 7-S model can be used to determine how best to implement a chosen strategy (Peters, Waterman, & Phillips, 1980).

State corporations in Kenya are owned and under the direct control of the government. Kenyan state corporations are now using strategic management which normally is a top down approach from the national government to the line ministries then state corporations. This is however, a rather new way of management to government of Kenya, The Economic Recovery Strategy for Wealth and Employment Creation of 2003-2007 being the first strategic plan. State corporation reviews by several bodies including the line ministries, National Assembly, National Treasury, and State Corporations Advisory Committee are done to measure their performance. State corporations are expected to promote social and economic development by ensuring that their services are reasonably accessible to all parts of the republic as well as making a surplus in order to sustain themselves. The success prospects of state corporations are many, with similar threats to this success. This study therefore aims at establishing the challenges facing strategy implementation at Agricultural Finance Corporation.

1.1.1Strategy Implementation

The strategic management process has several components. One of the components is strategy implementation which involves making strategic decisions and actions in order to formulate and implement long term goals developed to realize the objective of the organization (Pearson & Robinson, 2003). Strategy implementation serves to link and complete, through the incorporation of adopted strategies, the change from strategic planning to strategic management (Bryson, 1995). According to Aosa (1992), implementation of strategy is the next thing after developing a strategy; strategies are of no use if there is no effective execution.

Implementing a strategy includes the determination of those responsible to implement the strategy; which organizational structure most suits and supports the process of implementing the strategy, and the necessity to adopt the management system for the organization (Johnson & Schole, 2002). It also involves the crucial jobs to be done and desired organizational resources mix change in addition to the company wise departmental mandates and the information systems to be used in monitoring progress and resource planning (Pearson & Robinson, 1997). David (1997) noted that strategy implementation issues of management include the determination of annual objectives, coming up with policies, allocation of resources, deciding on best match for managers with the strategy, changing the existing structure of the organization, building a culture that supports strategy, restructuring and reengineering, minimizing resistance to change, revising reward and incentive plans, coming up with a functional Human Resource which is effective and where need be downsizing.

According to Thompson & Strickland (2007), challenges to implementing a strategy include how to create a series of close ties between strategy and budgetary allocation, strategy and the organization's competences, strategy and capability and structure in addition to policy, between the company support system and strategy, reward structure and strategy and corporate culture and strategy. Success in strategy implementation is attained when the strategic objectives of the organization are achieved and the desired financial performance levels reached. This is however, not the case with most organizations that are unable to attain the long term organizational objectives. Most managers find strategy implementation too demanding and less glamorous as opposed to strategy planning. This is especially so considering the many activities requiring managerial attention, the multiple ways to handle each task, the skills required to launch different initiatives, and overcoming change resistance (Thompson & Strickland, 2003).

1.1.2State Corporations in Kenya

All state corporations in Kenya are established under the State corporations Act (1987) revised in 2013. Once established, the state corporations have perpetual succession; they can hold and alienate property. State corporations operate under ministries or departments which they are attached to, and the State Corporations Advisory Committee. The main purpose of state corporations is to promote social and economic development in accordance with the government agenda. State corporations are supervised by the Inspector General of Corporations and managed by a board of directors headed by a non-executive chairman appointed by the president (Directorate of Personnel Management, 2006).

State corporations have recently adopted strategic planning practices, a management style that was not formally practiced before the year 2000. This came in the era of the NARC government which introduced strategic management in public entities. This was evidenced by the Economic Recovery Strategy for Wealth and Employment Creation followed by the Vision 2030. Government strategies are cascaded down to ministries and government agencies including state corporations, who are expected to come up with their own strategic plans. This has led to improved performance with some loss making corporations being able to turn around and become profitable.

1.1.3Agricultural Finance Corporation

Agricultural Finance Corporation (officially abbreviated as AFC) is a Development Financial Institution (DFI) wholly owned by the government of Kenya. Its mandate is to advance affordable credit to farmers in Kenya. Established in 1969 through an act of parliament and under the laws of Kenya cap 323, its main functions were to improve agricultural development and the industries engaging in agriculture by availing credit to farmers, groups (incorporated), local authorities, body corporate, and other people practicing agriculture or industries engaging in agriculture.

AFC must come up with strategies on how best to achieve its mandate in line with the Kenyan Constitution, Kenya’s vision 2030, Government priorities, Agricultural Sector Development strategy, and the Millennium Development Goals. As a state corporation, AFC is expected to ensure that its services are reasonably accessible across the country and contribute to achieving the government’s commercial and social goals (Kenya Constitution 2010). The expectation of the people is that agricultural loans should be available at all times and accessible at affordable rates. AFC must therefore be able to implement strategies on how best to meet the demands for affordable agricultural credit while maintaining sustainability. In their strategic plan covering the period 2013-2017, AFC outlines a five point plan to increase its market share, enhance governance and management framework, enhance sustainability and efficiency of operations, increase productivity, and enhance staff productivity.

1.2 Research Problem

Organizations, whether public or private, operate in dynamic and highly unpredictable environments. Organizations must persistently put an effort in the process of strategic management to ensure strategy is fully implemented for them to realize the goals of their shareholders, the economy, and organizational efficiency and effectiveness (Mutugi, 2008). According to Muthuiya (2004), all companies are expected to face the challenges arising from constant changes in the environment in which they operate. While different companies differ in their mode of strategy development or formulation, the end result for each particular organization is something referred to as strategy.

