RESPONSES TO ENVIRONMENTAL CHALLENGES BY AGRICULTURAL FINANCE CORPORATION OF KENYA (AFC)

BY

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DECLARATION

This management research project is my original work and has not been submitted for a degree in any other university

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DEDICATION

I dedicate this study to my parents, Jemima Mutashi and Henry Muse.

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ABSTRACT

In the present world nothing can be taken for granted. An organization's success is very much determined by its ability to appropriately respond to the fast changing environment. This study has focused on responses by Kenya's Agricultural Finance corporation to environmental challenges.

The objectives of the study were to establish; strategic responses by AFC to environmental challenges, and operational responses by AFC to environmental challenges. AFC is a government owned and agriculture based development institution established in 1963 as a statutory body. Since its inception, it has been government's main conduit for delivery of agricultural credit, a role that it has performed well. However, towards the end of 1980s the performance of AFC started experiencing operational difficulties due to various factors. These included poor governance, frequent adverse weather conditions, declined trade in agricultural produce and effects of economic liberalization among others. The poor performance of AFC reached its lowest level in 2001/2002 financial Year when it almost collapsed. This situation called for urgent responses for the institution's survival.

This study was conducted through a case study to establish the strategic and operational responses. Data was collected from both secondary and primary sources. Personal interview was carried out with senior managers. The findings were analyzed through the content analysis technique. The study established that AFC decided to undergo a fundamental strategic change. It adopted a new business model providing three lines of service: Retail lending; wholesale lending; and Apex lending. Some of the strategic responses established were; going to the money market to raise funds for core-lending program; use of market penetration strategies to increase the clientele base; development of new products and restructuring of the organization. Operational responses touched on reviewing of loan administration policies; opening of new branches; and reorganization of the internal structures.

The responses have been effective that lending has resumed in all the branches, the strategic plan 2005-2010 is in use and is serving as a roadmap to the institution's vision, the repayment of loans increased to above 90% in 2004, and the corporation managed to reach 410 clients in 2002/2003 financial Year up from 1 client the previous financial Year. The study recommends that in the long run the corporation should become self-sustaining with a reliable source of finance.

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LIST OF ABBREVIATIONS

AFC	Agricultural Finance Corporation
ASK	Agricultural Society of Kenya
DFI	Development Finance Institution
GDP	Gross Domestic Product
GMR	Guaranteed Minimum Reform
GOK	Government of Kenya
HR	Human Resources
ICT	Information Communication Technology
KANU	Kenya African National Union
MFI	Micro Finance Institution
NARC	National Rainbow Coalition
NCPB	National Cereals and Produce Board
NPL	Non Performing Loans
PR	Public Relations
SACCO	Savings and Credit Cooperative Society

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 An Overview of the Environment, Strategic, and Operational Responses

The goal of every organization is to operate with success and keep its business alive. However, they are all faced with enormous challenges and need to align and realign with the turbulent environment. Burnes (2004) has observed that there is considerable support for the view that the pace of change is accelerating as never before, and organizations have to chart their way through an increasingly complex environment. Organizations are having to cope with pressures of globalization, changes in technology, the rise of e-commerce, situations where customers and suppliers can be both competitors and allies, and a change in emphasis from quantity to quality and from products to services.

Kanter (1989) argues that today's corporate elephants need to learn to dance as nimbly and speedily as mice if they are to survive in our increasingly competitive and rapidly changing world. Companies must constantly be alert and on their guard, and keep abreast of their competitors' intentions. According to Johnson, Scholes, and Whittington (2005), an organization exists in the context of complex political, economic, social, technological, environmental and legal world. This environment changes and is more complex for some organizations than others. How this affects the organization could include an understanding of historical and environmental effects, as well as expected or potential changes in environmental variables. Many of these variables will give rise to opportunities and others will exert threats on the organization-or both.

Ansoff and McDonell (1990) state that successful environment serving organizations are open systems and use strategies that ensure continued organizational survival in the environment. They further state that a major escalation of environmental turbulence means a change from a familiar world of marketing and production to unfamiliar world of new technologies, new competitors, new consumer attitudes, new dimensions of social control and above all unprecedented questioning of the firm's role in the society. Kay (1993) also concluded that successful corporations based their strategies on an effective match between the external relationships of the firm and its own distinctive capabilities. According to Kay, the success of any firm is often based on the exploitation of the capabilities which the firm already enjoys, as such, strategy should begin with an understanding of what these distinctive capabilities are.

Strategy can be viewed as building defenses against competitive forces or as finding positions in the industry, where forces are weakest (Pearce and Robinson, 1999). Porter (1980) sees strategies as being all about competition and trying to gain competitive advantage. Johnson and Scholes (2002) define strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. Therefore, strategic response can be seen as the matching of activities of an organization to the environment in which it operates.

According to Pearce and Robinson (1991), strategic response is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides groundwork for strategic agenda in action. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence level (Ansoff and McDonnel, 1990).

Strategic response affects the long-term direction of an organization and requires large amounts of resources. It is aimed at achieving advantage for the organization and as such it is concerned with the scope of the entire organization's activities (Johnson and scholes, 1999). Pearce and Robinson (1997) state that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. The dynamism of the environment implies that organizations have to remain competitive. Failure to effectively adapt the organization to its environment leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands.

On the other hand Operational responses are concerned with the way an organization deals with its day-to-day activities in pursuant of the achievement of its objectives as it tries to cope with the environment. According to Donnelly, Gibson, and Ivancevich

(1992), the term operations is broader in scope and refers to the goods-or service-producing activity in any organization-public, private, profit, or non profit. Operations management, therefore, is similar to production management except that it includes organizations whose technologies may be quite different from those of a manufacturing organization.

Operations management is the management of the direct resources required to produce the goods and services provided by an organization (Aquiland and Chase, 1991). According to Ansoff and McDonell (1990), operations management is concerned with exploiting the present strategic position to achieve organizational objectives. According to Johnson and Scholes (2002), operational tasks are very important but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organization within the context of an existing strategy. They indicate that operational management focus on routinised, operational specific and short-term tasks. Johnson and Scholes (1993) points out that operational strategies are concerned with how the different functions of the enterprise like marketing, finance, manufacturing and so on contribute to the levels of strategy. They have further observed that strategic decisions are likely to affect operational decisions, while Hickson et al (1986) views this as setting off waves of lesser decisions.

According to Donnelly et al (1992), operations decisions focus on the day-to-day activities of the organization and how efficiently its resources are being used. Operations decisions come from routine and necessary sources such as financial accounting, inventory control, and production scheduling. Bowers and McKay (1985) have observed that decision making at this level in the organizations usually involves programmed types of problems, many problems at operations level are stated as mathematical models. Rawls and Rawls (1975) observed that strategic management defines the "business" or mission of the firm and simultaneously determines the forms of competitive advantage that will assure success. To develop this capability, strategic management secures new resources among existing business, promotes the company image, and maintains desirable public relations. In contrast, operations managers utilize the potential developed by strategic management through the efficient conversion of inputs to outputs on day-to-day, routine basis.

In a business firm the operations manager is concerned with converting the profitability potential into actual profits. In operations management the major activity is to establish and bring about levels of organizational output which will best contribute to the objectives (Ansoff and McDonell, 1990). According to Johns and Harding (1989), the modern operations manager is intimately involved in the management of change now than ever, the person who will gain advantage for themselves and their organization will be the individual who manages the change process more successfully. The changing and challenging operating environment will either be seen as a threat or opportunity, depending on one's approach to management of change. A strategy developed for the operations area should ensure that operations capability supports the firm's desired competitive advantage in its market place. For example if the firm decides to pursue a cost leadership strategy, its objective is to provide a range of goods or services comparable to its competitors, but at lower cost. The pursuit of such a strategy has great implications within the firm, not least in the operations area. It will have certain impact on the acceptance criteria for investment decisions, on attitudes towards recruitment and remuneration, the linkages developed with suppliers and so on. All these decisions will need to be focused on minimizing the firm's operating costs and, if this strategy has been established for sometime, then the decision-making process will be embedded in the firm's 'minimum cost' culture.

Faced with the changing environment, organizations have to adapt their activities and internal configurations to reflect the new external realities. Failure to do this may jeopardize future success of those organizations (Aosa, 1998). Grundy (1995) states that responsiveness and flexibility are increasingly important factors that determine the success of an organization. Hill and Jones (2001) add that the achievement of superior efficiency, quality, innovation and responsiveness enables an organization to create superior value and attain competitive advantage.

For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. Consequently, they need strategies to focus on their customers and deal with the emerging environmental challenges both strategically and operationally. This calls for the organizations to constantly scan the environment so as to identify the trends and conditions that may eventually affect the industry and adapt to them (Thompson and Strickland, 1993). In a speech on criminal justice at Bristol University, the British Prime Minister Tony Blair observed that one of the problems world wide is that we are fighting the 21st Century problems with the 19th Century solutions thus a lack of adjustment with the changing environment (http://www.sky.com/news).

1.1.2 Overview of Agricultural Finance Corporation (AFC)

The Kenyan economy has been undergoing drastic changes. This has been precedented by many forces in the environment like globalization, liberalization, and privatization. Kenya is an agricultural dominated economy. According to Miring'uh (2005), the agricultural sector is the backbone of the Kenya's economy directly contributing 26% of the gross domestic product (GDP) and a further 27% indirectly through linkages with other sectors. The sector also accounts for 60% of export earnings besides being the source of nearly all food requirements.

The structure of Kenya's population shows that 80% of the population is rural based, deriving their livelihood mainly from agriculture. More importantly, 56% of this population lives below the poverty line while 50.6% lacks access to adequate food. Focusing on agriculture therefore, becomes a fundamental strategy in poverty alleviation (AFC's strategic plan 2005-2010). In recognition of its importance to the economy, during this year's budget speech, agriculture has been considered as one of the major beneficiaries with its budget allocation for 2006/7 financial year expected to increase to Ksh 33.5 billion (a 70 per cent increase) from Ksh 18.6 billion in the just ended financial year (Mogusu, 2006).

According to AFC's strategic plan (2005-2010), inadequate access to credit finance inputs and capital investment has been identified as a major cause of low productivity. Majority of Kenyan farmers are small scale and for them to participate in mainstream economy, a deliberate policy to encourage them to practice more advanced farming methods needs to be put in place. This will enable them to maximize on farm potential. Provision of credit is fundamental in enabling farmers to access modern farming technology. There is therefore, a clear need for intervention through a specialized institution, one targeted at complementing and facilitating other relevant institutions with a view to improving rural agricultural financing in the long term. Being a government Development Finance Institution (DFI), AFC is suitably positioned to play this role especially if it espouses appropriate governance, capable management, reasonable autonomy and innovative, efficient operating procedures.