Mintzberg & Quinn (1994) observed that of the many good strategies, ninety percent of them fail during the stage of implementation while David (1997) observed that only 10% of formulated strategies are implemented successfully. Implementing a strategy apparently has more challenges and the task is more delicate than formulating a strategy. Strategy implementation as opposed to formulation is practical work. Implementing a strategy involves sensitive and delicate issues like: mobilizing resources, company restructure, and changes in culture, policy and leadership. If implementation is not effectively managed, the strategic plan may amount to being a mere “white elephant” and nothing more.

In the Kenyan context, several studies on strategy implementation and its challenges have been undertaken by different researchers including Aosa (1992), Awino (2001), Machuki (2005), Karuri (2006), and Mutugi (2008). There are more specific studies on strategy implementation challenges to government agencies including The Kenya National Audit Office (Kibui, 2009), which found out that the challenges faced in strategy implementation included: non adaptive culture, organizational structure that is incompatible with the new strategies, poor communication, poor allocation of resources, unsound reward system, government policies and procedures that limited decision making as well as information technology challenges.

Agricultural Finance Corporation is one of the oldest government parastals which has been in operation since 1969. Through the years, AFC has met many challenges in carrying out its mandate. Beginning 2008, AFC embarked on a transformation agenda with a strategic plan of five years from 2008-2013 with a major focus on improving service delivery to its customers. Several research studies have been conducted on Agricultural Finance Corporation. A research by Nyanumba (2012) looked into the determinants of performance of loans of agro-based financial institution focusing on AFC. Another research by Echoka (2011) looked into the determinants of agricultural credit performance at AFC. Shitakha (2008) carried out a research on the relationship between performance contracting and performance of state owned enterprises with a focus on AFC. A study by Ruttoh (2014) focused on the challenges faced by AFC in the implementation of strategic change. What are the challenges faced by Agricultural Finance Corporation in implementing strategy?

1.3 Objective of the Study

The objective of this study is to establish the strategy implementation challenges at Agricultural Finance Corporation.

1.4 Value of the Study

The study will not only help Agricultural Finance Corporation but also other State Corporations in Kenya. It will be useful in understanding the challenges facing strategy implementation in State Corporations. This will help improve delivery of services to customers and the general public.

This study will add to the available research materials to researchers. The findings will form a reference in future for those interested in challenges to strategy implementation. The study will also highlight other important areas that require further research. The study will also be important to theory and practice, adding to the existing body of knowledge on the challenges of strategy implementation.

Policy makers including the Kenyan government will also benefit from the study. State corporations will also benefit, more so those operating within Kenya. The research findings will be of great importance in understanding the challenges faced in strategy implementation by state corporations and therefore help in policy matters and creation of an environment for successful strategy implementation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the evaluations of published materials and works of research which have been conducted in this area of study. Specifically, the chapter covers the following areas: theoretical foundation, factors in strategy implementation, and challenges to strategy implementation.

2.2 Theoretical Foundation

2.2.1 McKinsey 7-S model

McKinsey 7-S model was developed as a framework to help analyze and improve the effectiveness of organizations. The model describes seven interdependent elements which affect the company as whole. The seven elements are useful in determining how best a company can implement a chosen strategy. The seven elements are interdependent meaning failing to consider one of them may affect all the others as well. The 7 factors are categorized into two: hard and soft elements. The hard elements comprise strategy, structure, and systems, while the soft elements comprise kills, style, staff, and shared values.

The structure is basically how the company is organized including the departments, who reports to whom, responsibilities and expertise. Strategy was described as the company long term scope and direction and the allocation of resources with the aim to build and maintain competitive advantage over competition. Systems are the day to day processes and procedures followed within the organization to get job done. Staff was described as the human resources available to the company and the means of developing, training, and motivating the people. Skills are the capabilities and competencies of the employees working for the company. The approach of leadership adopted by the top management and overall company operations was described as the style. The shared values, originally super ordinate goals, are basically the beliefs and values of the organization (Peters, Waterman, & Phillips, 1980).

2.2.2 Stakeholder Theory

The Stakeholder Theory comes from Freeman's argument that managers' duties in a corporation are not to their company shareholders or stockholders but rather to the stakeholders. A stakeholder is seen to be anyone with interest in the conduct of business in the company and not necessarily those who stand to gain financially form the business. These could include the company employees, customers, suppliers, and the general public. The owners have a financial stake in the company and stand to gain financially from the business. Employees have their jobs at stake and means of livelihood. Suppliers have their money at stake while customers have their needs at stake while the local community has the economic well-being of its members at stake. This therefore means that anyone who is affected by the management decisions of a corporation has a stake (Freeman, 1984).

The theory is relevant since it argues that businesses are expected to work in the best interest of their stakeholders. This means that decisions made by the management should be in the best interest of the business stakeholders since organizational managers perform their duties on behalf of their stakeholders. Successful strategic management requires support and participation of all stakeholders. Management and employees play a critical role in strategy implementation. The suppliers, customers, and the local community also affect strategy implementation. This therefore means that the stakeholders could also become a challenge in strategy implementation.

2.3 Challenges to Strategy Implementation

Once the management of an organization decides on a strategy, the emphasis turns to realizing the strategy through achievement of the set objectives. The success in strategy implementation depends on the ability of the management to use the available people resources to build and strengthen company competitive advantage through discipline, motivation, rewards, and operational excellence (Thompson & Strickland, 2007). According to Ansoff & McDonnell (1990), for an organization to achieve optimal competitiveness and profitability, its strategy and capabilities must be aligned with the environment. The organization needs to constantly align and realign its strategy and capabilities with the ever changing environment. The following factors are therefore vital to successful strategy implementation.