The Agricultural Finance Corporation (AFC) is a government owned and agriculture based development finance institution established in 1963 as a statutory body. It took over the function of two boards of agriculture then serving the scheduled (white settlers) and non-scheduled (African occupied) areas. It operated side by side with the land and agricultural bank. The corporation functionally falls directly under the ministry of agriculture. Its overall management is vested in a board of directors appointed by the government. The ministries of agriculture and finance are represented in the board. The managing director, who is also a member of the board of directors, is in charge of the day to day running of the corporation. Since its inception, AFC has been the government's main conduit for delivery of agricultural credit a role that it has performed well. The credit scheme reached a peak in the mid 1980s with over 200,000 accounts held by over 150,000 clients. The government had prior to the 1980s always funded the corporation through regular budgetary allocation and guarantees for support extended by development agencies. The recovery of past loans was effective as the market for various agricultural produce was favorable and structured. This enabled farmers to meet their financial obligations including loan repayments, from the proceeds of their activities (AFC's strategic plan 2005-2010).

Towards the end of 1980s however, the performance of AFC started experiencing operational difficulties due to various factors. These included poor governance, frequent adverse weather conditions, declined trade in agricultural produce and effects of economic liberalization amongst others. The liberalization of the agricultural sector and the subsequent collapse of most of the agricultural produce marketing bodies by 1989, dealt a heavy blow to AFC's programmes especially loans recovery. Farmers could no longer get reliable markets and good prices for their produce, to match their costs of production. Due to these factors, the farmers' debt servicing capacities deteriorated thus negatively affecting AFC loan recovery programmes. This resulted in AFC's ratio of non-performing loan (NPL) portfolio reaching a staggering 89% in 1992. Inability to access donor and government funding since the mid 1980s resulted in a decline of investment capital and a decrease of lending activities. Further, most of the funds from loan repayment was used to service recurrent administration expenditure (AFC's strategic plan, 2005-2010).

The country's political landscape changed in December 2002 with the election of National Rainbow coalition (NARC) government to power. The political transition brought in hopes for the revival of the economy with agriculture being the main focus. The government commenced the revival of the institutions that were previously the pillars in the development of agriculture, including AFC. On the legal front, the government has instituted measures to improve governance of the public institutions (for example through the signing of performance contracts in the public institutions) and this should translate into an improvement in management of these institutions.

In 2003, the government approved restructuring of AFC as a first step towards the revitalization. It appointed a new board and a chief executive officer as part of its commitment to turning around the organization. The financial restructuring initiatives include the writing off of accumulated losses and monies owed by AFC to the government, and conversion of part of AFC loans into equity. AFC has also written-off unrecoverable loans owed by farmers. In addition, the government has pledged a total of kshs. 1.3 billion to the institution being equity injection to be disbursed over a five-year period beginning 2003 to restart the stalled lending programs. Through the Kenya government, the institution received a grant of kshs.769 million from the government of Japan towards the seasonal crop credit programme in 2003. These measures have enabled the AFC to resume its lending activities (AFC's strategic plan, 2005-2010).

Despite the government efforts to revive AFC, there is pressure from some quarters that want DFIs like AFC closed down among other poor performing state corporations.

According to a report compiled by consultants hired by the ministry of finance (Mogusu, 2005); the government has been urged to reduce the number of institutions that continue to draw from the exchequer. The report supports its proposal on less government involvement, saying that the idea to pull out of such DFIs should open the way for commercial banks to provide credit to sectors such as agricultural development, crop loans and small industrial development loans. There is also fears that despite their intentions to break from the past, most DFIs are inefficient and cannot reform their operations, hence need to cut back on government subsidy. According to Ikiara (privatizing Kenya, 2005), public enterprises had failed to generate investible surpluses and instead created a major budgetary burden for the government.

1.2 Statement of the problem

AFC's vision is to be the financial institution of choice for agricultural development in Kenya. Its mandate is to assist in the development of agriculture and agricultural industries by providing loans, managerial and technical assistance to loans beneficiaries (AFC's strategic plan 2005-2010).

AFC initially performed well, especially in the first two decades of its existence and was instrumental in the development of agriculture by providing an average of 26% of the total credit to the sector. The performance of AFC however experienced a downward trend reaching the lowest level in 2001/2002 financial Year when the institution almost collapsed. The poor performance is attributed to a number of factors; key among them being the heavy build-up of non-performing loans arising from imprudent lending and poor recovery methods. Other factors included the poor performance of the economy, particularly the agricultural sector, the collapse of related supporting institutions especially the marketing agents, lack of budgetary support by the government and discontinued donor support (AFC's Strategic plan, 2000-2010). This has contributed to unsound financial statements of the institution and has been viewed from some quarters like World Bank as among those public enterprises that the state should de-link from.

According to Mogusu (2005), the future of Development Finance Institutions (DFIs) is balanced on thin ice after the World Bank urged the government to stop funding their operations, and in a report compiled by consultants hired by the ministry of finance, none of the DFIs is performing sufficiently well for they are to be a reasonable possibility that they can raise significant lendable resources from external donors. The DFIs the consultants want close down include AFC.

However, despite the pressure to divest the poor performing corporations, the Kenyan government recognizes the strategic importance of AFC in the economy and is determined to support the institution for its revival. According to a draft policy paper, the process of getting rid of inefficient and loss-making corporations through privatization is in progress and at the same time NARC government intends to restructure and retain some companies. These include Agricultural Finance Corporation, Agricultural Development Corporation, Development Finance of Kenya, Jomo Kenyatta Foundation, Kenya Broadcasting Corporation and Kenya Industrial Estate (Kathuri, 2005).

A study on AFC will highlight on how the institution is strategically and operationally responding to the challenges in the environment amid opposing forces in support and against it. According to Burnes (2004), the pertinent issue is how organizations can cope with both the environment in which they operate and the constraints, challenges and threats they face. Some related studies have been done on organizational responses to environmental changes; Nkirote (2004) on environmental challenges and strategic responses in the mortgage industry, Mulema (2004) responses to changes in the external environment at Teachers Service Commission, Kathuku (2005) strategic responses to changes in the environment by the cooperative bank of Kenya, Mwarania (2003) responses by re-insurance in Kenya to changes in the environment, Kiptugen (2003) strategic responses at KCB to a changing competitive environment, Kandie (2001) Strategic responses by Telkom Kenya Ltd in competitive environment, Kombo (1997) strategic responses by firms facing changed environmental conditions-a case of motor vehicle franchise in Kenya.

However, all the above studies have been done in different circumstances and cannot be used to address the problem at AFC. Aosa (1996) has observed that even within the same country; differences do occur due to organizational factors like size, ownership and culture. Ansoff and McDonnell (1990) point out that the parts of the challenge agenda confronted by different industries are different. As a result, it is no longer possible to devise a single prescription for response to challenges which would apply to all industries and forms. Therefore, in this case how is AFC turning around against its past negative image and performance?

1.3 Objective of the study

The objectives of this study are

i. To establish Strategic responses by AFC to environmental challenges.

ii. To establish Operational responses by AFC to environmental challenges.

1.4 Importance of the study

i. The study is important to the government whose interest lies in improved service delivery for economic development and national growth through investor confidence. It will also point to areas of operational difficulties enabling the government to allocate more resources towards addressing these problems.

ii. Loans beneficiaries (farmers) who would wish to visualize how the ensuing challenges and responses affect their interests.

iii. The study will benefit the AFC management by providing information regarding strategic management and environmental challenges. This will enable them to gauge their performance and progress.

iv. The study will also be useful to academicians wishing to carry out further research as it contributes to the existing literature in the field of strategic management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

Strategy is a subject that has become increasingly relevant for businesses as they try to survive and thrive in an increasingly turbulent environment, filled with ambiguities and uncertainties with the need for new information both internally and externally which can have an impact in shaping an organization's strategies. Like many other concepts in the field of management, there are many approaches to strategy but none are universally accepted (Stacey, 2003). Ansoff (1987) warned that strategy is an elusive and somehow abstract concept. This must be expected when dealing with an area that is constantly developing. Johnson and Scholes (1993) points out that for organizations to succeed there must be a consistency and coherence to the decisions taken: -which is another way of saying that they must have a strategy. Michael Porter states "A company can outperform rivals if it can establish a difference that it can preserve" and "the essence of strategy is choosing to perform activities differently than rivals do" (Porter, 1996). This implies that a good Strategy is a key to success and therefore a bad strategy and no strategy can be disastrous.

Bracker (1980) argued that the word strategy comes from the Greek Stratego, meaning 'to plan the destruction of one's enemies through effective use of resources'. However they developed the concept purely in relation to the successful pursuit of victory in war.

Chandler (1962) put forward the view that the emergence of strategy in civilian organizational life resulted from an awareness of the opportunities and needs created by changing population, income and technology to employ existing or expanding resources more profitably. He defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals.

According to Abbot (2000), business strategy is setting a course of action which touches on the fundamental assumptions of the business: -taking into account the competition and the business environments. He argues that few Kenyan businesses have a coherent strategy, 1 in 20: -what they typically have is a ‘to do’ list of operational improvements. He further states that statement of strategy is the over arching insightful principle that drives the longer term direction of the enterprise, not a task list, of for example hire a marketing manager, buy this accounting software, combined with some superficial benchmarking of the competition. Strategy has to involve delving down into the essentials of the business, for example, asking what business are we in, how can we be profitable in a unique way that sets us out from the rest?

Ansoff (1965) defines strategy as the product market scope of a company. This refers to a decision as to what to produce in what market. Ansoff views strategy as almost exclusively concerned with the relationships between the firm and its environment. Strategy can be seen as a game plan (Thompson and Strickland, 1989; Pearce and Robinson, 1991). Andrews (1998) defined strategy as a pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is going to pursue, the kind of economic and human organization it is, or intends to be, and the nature of economic contribution it intends to make to its shareholders, employees, customers and communities.

According to Mintzberg et al (1998), there are five main and interrelated definitions of strategy: in terms of plan, ploy, pattern, position and perspective. Mintzberg et al do not argue that one definition should be preferred to the others. In some senses they can be considered as alternatives or complementary approaches to strategy. Aosa (1992) indicates that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The strategic problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of the organization's core capabilities that are correlated to the external environment well enough to enable the exploitation of opportunities existing in the external environment and to minimize the impact of threats from the external environment. Strategy is therefore required in order for an organization to obtain viable match between external capabilities. It must also continuously and actively adapt the organization to meet the demands of an ever-changing environment.

There is therefore an inter-dependent relationship between the organization and its external environment. The organization obtains its inputs from the external environment while discharging its outputs to the same. This external environment is always changing in an uncertain way; as a result, an organization must configure its resources in a foresight, flexible and speedy way in order to respond to these changes in a timely manner. Therefore for an organization to be able to interact effectively with its external environment, it must have a strategy and be able to manage this strategy. Rose and Lawton (1999) states that amid such volatile environments, successful organizations are those that are constantly changing and adapting in order to maintain "a strategic fit" between the organization's internal resources and capabilities and the threats and opportunities it faces in its external environment. Morgan (1986) comments that our theories and explanation of organizational life are based on metaphors that lead us to see and understand organizations in distinctive yet partial way. By using different metaphors to understand the complex and paradoxical character of organizational life, we are able to manage and design organizations in ways that we may not have thought possible before.

Nevertheless, Burnes (2004) has observed that knowingly or not, writers are using different definitions of strategy and thus interpreting terms or phrases in light of their own implicit or explicit definition. However, in the use of these various terms, a certain consensus of opinion does emerge with regard to the basic features of strategic management and strategic decisions. Most of the writers would agree with Johnson and scholes (1993), who described strategy as:

- Concerning the full scope of an organization's activities
- The process of matching the organization's activities to its environment
- The process of matching its activities to its resource capability

- Having major resource implications;
- Affecting operational decisions;
- Being affected by the values and beliefs of those who have power in an organization;
- Affecting the long-term direction of an organization.

Strategy must be closely aligned with purpose. An organization can react to challenges in the environment by applying various types of strategies at different levels of the organization depending on the need and circumstances.

2.1.1 Levels and types of strategy

In most (large) organizations there are three levels of strategic decision-making. Corporate level is the highest in the sense that it applies to all parts of an organization. It gives direction to corporate values, corporate goals, and corporate missions. Under this corporate strategy there are often business unit and/or operational strategies.

Strategy at the corporate level concerns the direction, composition and co-ordination of the various businesses and activities that comprise a large and diversified organization. Most corporations find it valuable to pursue some of this level's strategies in their efforts to turnaround. Strategies like growth strategy, retrenchment strategy and harvesting strategy will be quiet relevant to an institution in AFC's position. The growth strategy is possibly the most common form of corporate strategies and involves either concentrating or dominating one industry. The Ansoff growth matrix is a tool that helps businesses decide their product and market growth strategy. Simply put the matrix suggests that a business attempt to grow depends on whether it wants to focus its marketing efforts in new or existing products in new or existing markets. AFC can therefore adopt this strategy and develop new products in existing markets or find new markets for existing products. However, to note is that not all products within the company have to follow the same strategy; a quick business environmental scan should be able to provide a guide. Another variant of the growth strategy, which can be relevant to AFC, could be achieved through mergers, joint ventures or acquisitions, rather than through-generated organic growth as proposed by the Ansoff growth matrix, which requires a stable financial base. Mergers and joint ventures, allow growth or development to take place, without the organizations involved having to invest the level of resources that would be necessary if they were operating in isolation. Therefore these will be appropriate strategies where an organization does not have adequate resources to exploit an opportunity or counter a threat. Acquisition, is usually resource-intensive but brings immediate gains in the form of an established and, hopefully, profitable business (Byars, 1984; Little, 1984; Leontiades, 1986).

Retrenchment strategy is usually only embarked upon when an organization is in trouble or, because of adverse market conditions, sees trouble ahead (Burnes, 2004). It usually involves a process of downsizing, i.e. cutting back on numbers employed and activities undertaken. In some situations this may lead to selling of the entire enterprise. The general aim, however, is to cut back in order to match expenditure to projected income, and refocus the organization so as to be able once again to attain prosperity in the future (Bowman and Asch, 1985; Thompson and Strickland, 1983). Most poor performing organizations tend to resort to this strategy as the fastest way of sorting out their negative financial statements. This has been evidenced in Kenya through corporations like Telkom (K) limited, Kenya Broadcasting Corporation, and Kenya Railways Corporation. Because of the financial hardship AFC has gone through, the institution can adopt this strategy and reduce some non-key staff, decide to outsource some activities, and merge some departments. Here the focus is controlling costs in order to improve the financial position. Harvesting strategy involves reducing investment in a business or area of activity in order to reduce costs, improve cash flow and capitalize on whatever residual competences or areas of advantage that still remain (Burnes, 2004). This strategy can be adopted by AFC as it carries out its restructuring process by closing down some of its regions which are not adding any value.

Strategy at business unit level relates to the operation and direction of each of the individual businesses within a group of companies. In this era of liberalized business environment, AFC will need this strategy in fighting off competition. It can focus on Porter's (1985) three generic strategies of cost leadership, product differentiation, and specialization by focus or market niche for achieving above average performance.

At the operational level are the operational strategies. These concern areas like marketing, finance, R&D, technology, human resources, manufacturing/operations, and purchasing. At this level, there are operational strategies which are concerned with how the component parts of an organization deliver effectively the corporate and business-level strategies in terms of resources, processes and people (Johnson and Scholes, 2002). In most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. The integration of operational decisions and strategy is therefore of great importance. These operational level strategies will be important to AFC in implementing corporation policies and running the day-to-day activities.

A major point to note is that almost without exception, whatever form of strategy is adopted, it will require the organization to achieve a fit between its external environment and internal structures, culture and practices. Contrary to the views of earlier writers on strategy (such as Ansoff, 1965), if organizations are driven by external environment, internal environment may, and probably do, need to change, often radically, in order to achieve the desired market-place objectives. This emphasizes the importance of functional level strategy and shows why it should not be treated as a lesser issue. Nevertheless, it should also be borne in mind that the possibility does exist for organizations to shape the external environment to fit in with their internal arrangements. The fact that many do not, may say more about the type of organizations they are than the constraints they face.

2.2 Nature of the environment

Environmental-serving organizations, such as the firm, are in constant two-way interaction with the environment. They take in an assortment of resources from the environment, add value to them, and deliver them back to the environment in the form of goods and/or services (Ansoff and McDonnell, 1990). The environment can be relatively stable or turbulent. Ansoff and McDonnell further observe that the bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment: competitors' moves, economic fluctuations, availability of raw materials, labour demands, etc. Hersey (1996) observes that organizations do not exist in a vacuum, but are continually affected in numerous ways by changes in the external environment. Most writers categorize the external environment, both domestic and global into three subcategories: remote environment, industry environment and operating environment. In most cases organizations have little or no influence on or control over economic, social, political, technological, and ecological factors in the remote environment.

The operating environment, also known as the task or competitive environment comprises such factors as competitors, creditors, customers, labour force and suppliers. Organizations, depending on their size, may have more influence on the industry factors such as barriers to entry into the industry, power of suppliers, power of buyers, availability of substitutes or compliments, and the intensity of competitive rivalry. According to Ansoff and McDonnell (1990), environmental turbulence is a combined measure of changeability and predictability of the firm's environment. Changeability of the firm is seen by the complexity of the firm's environment and the relative novelty of the successive challenges, which the firm encounters in the environment. On the other hand predictability is the rapidity of change, which is the ratio of the speed with which challenges evolve in the environment to the speed of the firm's response. Predictability can also be seen in terms of the visibility of the future, which assesses the adequacy and the timeliness of information about the future.

Their high level of dynamism, capability and uncertainty characterizes turbulent environments. Reasons behind these increasing turbulence are associated to many factors like technological convergence and the consequential fall in the barriers to entry of industries related to communication and information (Chackravanrthy, 1997), the increasing access and availability of information and the need to manage that information in a more effective way and the increasingly global profile of competitors (D'Aveni, 1994). According to Johnson and Scholes (2001), understanding the environment is made difficult by its many diverse influences, secondly is the element of uncertainty and thirdly is the way organizations cope with complexities posed by the uncertain environment.

Johnson and Scholes (2001) suggest analysis of forces that affect the external macro environment of the firms, which they refer to as PEST analysis. P.E.S.T is an acronym for the political, economic, social, and technological factors of the external environment. Such external factors usually are beyond the firm's control and sometimes present themselves as threats. Many macro-environmental factors are country specific. In the context of this study, a PEST analysis can be done in relation to the challenges posed on AFC. AFC experienced most of these challenges before the new government formulated the economic recovery strategy for wealth and employment creation (ERS) and strategy for revitalization of agriculture (SRA) in 2003 and 2004 respectively. Identifying PEST influences is a useful way of summarizing the external environment in which a business operates. However, it must be followed up by consideration of how a business should respond to these influences.

The direction and stability of political factors is a major consideration for managers on formulating company strategies. Political factors define the legal and regulatory parameters. Political constraints are placed on firms through fair trade decisions, legislation, political stability, environmental protection and regulation, taxation policy, trade regulations and tariffs, pricing regulations, government laws and competitive regulations. Since such laws and regulations are most commonly restrictive, they tend to reduce potential profits of firms. However, some actions are designed to benefit and protect firms (Pearce and Robinson, 1997). For example, previously there was a lot of political interference in AFC; the appointment of top management was based on political patronage and not merit; loans were given out based on political correct individuals without any security: - this contributed to the increase of non-performing loans (NPL) reaching a staggering figure of 89% in 1997 (AFC strategic plan 2005-2010). This had a negative impact on the institution.

Economic factors concern the nature and direction of the economy in which a firm operates. These factors affect the firm through economic growth, monetary policy, interest rates, inflation, money supply, government spending, unemployment rate, disposable income, efficiency of financial markets and infrastructure quality. The poor performance of the Kenyan domestic economy affected AFC since most of the institutions which bought the farmers produce closed down. Also the government could not afford supporting the institution financially. There has also been pressure from some quarters like the Bretton woods urging the government to stop subsidizing such institutions like AFC. Some of the factors which contributed to the poor performance of the economy extending to the agricultural sector and the institution include dilapidated infrastructure, low domestic credit and low output and price of major agricultural export. Lack of donor funding and adverse weather inform of insufficient rainfall and prolonged drought also adversely affected the major customers of AFC.

Socio- cultural factors that affect a firm involve population demographics, income distribution, social mobility, education beliefs, value, culture like gender roles, and attitude to work and leisure. Like other forces in the remote external environment, social forces are dynamic, with constant changes resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. AFC has to deal with issues like HIV-AIDS, contribution toward poverty alleviation, corruption, and corporate social responsibility. Most of AFC's customers are small-scale located in rural and have been greatly hit by poverty. Women are the ones actively involved in farming and yet they have limited chances of accessing financial opportunities. All these factor raises concern for AFC.

To avoid obsolescence and promote innovation, a firm must be aware of technical changes that may influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques. Issues considered here are like government spending on research, government and industry focus of technological efforts, impact on value chain structure, impact on cost structure, rates of obsolescence and impact of changes in information technology. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophiscated new markets and products or significantly shorten the anticipated life of a manufacturing facility (Pearce and Robinson, 1991). AFC has to adjust with the modern technology despite the costs involved. It needs to fully computerize, and utilize Internet services effectively. It should endeavor to work with research institutions. Although as early as 1985, AFC had already started the computerization process through a project that was undertaken by expatriates, the system has since been overtaken by events and other fast and efficient software has come up which AFC needs to adopt (Agri-finance digest, 2006).

On the other hand the micro environmental factors consists of the actors in the company's immediate environment. According to Kottler (1988), these consist of the company, suppliers, market intermediaries, customers, competitors, and publics. A discussion of some of these factors will indicate how it is important for an organization to be aware of their impact.