2.3.1 Organization Structure

Strategy implementation is likely to succeed if there is congruence between several elements crucial to the process (Mutugi, 2008). The elements are categorized into structure elements and process elements. Structure is the basic organization of the company and defines how different parts of the company relate. The process element describes the culture, leadership, resources, and the administration of the company. Karuri (2006) observed that organizations implement their strategies through their organization structures. He found out that how the function was positioned in the structure of organization was of equal importance. A change in the company strategy calls for a review of the organization structure in light of the changes in strategy in order to maintain the relevance of the structure.

The organizational structure is all about the different responsibilities and duties, job, power distribution, division of labour, and how decisions are made in the company, which influences the types of strategy used by an organization. Wambugu (2006) defines organizational structure as the formal way in which companies divide, group, and coordinate tasks and jobs. To effectively implement a chosen strategy, some position of authority and responsibility may be created or elevated in the structure of the organization. Other strategies may just require re-defining the authority and responsibilities of certain positions in the organization. The choice of the structure of an organization makes a difference in how the organization performs. Different organization structures respond differently in terms of supporting the implementation of a given strategy. Sharma (2007) observes that an inconsistency between structure and strategy leads to disorder, friction, and malfunctions.

2.3.2 Organization Culture

Learning a firm's culture provides a set of focal points for decision making as well as providing models for effective questioning and experimentation (Walker, 2004), while Thompson et al. (2003) indicated if a company has a tight fit between its culture and the strategy then the better as this will propel the people to show behavior and adopt operational practices that support strategy implementation. To succeed in strategy implementation, the main cultures and subcultures which do not support the required change for the organization require to be changed. Aosa (1992) notes the importance of compatibility of the organizational culture with the strategy since in the event of incompatibility; this will lead to a high organization resistance to change.

Corporate culture of a firm can be a major strength. Culture cannot be ignored because it will have a significant impact on success or failure of the organization strategy. Once a strategy is chosen, strategy implementers should bring culture into alignment with the strategy and maintain the new culture (Thompson & Strickland, 1989). According to Pearce & Robinson (1991), culture can be both strength and a weakness for the organization. As strength, culture can facilitate communication while as a weakness; culture can act to hinder good implementation of company strategy through resistance to change.

2.3.3 Organizational Resources

Managers need to determine the required resources when implementing a new strategy and determine if the company budgets in force for different units suit the strategy implementation (Thompson et al., 2007). David (1997) observed that there are in the minimum different company resources which are of use in trying to achieve organizational goals. These are: Financial resources, technological resources, and human resources. Thompson et al. (2007) observed that in most cases changing a strategy requires reallocation of budgets and shifting of resources.

Units in the new strategy with more significant roles in the old strategy but less important roles in the new strategy require downsizing while for those with bigger and more critical strategic role in the new strategy, new equipment, more people, additional facilities, and more than average operating budget increment might be needed. Further, additional resources should be allocated to new product features, quality control, cutting costs, building better brand image, or to employee training. Machuki (2005) noted that strategy implementers need to link well budget allocation to the needs of the strategy since this can either support or hinder the execution process. The functional level must have all the required resources to execute all the parts of the strategic plan (Wambugu, 2006). Aosa (1992) emphasizes that the strategy implementation must be realistic based on the available resources in the firm. Due to the scarcity resources, managers must choose from their alternatives the most beneficial strategy to the organization (Kandie, 2001).

2.3.4 Support System

Support systems can be described as the procedures both formal and informal which enable the company to run from day to day and year to year; the systems for capital budgeting and training; and the cost accounting procedures (Mintzberg & Quinn, 2002). The efficiency and effectiveness of the operations and the strength of the organizational support systems affect strategy implementation.

The performance of the organization depends on how well the routine activities are carried out. Efficient and effective system reinforces the implementation strategy. An organization must therefore come up with a support system that fits the needs of the strategy. Machuki (2005) states that innovative state-of-the art support systems can form basis for competitive advantage of the organization capabilities that rivals cannot match.

2.3.5 People

Successful strategy implementation depends greatly on the internal organization and competent personnel (Thompson & Strickland, 2005). According to Okumus (2001), people as a factor in strategy implementation involves recruiting new staffs and providing training incentives for relevant employees. Hofer (1984) argues that companies will experience severe problems in implementing strategy if the strategy is not effectively linked with appropriate personnel policy choices. This means that a policy should be in place that allows for recruitment of new staff as per the requirements of the business strategy implementation. The human resource strategies should be in a position to support the organizational business strategies through the human resource short-term plans of setting objectives, performance appraisals, training and rewards. Simultaneously, they should be able to bring organizational transformation so that it becomes a platform for building new strategies - through the long term plans of human resource issues – competencies, leadership, culture, and organization (Johnson & Scholes, 2007).

According to Thompson & Strickland (2005), if an organization shifts their strategy to one requiring skills and managerial approaches, training of employees and re-training them become an important part of strategy implementation process. Further, staffing the organization by bringing together a strong team of management and the recruitment and re-training of employees with needed experience, technical skills and intellectual capital gives an assurance of successful implementation of strategy. This calls for adequate funding of the training function and effective training program put in place.