The relationship between an organization with its suppliers and customers is very important. An organization wants to efficiently supply high quality products and services to its customers as well as obtain the right inputs for it to function efficiently. Although there has not been much impact as far as suppliers are concerned since AFC does not make regular large purchases except for few items like stationary and spare parts, the corporation is concerned with finding appropriate methods for handling both its procurement and customers conventional with the modern professional practices.

A company rarely stands alone in its efforts to serve a given customer market. Its efforts to build an efficient marketing system to serve the market are matched by similar efforts on the parts of others. The company's marketing system is surrounded and affected by a host of competitors who have to be identified, monitored, and outmaneuvered to capture and maintain customer loyalty. Like other business organizations, AFC is not immune to competition. It faces competition threat from small banks, micro-finance institutions, and informal financial arrangements such as shylocks.

An organization must also acknowledge a large set of publics that take an interest, whether welcome or not, on its methods of doing business. Because the actions of the organization affect the interests of other groups, these groups become significant publics. A public can facilitate or impede a company's ability to achieve its goals. AFC is concerned with building goodwill with the public. Its corporate image is a major concern having been negatively affected in the past. For it to win back deserted customers and stakeholders, building a positive image is necessary.

Generally, the number of environmental factors is virtually unlimited and poses different challenges on different companies. In practice the firm must prioritize and monitor those factors that influence its industry. Even so, it may be difficult to forecast future trends with an acceptable level of accuracy. In this regard, the firm may turn to scenario planning techniques to deal with high levels of uncertainty in important environmental variables. Whatever the approach, the need to achieve a fit between the internal capabilities of an organization and the external possibilities it faces is key. To facilitate this, the SWOT technique:-the assessment of the internal strengths and weaknesses of the organization in the light of the opportunities and threats posed by the environment in which it operates (Andrews, 1980) can be used.

2.3 Strategic and Operational Responses

Organizations are environment dependant. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort of budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 1993). Failure to do this will lead to a strategic problem, which is characterized by the maladjustment of the organization's output and demands of the external environment (Ansoff, 1984).

According to Porter (1976), companies must be flexible to respond rapidly to competitive changes. They must benchmark continuously to achieve best practice. Hofer and Schendler (1978) observed that for organizations to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment. Consequently, they need strategies to focus on their customers and deal with the emerging environmental challenges.

Responses of any organization can be both strategic and operational. Strategic decisions are likely to affect operational decisions. The link between overall strategy and operational aspects of an organization is important because, firstly if the operational aspects of the organization are not in line with strategy, then, no matter how well considered the strategy is, it will not succeed, it is at the operational level that real strategic advantage can be achieved.

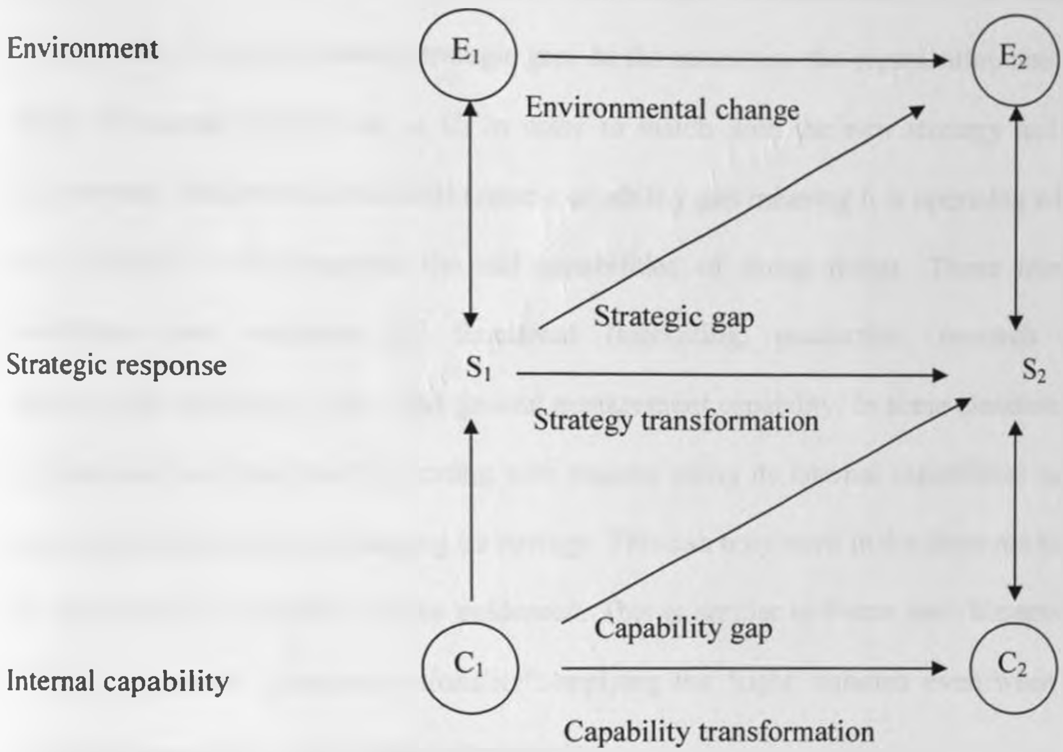
According to Johns and Harding (1989), if the operations area is to support the firm's competitive advantage then it needs to reflect the chosen basis for advantage in its decisions-making. The task is to develop the characteristics of the operations area in line with the market needs. For example where the firm chooses to compete through a cost leadership strategy, then this must be reflected in the definition of the key operations tasks. All structural decisions in the operations area must be made with a view to reducing costs, as this will be totally in concert with the firm's position within its industry. Plant and equipment will therefore be chosen with cost saving as a major consideration; an organization structure will be chosen that avoids duplication and is cost effective; operating systems will be chosen that can be managed to drive out costs; and both process and information technology will be used to gain competitive advantage through cost-saving. If the operations area makes a concerted and consistent effort against all these dimensions, it will develop an internal culture supporting the key operations task of structuring the lowest-cost operations facility in the industry. If that objective is achieved, real competitive advantage will accrue to the firm through operations performance.

If the firm chooses to compete through a differentiation strategy and, in this instance, the key operations task must be to structure the operation to support and enhance the chosen basis for differentiation. For example, if the firm competes through the achievement of a product specification that can not be attained by the competition, then a key task for operations is to maintain the process capability of hitting and (if the market warrants it) improving that specification. If the chosen basis for competition is superior delivery performance, the task for operations is to structure the most flexible operation in the industry, with the appropriate customer and supplier linkages. The critical activity for the operations manager must be to structure the operation to support the firm's chosen basis for competition, and to capitalize on the market or industry characteristics as appropriate. By this means, operations become an important member of the corporate team with a direct influence on the organization's success. Ansoff and McDonnell (1990) state that the responsiveness of the firm's organizational capability measures the ability of a firm's ability to respond effectively to a given level of environmental turbulence. Thus organizational response is a reaction to what is happening in the environment of the organization.

Ansoff and McDonnel (1990) have developed ways of measuring changes in the external environment if an organization has to stay successful. The strategy has to match the changes in the environment. The environment constraints the managers which strategies to use due to turbulence within it. Ansoff and McDonnell argue that change has been the central occupation of most managers. The turbulence comes from unaccustomed and unfamiliar sources; from foreign technologies, from foreign competitors, from governments. An increasing number of such changes pose major threats or opportunities to the firm: obsolescence of the firm's technology, major loss of market share, drastic increase in the cost of doing business, a chance to get a major jump on competitors, or a ground floor entry into a new industry.

There is no guarantee that successful managers of yesterday will be successful in today's liberalization, privatization, globalization, and so on environment. Any shift in the environment can lead to inconsistency between the organization's strategy, its internal capability, and the environment. This shift can be illustrated in the success formular diagram below:

Figure 2.1: Managing firm's adaptation to environment



Key

E_1= Present Environment

S_1= Present Strategy

C_1= Present organization Capability

E_2= New Environment

S_2= New Strategy

C_2= New organization Capability

Adapted from Ansoff and McDonnell (1990)

In an environment on turbulence level E_1, the organization can operate successfully with strategies at S_1 and internal capabilities C_1. If the environment turbulence moves to level

E_2, then the effective strategies become S_2. Failure to align your strategy with the environment will mean that it is operating in the new environment with the old strategy. Consequently, this will create a strategic gap. At the same time the organization needs to adjust its internal capabilities to C_2 in order to match with the new strategy and the environment. Failure to do that will create a capability gap meaning it is operating with a new strategy but hanging on the old capabilities of doing things. These internal capabilities are composed of functional (marketing, production, research and development, production, etc.) and general management capability. In some situations an organization may find itself operating with success using its internal capabilities in the new environment without changing its strategy. This can only work in the short run but in the long-term the problem will be evidenced. This is similar to Peters and Waterman's (1982) concept of "irrational rationality":-applying the 'right' solution even when the situation means that it is no longer appropriate.

Ansoff and McDonnell (1990) have observed that when a discontinuous change impact on the firm, there are three types of management behavior. In the reactive behavior, response is delayed until the impact of change has become painful and threatening. Once the response is triggered, the first effort is 'heroic' operating changes and retrenchment. Measures are tried one at a time, and only when they have been exhausted, does attention turn to strategic counter-measures. In decisive management, the response is triggered when the impact of change has become unambiguous, without the additional procrastination observed in the reactive management. Operating counter-measures are tried first, but in a planned systemic manner. Once the operating measures have been exhausted, the firm turns attention to a strategic response. Planned behavior differs from the preceding two in the fact that strategic and operating counter-measures are considered at the outset, and a proper combination is used in parallel. All these behaviors have their place in the repertoire of management responses to threats and opportunities. In slowly changing environments, reactive management, while costly, can avert disaster. As the environment becomes more and more turbulent, it becomes necessary to use first, the decisive response, and second the planned response, if the firm is to avoid a disastrous impact.

Ansoff and McDonnell (1990) have observed that at the point when a firm responds to the environment, it experiences extraordinary, nonroutine, drastic measures. They have divided these extra ordinary measures into two classes:

The first copes with discontinuous changes in the firm's relationship to the environment, in its internal dynamics, and/or in its value system. Diversification into new businesses, divestment from major product lines, major reorganizations, introduction of strategic planning systems-all exemplify such measures which change the 'face of the firm,' alter perspectives, introduce new ways of life. They have called these changes as strategic measures. The second class stops short of changing familiar relationships. Nevertheless they are drastic enough: an unusual major sales promotion, a drastic price cut to revive flagging sales, a major write-off of assets, disposal of large amounts of obsolete inventories, replacement of obsolete plant, a freeze on hiring, arresting management development programs, or cutback in R & D expenditure. Ansoff and McDonnell have referred to these as extraordinary operating measures.

In a majority of firms, while drastic in their impact, the operating measures will be familiar and acceptable, either because they have been tried before or because their impact can be forecast with confidence. Strategic measures will be acceptable only in a small minority of firms which have previously made drastic change a way of life. For the majority, which had historically confined itself to incremental strategic change, drastic strategic measures appear strange, risky, and threatening (Ansoff and McDonnell, 1990).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This management research project was conducted through a case study. This is because the subject of the study was a single unit and hence the need for in-depth information was necessary rather than going for breath. Kothari (1990) supports the use of a case study in such situations. He states that a case study method is a very popular form of qualitative analysis that involves a careful and complete observation of a social unit, be that unit a person, a family, an institution, cultural group or even the entire community. It is a method of study that drills down rather than casts wide.

3.2 Data collection

Both primary and secondary data relevant to the objectives of this study were collected for analysis. Secondary data was obtained from the Agricultural Finance Corporation's records like its strategic plan 2005-2010, change program reports, ministry of agriculture, and ministry of planning & national development's records

Primary data was obtained through personal interview with the managing director, and other heads of departments. Personal interview was deemed fit for this case study for purpose of obtaining in-depth information through carrying out a flexible interview and having an opportunity to probe the interviewee. The interview was guided by the use of an interview guide (see-Appendix 1), which led to the collection of adequate and in-depth information satisfying the purpose of the study.

3.3 Data Analysis

The data collected from the field was then analyzed by content analysis technique and resulted into the findings and conclusion. The analysis focused on the two objectives of the study, that is: responses by AFC to environmental challenges at the strategic level and operational level. The content analysis technique which is suitable for a case study has been defined by Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends. This approach has been used in several case studies of this nature. Cheluget (2003), Kathuku (2005), Ongaro (2004), Mulema (2004) used this technique in their MBA studies.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter will discuss the findings of the study based on the analysis and interpretation of both primary and secondary data collected from the field. The discussion will focus on the two objectives of the study. The first objective being establishing strategic responses by AFC to environmental challenges and the second objective being establishing operational responses by AFC to environmental challenges.

4.2 Profile Of AFC

AFC is a government owned and agriculture based development finance institution established in 1963 as a statutory body. The corporation functionally falls directly under the ministry of agriculture. Its overall management is vested in a board of directors appointed by the government. The ministries of agriculture and finance are represented in the board. Since its inception, AFC has been the government's main conduit for delivery of agricultural credit. The institution initially performed well, especially in the first two decades of its existence. However, the performance of the institution experienced a downward trend from mid 1980's reaching its critical point in 2001/2002 financial Year when it almost collapsed reaching only one client. AFC'S performance through clientele outreach by market penetration can be illustrated by the table below based on growth rate of loan accounts relative to number of rural households.

Table 4.1: Trends in growth of loan accounts relative to rural households

Year	House holds	No. Of Loan Accounts	% Market penetration
1963	800,000	7,210	0.9 %
1977	1,828,571	22,000	1.7%
1984	2,933,333	145,961	4.9%
1987	3,066,666	74,267	2.4%
1997	4,480,000	55,380	1.2%
2004	4,960,000	7,722	0.2%

Source: National Development Plan (GOK) for 1997-2001 and AFC'S Annual Reports and Audited Accounts.

The highest penetration was achieved in 1984 when the corporation was running 145,961 loan accounts against a potential market of 2.9 million rural households. The position has since deteriorated (AFC'S internal records). The poor performance has been attributed to various factors like poor governance, frequent adverse weather conditions and effects of economic liberalization among others (AFC's Strategic plan 2005-2010). As a result, with improved business environment and positive agricultural policies by the NARC government in 2003, AFC has come up with various responses both at the strategic and operational level in order to turnaround the institution.

4.3 Strategic Responses By AFC To Environmental Challenges

Strategic responses are major responses which call for top management attention. With the change of government in December 2002 from KANU to NARC, the new government created a conducive environment for business. Consequently, for an institution like AFC which almost collapsed in 2001/2002 financial year, there was an urgent need for it to take advantage of this positive opportunity and elicit the right responses to the volatile environment in order to survive.

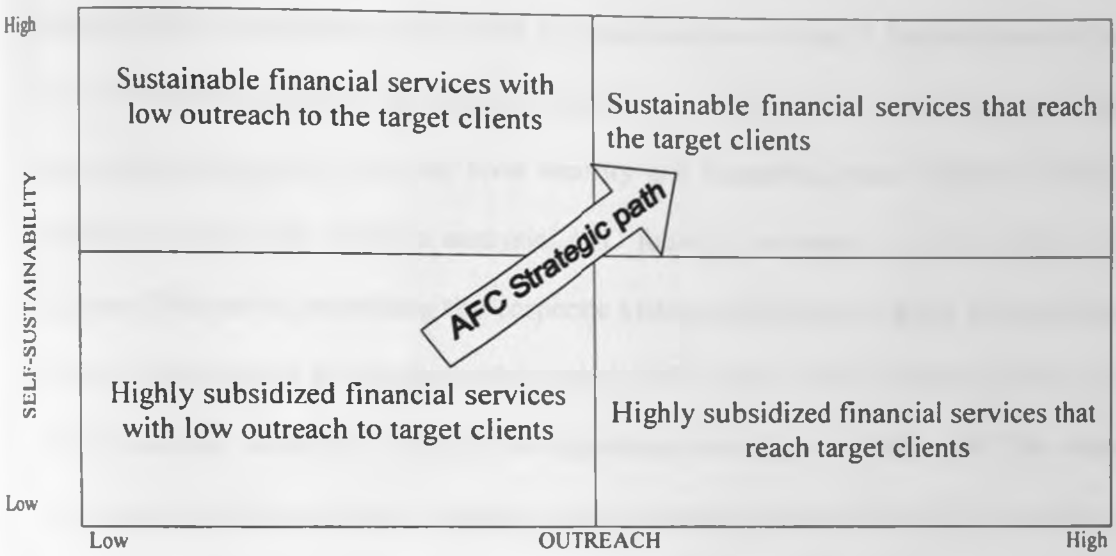
To set the ball rolling, the government identified AFC as one of the institutions central to the revival of agricultural sector and decided to implement the recommendations of parliamentary session paper no.1 of 2002, restructuring the corporation. The government has also been making the necessary changes at the top management level since 2003. The present management is committed to turning around the institution in line with the Economic Recovery Strategy for Wealth and Employment Creation (ERS) and Strategy for Revitalization of Agriculture (SRA).

The study established that the government has since put AFC on a revival course and has injected fresh capital in form of new equity to enable the institution to restart the stalled lending programs. The study found out that since 2003, AFC has received ksh 1.549 billion for onward lending and of the total, ksh 780 million is earmarked for development loans and ksh 769 million for seasonal crops. Other government measures have included the write-off of accumulated loans and conversion of AFC'S government loans into equity. These measures have enabled the institution to reorganize the balance sheet.

4.3.1 New Business Model

To succeed as an agricultural credit institution, AFC must undergo a fundamental strategic change. The strategic journey requires a shift from providing subsidized financial services with low outreach to offering sustainable services that reach all target clients. The new strategy calls for lending products at commercial rates to ensure that AFC achieves financial-sustainability. Once the solid base of a financial institution is in place, AFC can invest resources in scaling up its retail financial operations while starting a new wholesale lending arm which provides loans to farmers through existing rural finance providers (DCDM Consultant Report, 2004). Figure 4.1 below illustrates the AFC'S strategic change:

Figure 4.1: AFC New Business Model



Source: DCDM Advisory Report (2004)

The new AFC will provide three lines of service; with Retail lending, AFC's current Operations in this area will be restructured to improve the loan recovery rate and lower the transaction costs. The wholesale lending will disburse funds to selected MFIs, SACCOs and large contract farming organizations for on- lending to farmers in the rural agricultural community. The third line to be provided is Apex institution with a view to strengthen the agriculture and rural financial services sector through a program of product development, capacity building of intermediaries, possible supervision of SACCOs and MFIs.

According to the Managing Director, with the assistance of external consultancy in complex areas AFC has been able to come up with a strategic plan for the period 2005-

2010. The strategic plan outlines the strategies and institutional reforms that the corporation will implement in the short and medium term to lead to the realization of the goal of increasing access to agricultural credit. This is in line with the need for supporting the government goal of creating food security and increasing rural incomes. Through institution review and situation analysis, AFC found it necessary to refocus the way it operates. This led to re-defining the corporate vision and mission to guide the operations of the corporation for the strategic plan period (2005-2010). AFC's adopted vision is "to be the financial institution of choice for agricultural development in Kenya". The vision recognizes that farmers have a choice to make in doing business with AFC especially in the era of increasing competition. AFC has therefore to prepare itself to be the farmer's first choice financier and in addition, make a significant contribution to the development of agriculture in this country. The adopted mission is " to provide customer focused financial services for the development of the agricultural sector in Kenya". AFC has therefore, to develop and offer products that are responsive to the needs of the customers.

4.3.2 Sustainable Financial Base

The study found out from AFC's internal records and special project's manager that AFC is working on a plan to go to the money market to raise funds for its core-lending program. This will require that through the right responses, AFC improve its performance and its image in the public eye in order to attract potential investors and utilize full market gains. The institution plans to raise ksh 2 billion. This move will reduce its dependence on the exchequer with the goal of transforming AFC into a self-sustaining organization. AFC therefore has learnt to live with the knowledge that the government is scaling down its financing of the corporation to ksh. 260 million until 2007, when it is expected to have become self-sufficient. Other than the government only, the corporation has attracted Japanese government assistance. The study found out that the Asian nation recently extended a ksh.769 million loan to the corporation for onward lending to farmers on concessionary terms. The institution's aim is to ensure a financially sound organization capable of meeting the needs of increased clientele with adequate funds for loan capital, institutional sustainability and growth. Initiatives to source funds from development partners and government are expected to be increased. It was also established that the institution is seeking partnership with individuals and firms who have expertise to deal with economic challenges at the strategic level.

4.3.3 Marketing Strategies

The study noted that AFC's restructuring is expected to touch on its market penetration strategies that have over the years depended on government benevolence. The Kenyan rural financial market has shown considerable demand for credit. With more than 35 years of experience in the sector, AFC is well positioned to benefit from continued growth of the Kenyan rural finance market. AFC has advantage over many rural finance providers due to its extensive branch network and strong knowledge of the agricultural sector in the different regions of Kenya. AFC understands the farm sector and is in the best position to leverage its knowledge to provide sustainable products to this sector, while mitigating risks of the lender and borrower. According to AFC's internal records, imperfections in the financial markets exists in rural areas as private players are more keen in directing their programs to urban areas where it is less risky to lend. AFC therefore is focusing on rural financing as a market niche to fill the gaps and aiming to be the largest provider of rural finance to the agricultural sector in Kenya.

According to the planning officer and special projects manager, the turnaround also involves a rollout of new products for a market that had been starved of innovativeness. Currently the loan products offered by the corporation include, general farm development, livestock, farm mechanization, working capital and seasonal crop credit. The products are categorized as long, medium, and short term and relate mainly to primary agricultural production. The institution aims at developing products that are responsive to market needs and ensure that AFC maintain its market niche. Product development will ensure that in post liberalization the farmers can use sustainable market based financing mechanisms. The products will also reduce the risk perception of lenders and thereby increase their likelihood of lending to the farm sector.