Motivation and rewards in organizations are components for success in strategy implementation (Pearce & Robinson, 1997). Reward systems should be able to relate with strategy for them to be a motivation in executing strategy. This requires a clear link between strategic performance and the reward system. Successful strategy implementation will depend on whether the company has designed a reward system that motivates people to do what it takes to make the strategy work. The rewards must be used creatively with a clear link to the factors necessary for good strategy execution (Thompson et al., 2007).

2.3.6 Leadership and Communication

Leadership is a key factor for effective strategy implementation. Good leadership unites and directs the effort of the organization towards achieving its goal (Pearce and Robinson, 1997). According to Koskei (2003) leadership is considered to be an important element affecting organizational performance. The leadership should be able to provide initiative, vision, inspiration and motivation for the organization. The management should cultivate team work and keep the team energized in the whole process of implementing strategy.

The organization should endeavor to get qualified staff committed to change for the relevant positions (Bryson, 1995). One of the crucial elements in maintaining organizational stability and adaptation to change is communication and the cooperation between diverse participants in an organization (Sharma, 2007). Organizational communications are important and help to train, distribute knowledge, and learn during the implementation of strategy.

2.4 Summary

Implementing a strategy comprises a consideration of those responsible for implementing the strategy, an organizational structure that best suits and supports the process of strategy implementation, and the necessity to adopt the organizational management system (Johnson & Schole, 2002), the critical jobs to be executed and necessary changes to the mix of resources of the company in addition to departmental mandates in the company and the information systems to be put in place to monitor progress and resource planning (Pearson & Robinson, 1997). Successful implementation is attained when the organization achieves the strategic objectives and the targets for financial performance levels. Strategy implementation becomes too demanding due to the many managerial duties that have to be performed, the diversity of activities, the required skill to launch different initiatives and keep them moving, and the change resistances that must be overcome (Thompson & Strickland, 2003).

Challenges that face implementation of strategy are particular to the strategy type, company type, and the prevailing circumstance. Strategy implementation challenges that can arise from sources internal to the organizations are: Behavioral challenges, such as, resistance to change; inadequacy of resources, such as, inadequate facilities, and inadequate human resources skills and experience; and finally inappropriate systems and structure, culture, leadership, policies, support, and reward. Challenges those that are external to the organization are as follows: Macro-environmental forces, such as, economic, political-legal, social-cultural, technological and ecological forces; Industrial forces, such as powerful buyers, powerful suppliers, and stiff rivalry from competitors; and finally forces in the operating environment, that is, pressure coming from stakeholders such as suppliers, creditors, government, customers, local community and shareholders.

An organization’s current strategy and structure may become powerful obstacle to implement a new strategy. They produce a massive inertia, which has to be removed for change to take place. The structure type used by a company can be a challenge. According to Pearce & Robinson (1997) successful strategy implementation depends on the firm’s primary organization structure. Matching the structure to strategy is a fundamental task of organization strategist. When an organization structure is ineffective it becomes difficult to implement a strategy. Systems of ineffective organizational structure as identified by David (1997) include, too many levels of management, a lot of attention given to inter-departmental conflict resolution, vast spans of control, and a lot of objectives which are yet to be achieved. According to Johnson & Scholes (1997) in its own, structure does not guarantee successful strategy, but choosing a structure which is not appropriate could hinder success. Changing a strategy mostly requires changing the organizational structure. The main reason for this being the fact that structure determines the manner in which policies and objectives are established and the allocation of organizational resources (Koskei, 2003).

The most alarming problem experienced in many cases is lack of sufficient communication. Sharma (2007) states that great amount of top down strategic communication is done in majority of companies, using both oral and written communication. Unfortunately, there is no guarantee that large amounts of information will be understood and a lot is yet to be done concerning how strategies are communicated. In addition to that, before implementing any given strategy, the strategy must be understood clearly. Understanding clearly a strategy is important as it creates a sense of purpose for all employee activities and enables them to link the tasks allocated to them to overall company direction (Awino, 2001).

Machuki (2005) identified barriers to strategy implementation which include; competing activities that cause distractions from decision implementation; undefined responsibility changes for crucial employees; lack of active participation in the implementation by major strategic decision formulators; not communicating issues which require the involvement of top management in good time; lack of clear definition of crucial implementation tasks and activities; inadequacy of implementation monitoring information systems; insufficient understanding of overall goals by employees; external environment factors beyond the company control; unidentified major problems coming up; strategic decision supporters and advocates separating from the company during strategic implementation; and strategy implementation process consuming more than the allocated time.

Studies by Okumu (2001) found out that the major challenges to strategy implementation included poor coordination and other levels of management not being supportive and lower levels being resistant and failure to plan for the activities. He also outlines of several pitfalls to implementation: Strategic inertia; uncommitted shareholders; drift from strategy; dilution of strategy; isolation of strategy; not understanding the process; initiative fatigue; lack of patience; and celebration of success.

Stanleigh (2007) identified the causes of strategic failure as: unexpected changes in the market; competitors responding effectively to strategy; the use of resources which are not sufficient; failed buy-in, communication, and understanding; timeliness and distinctiveness; no focus; and poor strategy. At times failure of strategies comes as a result ill conception. Restructuring, reengineering, innovation, and other forms of strategic changes may call for new tasks being established and new role relationships created among company employees, some employees may feel their jobs are threatened hence become resistant to changes being effected (Hills & Jones, 1999).

2.5 Empirical Studies and Research Gaps

Empirical studies on the strategy implementation challenges have established that organizations are faced by different and rather unique challenges while implementing their strategic plans. Johnson & Schole (2002), Pearson & Robinson (1997), David (1997), and Koskei (2003) found that management systems, organizational structures, and organizational resources were major challenges to strategy implementation.