The products will be categorized as support schemes and stand-alone products. The support schemes will include pilot insurance schemes; popularize use of insurance; price stabilization fund; credit guarantee scheme; credit reference bureau & rating agency; and agriculture finance. The stand-alone products will include input credit, investment credit, working capital, marketing credit, etc. backed by improved collaterals; credit card scheme; export loans, loans to traders and processors; warehouse receipts backed by commodity exchanges; leasing; venture capital; contract farming with interlocking agreements; wholesale/linkage banking; and diversification.

The overall goal of AFC being to increase outreach to the target clientele from the current 11,000 to 500,000 by December 2010. The identified overall goal is projected to be achieved through adopting new ways of reaching out to clients. The organization targets to reach 340,000 clients through credit wholesale arrangements targeting MFIs, cooperatives, and grower associations among others. A further 160,000 clients will be reached through expanded retail outreach. The corporation had in 1986 reached 145,000 clients through direct lending. This demonstrates that with coordinated effort, it is possible to reach the desired numbers. The table below shows the expected new clients projections per year over the plan period:

Table 4.2: New clients projections

YEAR	2005/06	2006/07	2007/08	2009/10	TOTAL
NEW CLIENTS	17,000	40,000	78,000	130,000	500,000

Source: AFC'S internal records

The interview established that in five years, AFC expects to make the wholesale business its main lending arm. Deliberate efforts will be made in client recruitment to ensure that of 500,000, at least 30% (150,000) will be disadvantaged members of the society, women, and youth. This will be done through reaching out to women and youth groups and women dominated Agri-business. The pilot phase of the project has seen AFC enter into agreement with Mumias outgrowers company (moco), which has a membership of 17,000 farmers. Such avenues are expected to reduce the transaction costs that have over the Years dented AFC'S balance sheet. The study established that AFC might eventually seek to transform itself into an agricultural bank.

In an effort to comply with the global requirement of taking care of the environment, AFC is working with other relevant government bodies to develop environment friendly products such as Agro forestry and organic farming.

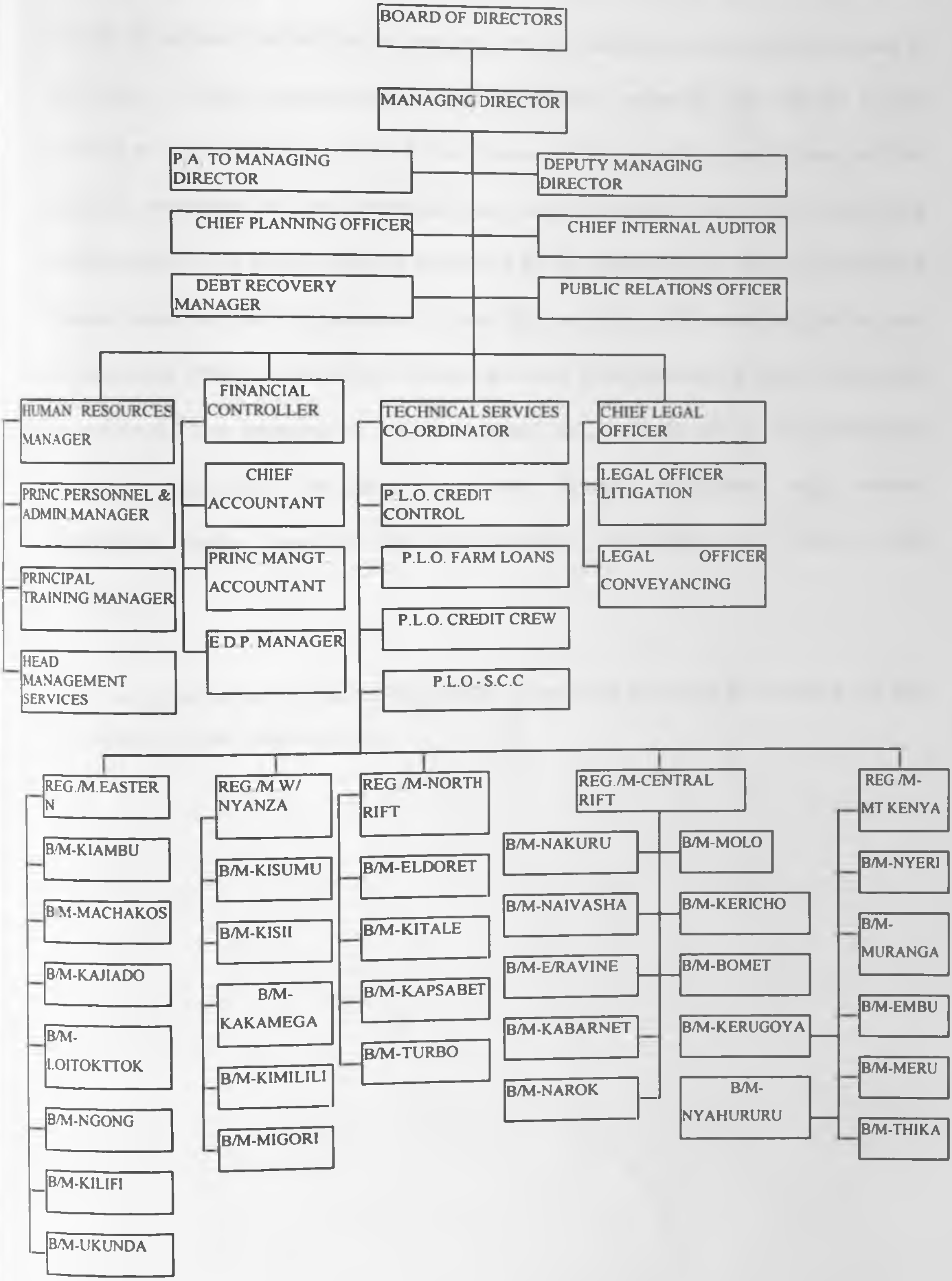
4.3.4 Collaboration Strategy

From the internal records, AFC has come up with a collaboration strategy with Kenya Seed Company, and National Cereals and Produce Board to help the farmers. Under this scheme, farmers can deliver their crops to NCPB and while their payment is processed, they can borrow from AFC and get seed from Kenya Seed Company as well. Using a chit, farmers can, especially maize and wheat farmers, get seasonal loans from AFC or seed from Kenya Seed Company and NCPB would deduct the dues as soon as it processes payment. The organizations' mutual understanding is aimed at ensuring that farmers do not face delays in planting their crops since late sowing leads to low yields. Since the three organizations are closely related, the ties are meant to ensure that farmers take advantage of nutrients available during dry planting. AFC recognizes that without the farmers it will be out of business and by working closely with NCPB and Kenya Seed Company, it will be able to thrive.

4.3.5 Restructuring of AFC

The study established that AFC has been working on a retrenchment strategy to control its cost base. Due to the decline in the volume of business, a rationalization exercise was carried out from 1997 to 2002. Members of staff were reduced to the current levels, through freezing of hiring, retrenchment and natural attrition. The area offices were faced out and the regional offices expanded. Presently the staff complement is 570 consisting of 10 senior managers, 51 middle managers, 142 supervisors and 367 support staff. The corporation currently has 31 branches spread across the country. The branches are supervised by five regional offices and head office (AFC Strategic Plan 2005-2010). The figure below sets out the current organizational structure of AFC:

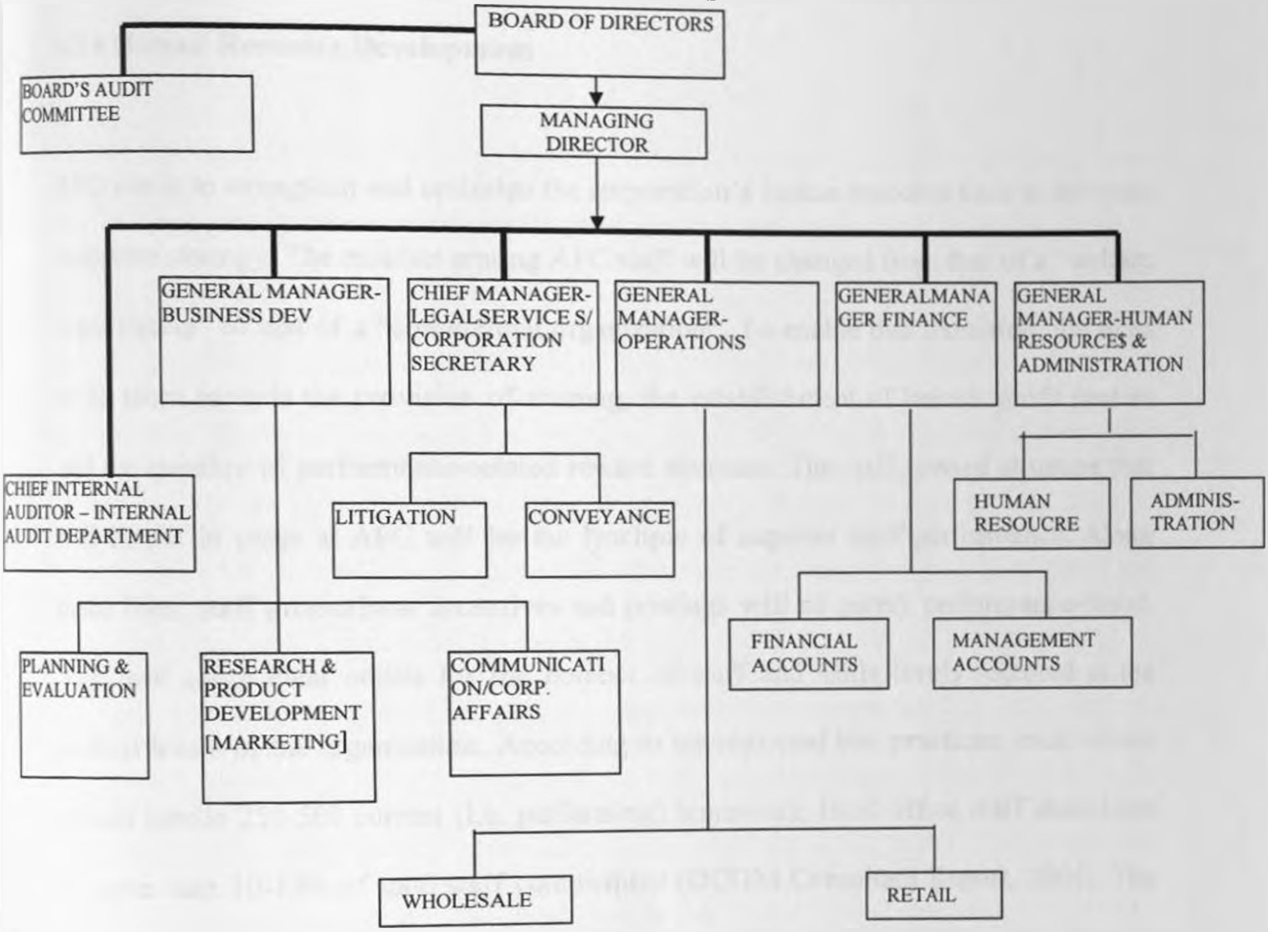
Figure 4.2: Current organizational structure of AFC



However with revitalization of the new AFC as from 2003, the institution has been working on another rationalization program, and job cuts and more restructuring are in the offing. A flatter organizational structure has been proposed. This will be a 2-tier structure as opposed to the current 3-tier structure. The role of regional offices, with the proposed mechanization and decentralization, would diminish. The role of head office would mainly be to provide policy directions to the branches and ensuring that branch business plans are well implemented. Under this scenario, AFC would require lean and efficient head office and therefore the need and role of departments in head office would be reviewed. The departments will be merged and reconstituted to six departments; operations department, business department, finance department, legal services department, human resource and administration department, and internal audit department.

The new organization structure to replace the current one and yet to be approved will take the direction of the diagram below:

Figure 4.3 :AFC'S New Proposed Organizational Structure



The new organizational structure is taking a flatter structure than the current one in use. This will ensure efficiency, as the hassles of bureaucracy will be reduced. There will be reduction of subordinate and non-core staff leading to reduction of costs in terms of salaries and allowances. The new management has overcome a psychological barrier, by accepting that staff and cost rightsizing exercise has to be carried out and Employees have been prepared for the new restructuring. Those to be retrenched will be given benefits commensurate with their job scales.

4.3.6 Human Resource Development

AFC aim is to strengthen and optimize the corporation's human resource base to drive the corporate strategy. The mindset among AFC staff will be changed from that of a "welfare organization" to that of a "commercial organization". To enable this transition, the steps to be taken include the provision of training, the establishment of branch profit centers and the creation of performance-related reward structure. The staff reward structure that will be put in place at AFC will be the lynchpin of superior staff performance. Along these lines, staff promotions, incentives and postings will be purely performance-based. AFC will adopt clear norms for the number of staff and skills levels required at the various levels of the organization. According to international best practices: each officer should handle 250-500 current (i.e. performing) borrowers; Head office staff should not be more than 10-15% of total staff complement (DCDM Consultant Report, 2004). The study established that AFC has put in place a human resource committee to dispense duties that require deeper oversight responsibility at the strategic level. The committee's functions include the nomination of persons to be appointed at senior management level, making recommendations to the board on all matters concerning staff remuneration and benefits, and approval of the group's overall human resource and remuneration policies and strategies.

4.4.7 Corporate Image

One of the major problems facing AFC has been its corporate image which got tainted due to poor performance in the past. The study established that an aura of doubts hangs in the air as to whether the new institution's efforts will be internalized to prevent the past mistakes which resulted into the institution being viewed as a white elephant. However, to address this the institution is working on strengthening its corporate social responsibility and public relation staff. It is developing appropriate communication systems for various publics, equipping staff with appropriate skills in communication and customer relations, it is building public relation staff capacity, and endeavoring to develop and implement corporate social responsibilities programs with emphasis on vulnerable groups in society including HIV/AIDS affected persons, women and youth. For example the development of products addressing the needs of HIV/AIDS affected families, women, and youth has been a positive move in building the institution's corporate image. PR staff has been vested with the responsibility of monitoring the daily events to counter the negatives and update the publics on the positives. It also monitors the attitudes of the organization's publics and distributes information and communications that suits them in an effort to build goodwill.

Like any other organization, AFC consumes inputs from the society to which it delivers its outputs and so there exists a symbiotic relationship. As a result AFC has allocated funds for meeting the society's demands and expectations. This move will help to build on the corporation's image. The study further revealed that AFC has trained its field officers on how to handle issues like illiteracy, taboos against certain agricultural activities in some parts of the country thus creating a harmonious relationship. Some of the philanthropic activities that AFC has taken part in are like participation in freedom from hunger walk in 2005.

AFC is keen on establishing cordial relationship with its suppliers and customers. Its mission is "to provide customer focused financial services for the development of agricultural sector in Kenya" the mission statement puts the customer at the core of AFC's activities and this can only be fulfilled by applying the right marketing strategies. It was established that the corporation observes that keeping the customer satisfied involves more than simply opening a complaint department, smiling a lot and being nice. AFC urges all its employees to focus on the customer. This is in line with the philosophy of integrated marketing. The marketing function is being strengthened. The customer is being seen as the true profit center. AFC is therefore committed to developing and offering products that are fully responsive to the needs of the customers. AFC will achieve this by undertaking market surveys, segmenting retail and wholesale markets, and developing objectives for each segment. It will also conduct customer needs and perception surveys, develop and implement feedback mechanism. The institution is further working on reviewing and improving the existing product range, identifying and developing products for various market segments and agricultural sub sectors. The study noted that AFC creates awareness of its products within rural community through ASK shows, field days, extension services of the ministry of agriculture and other marketing channels.

4.4 Operational Responses By AFC To Environmental Challenges

These are responses pursued at the operational level in day to day running of the corporation. The discussion of these responses addresses the second objective of the study. The overall management of AFC is vested in the board of directors. The managing director oversees the running of the corporation and is assisted by the deputy-managing director, seven departmental heads, five regional managers and thirty-one branch managers. The corporation's objective is to assist in the development of agriculture sector by providing loans to farmers, cooperative societies, incorporated group representatives, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries. It also has the function of furnishing managerial, technical and administrative advice, or assisting in obtaining such advice, for agricultural Industries.

According to internal records, AFC has taken advantage of the improved political and economic environment to improve on its performance. By initiating sound financial and managerial practices, the operations of the corporation have started showing signs of significant improvements. The positive performance can be illustrated by the corporation's credit system to make funds more widely available to farmers as illustrated in the table below:

Table 4.3: AFC'S extension of credit to borrowers

FINANCIAL YEAR	LSL	SSL	RANCH	SCC	TOTAL NUMBER OF BORROWERS
80/81	587	1,972	68	9,435	12,062
81/82	452	1,585	106	22,116	24,259
82/83	672	2,032	121	16,290	19,115
83/84	459	4,551	109	8,252	13,371
84/85	484	2,721	199	9,252	12,654
85/86	721	4,160	180	7,701	12,762
86/87	432	3,154	130	5,133	8,849
87/88	183	2,140	95	3,246	5,684
88/89	86	2,595	4	2,304	4,989
89/90	261	2,761	74	2,355	5,451
90/91	112	1,485	37	1,854	3,488
91/92	153	1,977	55	1,053	3,238
92/93	176	2,557	22	1,321	4,076
93/94	146	1,710	39	1,357	3,252
94/95	124	3,150	39	56	3,369
95/96	94	11	7	831	943
96/97	179	101	3	0	283
97/98	129	3	1	0	133
98/99	102	2	2	0	106
99/2000	108	9	-	-	117
2000/2001	44	12	-	-	56
2001/2002	1	-	-	-	1
2002/2003	58	352	-	-	410

Source: AFC'S internal records

Note:

LSL –Large-scale loans

SSL –Small-scale loans
SCC –Seasonal crop credit

AFC reached the highest number of clients (24,062) in 81/82 financial Year but then started declining reaching its lowest level in 2001/2002 financial Year with only one client when the institution is said to have almost collapsed. However, as the new government came up with favorable economic policies in 2003, the corporation picked up positively reaching a total of 410 clients in 2002/2003 financial Year. Currently the institution is in good shape and lending activities are now operational in all the branches.

According to the planning officer, AFC makes use of its internal audit, operations, and planning & technical services department to lay down models for responding to challenges in the environment. The internal audit department scrutinizes the organization, while an elaborate loaning system is determined by the aid of an advanced electronic data processing, and the planning and technical services department works on an elaborate monitoring and evaluation (M&E) of its portfolio.

On the drought and flood challenges, the corporation is developing a credit risk component to mitigate against losses that might be caused by ecological factors. The institution is further developing frameworks for risk assessment. AFC is as well contemplating the introduction of a weather based index insurance board on the strong points of the defunct Guaranteed minimum returns (GMR).

4.4.1 Loan Administration Policies

The study found out from AFC's internal records and the planning officer that AFC has been reviewing the loan administration policies and procedures. This is aimed at strengthening its lending and debt collection programs. AFC's standard policy is that all loans are processed at the branch level starting from branch recruitment to appraisal. The approval of all loans is the prerogative of the Board of Directors. However, for smooth implementation, small-scale loans are approved at head office through delegated authority of the Board. Disbursement of loans is done both at the branch and head office depending on the amounts authorized levels. Incentives for fast loans repayment have been spelled out. For example, the corporation has announced plans to advance school fees and medical loans to farmers who promptly repay their agricultural credit. Unlike in the past when farmers would wait for government write-offs, the study established that a restructured AFC wants to ensure that such negative financial practices are eliminated. Such initiatives have started bearing fruits with loans repayment having risen above 90% in 2004 (AFC Strategic Plan 2005-2010). The study also revealed that the institution has established a strategy of reducing the turnaround time for loans to a maximum of 14 days. AFC is reviewing its business, empowering frontline staff and reviewing legal provisions.

According to DCDM Consultant Report (2004), AFC has departed from a past riddled with lax security norms that led the organization to incur excessive risk costs. Among the recent measures taken to tighten security norms within the corporation are: every new loan approved by AFC now requires a realizable collateral to ensure better recovery in case of default, the loan ceiling has been brought down to 500,000 to ensure that loans actually benefit the underserved farming community instead of going to the politically connected as was the case in the past, and the maximum loan repayment period has been reduced to 5 years as previous AFC experience has shown that the longer-term loans had the greatest probability of non-performance.

AFC is committed to cost rationalization and improvement of cash flows to attain a return on investment of 15%, expansion of the revenue base from current ksh. 622 to 1.77 billion. It is also restructuring the non-performing portfolio to enhance recovery rate, improving financial systems and procedures, developing and implementing appropriate policies to maintain a ratio of 3:1 interest income to none-interest income, and adopting appropriate prudential guidelines as per the Banking Act. These measures are being implemented by setting the expenditure limits, establishing branches as profit centers, setting loan recovery limits for branches, charging fees for services that are currently free, identifying and selling non-core assets. According to the planning officer. One of the areas that the corporation identified as not adding value was the corporation's training institute. The corporation was not making full use of it. It turned out to be used for non-core activities like parties, weddings, catering among others which have no business with agriculture and hence AFC in any way. A decision was therefore reached to sell it to Kenya school of law.

4.4.2 Upgrading of Information Communication Technology (ICT)

The fast change in technology has called for AFC'S response in order not to be left behind. The study established that currently the institution is running a centralized batch processing system; departments within head office are not connected to the mainframe computer but have stand-alone computers. Branches and regional offices are not computerized. Management reports are generated through internally developed programs. The institution is working on upgrading the ICT. Early this year the institution set up a project task force committee to oversee the computerization process at the corporation. In order for the project to move in tandem with the speed the entire project required, the management found it necessary to identify key people from each department that would come up with strengths and weaknesses of current system in order to come up with a statement of user requirements that would be used in sourcing for an appropriate software. In an endeavor to offer customers and other stakeholders updated and quality services, AFC has established a website: www.agr.org.