Thompson & Strickland (2003), Sharma (2007), Okumu (2001), and Stanleigh (2007) found that resistance to change, lack of sufficient communication, competing activities, poor coordination, and unexpected changes in operating environments posed major challenges to strategy implementation. Similar studies in the area of challenges to strategy implementation have tried to fill the knowledge gaps in this subject of study. However, knowledge gaps still exist since organizations face unique and particular challenges when implementing strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks into the various stages and designs used in data collection, measurement, and analysis. The following subsections have specifically been included: Research design, data collection, and data analysis.

3.2 Research Design

The research design adopted for this study is a case study. A case study is an empirical research and a form of in-depth qualitative analysis involving the study of an individual unit, such as a family, person, cultural group, institution, or an entire community (Kothari, 1990). This design was considered appropriate since the study involved an in-depth investigation and a detailed inquiry of the challenges to the implementation of strategy at Agricultural Finance Corporation.

A case study is a useful research method since it gives an in depth description (Kidder, 1982), it can be used to test a theory (Pinfield, 1986) or can be used to generate a theory (Gersick, 1988). Case studies also place greater emphasis on complete contextual analysis of few elements and how they inter-relate, which relies on qualitative data.

3.2 Data Collection

The study used primary data. The data was collected through personal interviews using an interview guide. Respondents were drawn from selected top management staff. The chosen respondents therefore consisted of 15 management staff made up of the Heads of Departments, divisional heads and branch managers. The selected respondents were considered crucial in the strategy implementation process responsible for formulating the strategic plan and providing strategic leadership.

The results of the study were based on the primary data which was collected by interviewing the selected management staff. The interview guide used employed open-ended questions in order to capture more information from the interviewees. Yin

(2003) observes that there are different sources of research information with interviews being one of the most important sources of information in a case study. The interview guide employed the open ended questions in order to gather more information from the interviewees as opposed to closed end questions.

3.3 Data Analysis

The study solicited data which was qualitative in nature and applied content analysis technique to make inferences. According to Holsti (1969), Content analysis involves the systematic and objective establishment of given message characteristics with a view to make inferences. The qualitative information is organized into a standardized usable format enabling one to make inferences about the research objectives. The data solicited from respondents and its analysis involved comparisons with theoretical approaches cited in the literature review in an attempt to get more revelation on the challenges of strategy implementation at Agricultural Finance Corporation.

Creswell (2003) adds that apart from making inferences through the systematic and objective identification of given characteristics of massages, content analysis uses the same to relate trends. Content analysis is useful in research as it makes it possible for a researcher to easily and systematically analyze voluminous data. The technique is specifically important in discovering and describing the focus of group, individual, social, or institutional attention.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

The objective of the study was to determine the challenges of strategy implementation at AFC. The study employed an interview guide for data collection from the top level and middle level managers. The findings of the study were based on a content analysis of the data collected. Top and middle level managers were considered appropriate for the study due to their strategic involvement in the strategy implementation process. From the study, it was established that the organizational structure, culture, unsound reward system, poor communication, inadequate financial resources, and uncontrollable external factors form part of the major challenges that are faced at the Agricultural Finance Corporation during strategy implementation. This chapter will therefore cover the findings and discussions of the study in detail.

4.2 Challenges to Strategy Implementation at AFC

4.2.1 Organization Culture

Thompson et al. (2003) indicated if a company has a tight fit between its culture and the strategy then the better as this will propel the people to show behavior and adopt operational practices that support strategy implementation. Corporate culture of a firm can be a major strength. Culture cannot be ignored because it will have a significant impact on success or failure of the organization strategy. Once a strategy is chosen, strategy implementers should bring culture into alignment with the strategy and maintain the new culture. The Agricultural Finance Corporation has been in existence since 1969 hence a certain way of doing things has been established over the years. The study was interested in the aspects of culture which impede strategy implementation at AFC.

The study established that there was a form of division between the branch network and the Head Office. Division was also noted even among the head office departments. This kind of culture was not strategy supportive as it impacted negatively on the strategy implementation efforts. According to Pearce & Robinson (1991), culture can be both strength and a weakness for the organization. As strength, culture can facilitate communication while as a weakness; culture can act to hinder good implementation of company strategy through resistance to change

4.2.2 Organization Structure

Organizational structure defines the different roles and responsibilities, together with the design for processes and procedures and the existing positions and their relationships. The intention of the study was to establish the aspects of the organizational structural design which impede successful strategy implementation. AFC has adopted a departmental structure design, which is considered appropriate for the nature of AFC business. The structure of AFC is bureaucratic with layered divisions for decision making purposes intended to reduce risk. Karuri (2006) observed that organizations implement their strategies through their organization structures.

Despite the structure being the most appropriate for AFC business, the study established that some aspects of the structure were a challenge to successful strategy implementation. The layered divisions which define the reporting structure and the bureaucracy in decision making was found to be unnecessarily long with a negative impact especially in loan making process. Business decisions require speed for them to remain relevant. The turn-around time in loans making is very important to credit seeking clients. However, the many decision making levels lengthen the process making it very hard to achieve on the turn-around time in loan making. This proves to be a challenge since unsatisfied customers due to loan delays walk out of the organization. The decision making limits placed on branch managers takes away their powers and could lead to low morale towards strategy implementation.