4.4.3 Internal Organization

Internally the corporation has re-launched the in-house magazine/newsletter called the Agri-finance digest which captures the activities taking place at AFC and informs as well as updates the employees in the whole organization from head office to branch levels. The newsletter can also be accessed on the website; www.agrifinance.org. This magazine gives employees an opportunity to share their experiences and knowledge. The managing director has encouraged staff to contribute and share ideas with one another, develop and challenge their thoughts.

According to AFC's internal records, the loan manuals of AFC are very old and many of the guidelines in the manual have become obsolete. New loan manuals are therefore being designed and they would clearly spell out the loan requirements estimated based on market studies, security norms etc. Besides this, the operational manuals having clear guidelines for loan approval, disbursement and monitoring based on best practices are being put in place. The time taken for sanctioning new loans should not be more than 15 days and for repeat loan the time taken should not be more than 7 days. The system would be evolved whereby it is mandatory for branches to provide loans to the borrowers who have been repaying previous loans. The monitoring would be continuous and every branch would prepare an 'alarm list' containing the loans that are likely to become sub-standard and would step up the monitoring.

Systems are being put in place so that borrowers have hassle free to loans from AFC. The loan application form is being simplified and as per the best practices the size of the loan application form should not be more than two pages. Presently, AFC is charging different type of charges in addition to rate of interest. In order to bring in transparency, the pricing of loan products would be made transparent. In addition to rate of interest, the borrowers would be charged one time flat charges of 1 per cent to cover the processing and evaluation fee.

According to the planning officer, AFC works on getting a consensus amongst staff and communicates deliberations down to staff members, at the same time the managing director is seen as a symbol of unity. The human resource department has set out mechanisms for motivating staff through relevant trainings, promotions, commendation letters and certificates for long service and excelling employees. Job evaluation to gauge employee performance and proper placement is carried out on a regular basis by the HR department. The study noted that training for head office is covering product development, operation and maintenance of management information system, branch audit & supervision, and monitoring & evaluation. Training for branch is covering business planning & financial forecasts, loan appraisal techniques, rural development projects, and customer management. The roles and objectives of each department have been very well defined to ensure that the productivity of each unit can be measured in a transparent way by the new management information system. All these measures have resulted into a committed and disciplined staff which is working towards improved performance of AFC.

The study revealed that AFC is further embracing the concept of performance contract from top to bottom. Employees are assigned targets to meet according to their positions and abilities of which they are then required to sign a performance contract as a commitment. This move is intended to improve the performance of employees and the overall performance of the organization. Each employee is responsible to his/her superior.

4.4.4 Re-organization of Branches

A financial institution that expands its operations is likely to achieve better penetration into its potential market. According to AFC's internal records, The entry point into AFC for its target clientele is the Branch. Ideally, the more the branches the better the penetration. In 1963, the corporation was running 10 branches with a staff complement of 50. By 1989, the branch network had grown to 50 with a staff complement of 1251. The network has since reduced to 31 with staff complement of 560. However with improved business environment, operations are being restructured at branch level.

According to the special projects manager and planning officer, the corporation is back on the expansion program. Opening of more branches is in the pipeline. Earmarked for opening soon are Homabay, kilgoris, and Nanyuki. Restructuring is also being done at branch level. The Kimilili branch has now been moved to Bungoma for strategic and logistical positioning to net more customers in the area. Naivasha branch has been restructured to its former shape and more staff has been re-deployed to the branch.

With the restructuring, computerized management information system (MIS) would be put in place. The accounts in the branches would be fully computerized so that the staff is free for the fieldwork. The MIS would help the branches in assessing the health of loan accounts on a weekly basis. Branches on a monthly basis would be required to furnish the information on borrower-wise defaults to head office so that remedial actions are started at the head office level.

Each and every branch would be developed as a profit center and would prepare a business plan in a participatory manner. This plan would be prepared in a participatory manner by involving all the stakeholders. Based on the branch plans, corporate plan would be evolved. External facilitators would be involved in this exercise. The branches would be expected to show profits within a period of two years. The branches that remain in loss even after two years would be either closed or relocated to high potential areas. Based on the profitability, incentives and disincentives would be provided to the staff.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter represents the summary, conclusion and recommendations for the research findings in line with the objectives of the study. It also contains recommendations and suggestion for further research.

5.2 Summary

The discussion of the findings focused on the objectives of the study i.e. establishing strategic responses by AFC to environmental challenges and establishing the operational responses by AFC to environmental challenges.

AFC was established in 1963 as a statutory body. Since its inception, AFC has been the government's main conduit of agricultural credit. The institution initially performed well, especially in the first two decades of its existence. However, the performance of the institution experienced a downward trend from mid 1980's reaching the lowest level in 2001/2002 financial Year when it almost collapsed. This was caused by factors such as poor management, adverse weather condition inform of insufficient rainfall and prolonged drought, lack of a reliable source of funds, and poor business policies.

AFC therefore needed urgent measures to turnaround the poor performance. The opportunity came about when the NARC government came to power in 2003 creating a conducive business environment. The new government identified AFC as one of the institutions central to the revival of agricultural sector and decided to restructure the corporation. With the positive business environment, AFC initiated strategic and operational responses to revive the institution. The corporation adopted a new business model by providing three lines of service: Retail lending; wholesale lending; and Apex institution. The study found out that some of the strategic responses have been coming up with the strategic plan for the period 2005-2010, planning to go to the money market to raise funds for its core lending programs, and as a move to become self sufficient.

AFC is expected to increase its outreach to the target clientele from the current 11,000 to 500,000 by 2010 through wholesaling and market penetration strategies. At the same time it expects to make the wholesale business its main lending arm. In response to the market needs the corporation expects to roll out new products which will also maintain its market niche.

AFC's retrenchment strategy has led to the restructuring of the corporation. The proposed flatter organizational structure will reduce costs and ease the reporting system leading to enhanced efficiency and improve the overall performance of the corporation. The effective operations of the institution have seen AFC target more borrowers. The loan administration policies and procedures are being reviewed. The corporation is in the process of upgrading its ICT system in order to align with the modern technology. Other measures have led to a committed and disciplined workforce, and fulfillment of the corporation's mission through recognition of the customer as central to the success of the organization.

5.3 Conclusion

AFC's responses have been effective. The strategic plan 2005-2010 in use is serving as the roadmap to being the agricultural development in Kenya. The appropriate responses have enabled the institution which almost collapsed in 2001/2002 financial Year to get back to the right track. This is evidenced by the fact that it was able to reach 410 clients in 2002/2003 from 1 client the previous financial Year. The loans administration policies have started bearing fruits with loans repayment rising above 90% in 2004. There have been important approaches adopted in the responses as advanced by strategic management gurus. These include market penetration strategies, market niche, collaboration strategies, retrenchment strategies, and customer market integration.

5.4 Recommendation

The institution should hasten the responses in some areas like ICT and computerize the whole organization. This will give it a competitive edge in the market.

The corporation should consider offering more advisory services to its customers (farmers). This will require recruitment of more qualified and skillful field officers who can offer advice in areas like HIV/AIDS, promote corporate image, irrigation methods, and the right products.

AFC needs to invest more in research and development either internally or by working with a recognized research institution. This will improve on its quality of services and position itself strongly in the competitive market.

AFC should also focus outside the boundaries since the goal of every organization is to grow. There are opportunities in the region like in southern Sudan, Uganda, Tanzania, and Rwanda. It can join hands with relevant partners if it cannot access the countries in the region on its own.

AFC is not yet completely stable, the current government should hold the institution to a stable level of being financially independent and then pull out to avoid a dependency syndrome. At the same time the institution should take advantage of the suitable economic climate and apply adequate strategic and operational strategies to completely turnaround and become self-sufficient.

5.5 Suggestions for Further Research

The Challenges and responses addressed in this study apply to other similar public enterprises. Similar studies could be carried out on other similar institutions and compare the results arrived at for purposes of improving the public sector in Kenya.

The environment is always changing; a replica study can be done after some time to determine the progress and measures needed for AFC'S survival.

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APPENDIX 1- INTERVIEW GUIDE QUESTIONNAIRE

This interview guide is designed to collect views on the strategic and operational responses to environmental challenges by Agricultural Finance Corporation. The information collected will be used strictly for academic purposes only and will be treated with utmost confidentiality:

Interviewee Name..

Position...

Date...

Section A-General questions

1. What are some of the main duties of the top management at AFC?

2. How many departments does AFC have? Please name the departments.

3. Do you find the departments implementing decisions passed at the corporate/top management level? Please give a brief explanation.

4. What mechanisms has AFC put in place to detect challenges in the environment?

5. What factors have facilitated your efforts in responding to challenges in the environment?

6. What have been the major obstacles in dealing with the environmental challenges?

7. How have you tried to overcome the obstacles?

8. What are some of the strategies that AFC has used to respond to the environmental challenges?

9. Please briefly describe the restructuring processes that you have observed AFC go through.

Section B-macro environmental Factors

1a). Political activities have been very dynamic. How has AFC been affected politically?

b). How has AFC responded to political impact at the organizational/corporate level?

c). What has been your response at the functional/operational level?

2a). What are the economic factors that have affected AFC?

b). What has been your response at the organizational/corporate level?

c). What has been your response at the functional/operational level?

3a). What are the socio- cultural forces that have affected AFC?

b). How have you responded at the organizational/corporate level?

c). How have you responded at the functional/operational level?

4a). What technological factors have affected AFC?

b). What has been your response at the organizational/corporate level?

c). What has been your response at the functional/operational level?

5a). AFC being an agricultural institution, what ecological factors have affected the company?

b). How have you reacted to that at the organizational/corporate level?

c). What has been your reaction at the functional/operational level?

Section C-Micro environmental Factors

1a) What impact have suppliers had on AFC?

b) What has been your response both at organizational/corporate and departmental/functional level?

2a) What challenges has AFC faced within the internal functioning of the organization from the top to inter departmental management?

b) How has AFC responded to those challenges?

3a) What challenges have customers posed on AFC?

b) How has AFC responded to that both at the organization/corporate and departmental/functional level?

4a) Has AFC faced any competition challenge?

b) What has been AFC's response to that both at the organization/corporate and departmental/functional level?

5a) What challenges have been posed by the public(s) on the institution?

b) What has been AFC's response both at the organizational/corporate and departmental/functional level?

Section D-Closing question

1a). What other factors/challenges in the environment that have faced AFC and are not mentioned above?

b). What has been AFC's response to 1 (a) at the organizational/corporate level?

c). What has been AFC's response to 1 (a) at the functional/operational level?

THANK YOU VERY MUCH FOR YOUR TIME..