4.2.3 Communication and Leadership

Successful strategy implementation is influenced by certain factors including effective communications. Understanding clearly a strategy is important as it creates a sense of purpose for all employee activities and enables them to link the tasks allocated to them to overall company direction (Awino, 2001). Cascading the Corporate strategic objectives requires effective communication for clear understanding of the roles of each participant. This study sought to establish the specific communication and leadership aspects which were a challenge to successful strategy implementation at AFC.

The study established that AFC had a good strategic plan which was well formulated but poorly communicated. Some of the interviewees agreed that they had not seen the strategic plan and did not understand what it was all about. The strategic plan was considered to belong to the Business Development Department which was responsible for preparing the plan. The managers did not therefore own the strategic plan hence a challenge. This was largely as a result of the inefficient communication of the strategic plan from those who crafted it. The overall strategic objectives of the institution have been replaced with departmental and branch goals through the balanced score card. Lack of effective communication therefore hindered successful strategy implementation since the managers could not provide the required strategic leadership without proper understanding of the strategy.

There was a communication breakdown between those who crafted the strategic plan and those responsible for the implementation. The management failed to notice that communication should be used as a two-way so that it can provide information and feedback for improving the understanding of different roles and responsibilities and motivating the staff. In this case, communication was used as one-off activity, yet it should be a continuous process in the entire implementation process and that is why communication remained a challenge in the strategy implementation process. This finding is similar to other findings by other researchers, who cited lack of proper communication policy as a major challenge to strategy implementation because not everybody is aware of the strategies being implemented. According to Muthuiya (2004), the most critical problem experienced in strategy implementation in many cases is the lack of sufficient communication to all relevant parties.

4.2.4 Inadequate Financial Resources

Managers need to determine the required resources when implementing a new strategy and determine if the company budgets in force for different units suit the strategy implementation. Early in the implementation process, budgets should be drawn putting into consideration the available resources available. There are different company resources which are important for a successful strategy implementation. These include: Financial resources, technological resources, and human resources. This study therefore sought to establish if organizational resources were an impediment to the implementation of strategy at AFC.

Inadequate financial resources featured as the major challenge impending successful implementation of AFC strategic plan. AFC draws its financial resources from the national treasury through the annual national government budget allocation. The budget allocation has been dwindling over the years resulting to serious financial constraints in funding implementation of the various activities and programs towards realization of the various strategic objectives. The study found out that the management of the Corporation provided for budgetary allocation for strategy implementation as spelt out in the corporate plan thus signifying their importance in successful strategy implementation. The activities funded, therefore, reflected the strategic thrust of the Corporation. However, the available resources were inadequate in some instances forcing the Corporation to turn away some deserving loan applicants due to the limited loan funds.

AFC had an ambitious plan yet it was not possible to implement strategies which require more resources than can be made available by the government through the treasury. It was noted lack of financial injections from the government stifled the ability to carry out the strategic plan to fullest. The strategic objective to increase liquidity could not be achieved as a result of limited budgetary allocation from the government. This finding is in agreement with the past findings of similar research projects whose outcomes showed that the strategy implementation must be realistic based on the available resources in the firm. Harvey (1998) stated that there must be enough resources to carry out each part of the strategic plan.

4.2.5 Unsound Reward System

Successful strategy implementation depends greatly on the internal organization and competent personnel. Companies experience severe problems in implementing strategy if the strategy is not effectively linked with appropriate personnel policy choices. Motivation and rewards in organizations are components for success in strategy implementation. Reward systems should be able to relate with strategy for them to be a motivation in executing strategy. This requires a clear link between strategic performance and the reward system. Successful strategy implementation will depend on whether the company has designed a reward system that motivates people to do what it takes to make the strategy work. This study sought to identify the reward system used by AFC and whether it was a challenge to strategy implementation.

The study found out that reward systems are not in any way tied to the ability to implement strategies. This meant that the reward system was not tied to successful strategy implementation. The study also established that there was a challenge emanating from selection and recruitment. For instance; people without credit professional backgrounds were hired to do credit work. The training policy was not known to many with some managers not sure if there was such a policy document. The procedure for picking staff to be trained on different areas was unclear hence this de-motivated the employees who felt that the process was biased.

AFC has implemented a reward system which is tied to the position and grade and not to strategy implementation. The balance score card and performance contracts tools are used in determining the best performers in the Corporation. AFC should come up with an effective and documented performance management system, which should be tightly tied with effective documented reward policy. According to Thomson and Strickland (2003), solidifying organizational commitment and putting the strategic plan into place can be achieved through motivation, incentives and rewarding of good performance. Motivation is crucial to obtaining the necessary commitment from those carrying out the strategies and its related enabling plans. This is not the case with AFC where reward system is only tied to the positions.

4.2.6 External Factors

Strategy implementation depends on both internal and external environment. The external environment includes economic, ecological, political, social, and legal aspects. These factors therefore influence the successful implementation of a chosen strategy and can be a challenge to strategy implementation. Businesses are environment serving and environment dependent. The environment therefore affects organizational strategies and their implementation. This study therefore sought to identify the external factors to AFC which were an impediment to strategy implementation.

The study identified a number of macro-environment factors that are a challenge to the successful strategy implementation at AFC. These were identified as social, ecological, political, and legal frameworks. The study established that AFC being a state corporation was used by some politicians for their personal gains. This was mostly by way of promising write offs of AFC loans. The lack of political goodwill from the political leaders acted as a hindrance to successful strategy implementation. Loan write offs in some regions was found to be a big challenge. At the time of the study, the Corporation was in the process of issuing write offs to clients following a presidential directive. The study also revealed that AFC clients took loans with the hope that the loans would later be written off. Such an attitude was a challenge to successful strategy implementation since it resulted to high default rates. With AFC using a revolving fund model, this meant the strategic objective of high liquidity could not be achieved.

The study also established that the high risk in agricultural financing posed a challenge to successful strategy implementation. This in particular was identified as the high dependence on rain fed agriculture, concentration on the production element, and the agricultural insurance element. The legal framework in which a company operates dictates the conduct of business. The banking Act and the Agricultural Finance Corporation Act were found to be a challenge to strategy implementation. The Acts were considered a challenge since AFC was not allowed to take deposits from the clients.

4.3 Discussion of the Findings

McKinsey 7-S framework outlines seven interdependent elements or aspects internal to the organization that must be aligned to the environment if it is to be successful in achieving its objectives. These are strategy, structure, systems, skills, staff, style, and shared values. The findings of the study concur with this theory that the seven factors must be well aligned for a successful strategy implementation. The study also confirms the importance of involving all stakeholders in strategy if it is to be successful. A stakeholder is seen to be anyone with interest in the conduct of business in the company and not necessarily those who stand to gain financially form the business.

The study found that Agricultural Finance Corporation faced challenges during strategy implementation. These challenges hindered the success of the organization in trying to achieve company objectives. The study established that there was a form of division between the branch network and the Head Office which was part of the corporate culture. The findings concur with Pearce & Robinson (1991), who defined culture as both strength and weakness for the organization. As strength, culture can facilitate communication while as a weakness; culture can act to hinder good implementation of company strategy through resistance to change.

The study revealed that some aspects of the structure were a challenge to successful strategy implementation. This was despite the fact that AFC's structure was considered good for the required checks. The layered divisions which define the reporting structure and the bureaucracy in decision making was found to be unnecessarily long with a negative impact especially in loan making process. This finding concurs with Karuri (2006) who observed that organizations implement their strategies through their organization structures. He found out that how the function was positioned in the structure of organization was of equal importance.

Inadequate financial resources featured as the major challenge impending successful implementation of AFC strategic plan. The study found out that the management of the Corporation provided for budgetary allocation for strategy implementation as spelt out in the corporate plan thus signifying their importance in successful strategy implementation. Aosa (1992) emphasizes that the strategy implementation must be realistic based on the available resources in the firm. Machuki (2005) noted that strategy implementers need to link well budget allocation to the needs of the strategy since this can either support or hinder the execution process

The study established that AFC had a good strategic plan which was well formulated but poorly communicated. There was a communication breakdown between those who crafted the strategic plan and those responsible for the implementation. Understanding clearly a strategy is important as it creates a sense of purpose for all employee activities and enables them to link the tasks allocated to them to overall company direction (Awino, 2001). This finding concurs with Muthuiya (2004), who noted that the most critical problem experienced in strategy implementation in many cases is the lack of sufficient communication to all relevant parties.

This study found out that reward systems are not in any way tied to the ability to implement strategies. This meant that the reward system was not tied to successful strategy implementation. The study also established that there was a challenge emanating from selection and recruitment. The findings therefore concur with Hofer (1984) who argues that companies will experience severe problems in implementing strategy if the strategy is not effectively linked with appropriate personnel policy choices. The rewards must be used creatively with a clear link to the factors necessary for good strategy execution (Thompson et al., 2007)

The study identified a number of macro-environment factors that are a challenge to the successful strategy implementation at AFC. These were identified as social, ecological, political, and legal frameworks. The study established that AFC being a state corporation was used by some politicians for their personal gains. Loan write offs in some regions was found to be a big challenge. At the time of the study, the Corporation was in the process of issuing write offs to clients following a presidential directive. The study also revealed that AFC clients took loans with the hope that the loans would later be written off. The study also established that the high risk in agricultural financing posed a challenge to successful strategy implementation. The legal framework was also found to be a challenge to strategy implementation. These findings concurred with Machuki (2005) who identified external environment factors beyond the company control as barriers to strategy implementation.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter mainly summarizes the findings, draw conclusions and make appropriate recommendations of the study based on the research objectives. The chapter therefore gives a summary of the research findings, the implication of the Study, the limitations of the study, and suggestions for further research.

5.2 Summary Findings

The objective of the study was to establish the challenges that AFC faced in implementing strategy. In order to achieve this objective, an interview guide was used based on the strategy implementation challenges identified during the literature review. The research findings showed that to a greater extent strategy implementation succeeded at AFC, but there were certain factors which hindered the full implementation of all strategic objectives. These factors include organizational structure, culture, ineffective communication, inadequate financial resources, unsound reward system, and uncontrollable external factors.

The findings of the study show that the lack of an accommodative culture hindered successful strategic implementation at AFC. The perceived difference between the branch networks and the head office created a rift and a sense of two different groups within the corporation. This in turn reduced trust, team work spirit, transparency, and frustration of strategy implementation efforts. Structure and strategy are closely tied together. The study established that the bureaucratic structure of AFC was fit for the nature of business. However, the layered structure hampered speed in loan processing with many decision levels and different loan approval limits.

The respondents expressed their dissatisfaction in the communication process used in the corporation regarding the strategic plan. They indicated that the strategic plan was not well communicated hence its implementation was difficult. It was also revealed that very few people were involved in the formulation while everyone was expected to participate in the implementation. The study identified a major challenge from the responses given relating to inadequate financial resources to support the strategic objectives. The respondents agreed that the available financial resources were not enough to satisfy the demand for loans hence the strategic objectives of enhanced liquidity and increased outreach could not be achieved.

Unsound reward system was identified as a cause of de motivated employees. The study indicated that the organization's reward system is not tied to strategic implementation. The interviewees indicated that high performers are not rewarded accordingly. The study also indicated that the selection and recruitment process and training policy was not strategy supportive. The findings of the study also revealed that some external factors that are out of control of the strategic leaders hindered the successful strategy implementation. These include: Government policy, lack of political goodwill, agricultural finance risk, and client attitude towards AFC loans.

Based on the above findings, AFC like many other firms is exposed to challenges to strategy implementation. These challenges can affect the long term direction of a firm by failing to achieve the strategic objectives. Strategy implementation is successful if the company achieves its strategic objectives. Each of the challenges identified hinders the success of strategy implementation. The findings of this research on challenges faced by AFC are well aligned to previous studies which confirm that many farms in different industries face strategy implementation challenges.

5.3 Implications of the Study

The findings of the study reveal that AFC has encountered several challenges in the process of strategy implementation. These challenges hinder the achievement of the corporate objectives and must therefore be effectively addressed if the organization is to succeed in its strategic plan.

Communication process in the organization should be enhanced to ensure everyone in the organization is aware and understands the strategic plan. All stakeholders should be involved right from the formulation stage in order to develop a strong sense of ownership. A clear vision leads to ownership of the plan by the employees who can easily translate the strategic thought into action. It is evident from the study that most middle level managers at AFC do not understand the strategic plan well enough to provide the required strategic leadership in their units. It is therefore recommended that a continuous communication plan be included in the strategy implementation plan.

It has been established that AFC's present culture may hinder a successful strategy implementation. The institution should therefore strive towards embracing the spirit of team work and oneness for both the head office and the branch network. A high performance, result oriented culture is permeated with a spirit of achievement and has a good track record in meeting performance targets. In such a culture the rewards are based on performance. Besides this, an empowered organization culture should be adopted. Empowered corporate culture makes everyone in an organization feel fully engaged with active participation for the business success.

The institution should always tie budgets to strategies. Proper planning and budgetary allocation required should be put in place to enhance efficiency and effectiveness in the implementation process. The organization should also realign its strategy in order to attract more budgetary allocations and partnerships with the Government of Kenya. For AFC to achieve its strategic objectives, financial resources must be adequate since this was identified as the major challenge in the strategy implementation.

There is need to review the organization structure with a view to align it to the strategic plan so as to ensure that it can remain in focus to attaining the strategic objectives. Achieving some goals require few decision making levels in order to reduce the turnaround time. There are some inconsistencies between the bureaucratic organizational structure and the strategic objectives. While the structure was good for checks and balances, it increased the time taken in loan processing. Successful implementation of a plan ought to be matched with an efficient organization tailored to achieve its goals.

Regarding staff motivation, the Corporation should recognize the fact that one of the greatest changes to strategy implementation is to employ motivational techniques that build wholehearted commitment and winning attitudes among employees. The Corporation's management should inspire and get the best out of employees. The management should specifically get employees to buy into the strategy and commit to making it work, inspire teamwork, tie rewards to strategy implementation and create an enabling environment. AFC should devise a scheme that recognizes the growth of its organizational members.

5.4 Limitations of the Study

The study was covered within a period of three months and due to time constrains, the study only confined itself to challenges of strategy implementation at AFC. Other aspects of strategic management process were ignored such as formulation and evaluation. A lot can also be studied in the entire stage of strategy implementation. Due to limited resources also, the study also collected data only from top management and a sample of middle level managers as opposed to all middle level managers. Finally the study focused on one organization while it could have studied all state corporations in the country.

5.5 Suggestions for Further Research

The most critical phase of strategic management process is translating strategic thought into organizational action. Once strategies have been formulated, they need to be implemented and without successful implementation, the vision of the organization can never be realized. According to this study, it has been revealed in the literature review that most of well-designed strategies fail at the implementation stage. In this regard, similar studies of strategy implementation challenges should be studied in other state corporations and Government Agencies.

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APPENDICES

APPENDIX 1: Interview Guide

1. What factors affect the formulation and implementation of strategy at AFC?

2. How would you rate employee understanding of what AFC strives to achieve?

3. In which ways could politics hinder strategy implementation at AFC?

4. What aspects of organizational Culture impede strategy implementation at AFC?

5. How equipped are the employees at AFC to implement the company strategy?

6. What aspects of organizational structure pose a challenge to strategy implementation at AFC?

7. In which ways has government policy and legislation affected strategy implementation at AFC?

8. How does the organization systems and technology affect strategy implementation at AFC?

9. What communication aspects hinder successful strategy implementation at AFC?

10. What challenges are posed by company resources to strategy implementation at AFC?

11. How does the reward system used in the organization impact on strategy implementation?

12. Has AFC experienced resistance to change and how has it affected strategy implementation?

13. What aspects of strategy formulation process pose a challenge to strategy implementation at AFC?

14. What aspects of recruitment and training policy affect strategy implementation at AFC?

15. How does competition from other industry players affect strategy implementation at AFC?

16. What aspects of leadership and communication affect strategy implementation at AFC?

17. Are there other forces working against the short term and long term plans of AFC?

Thank you