

**STRATEGIC RESPONSES BY AAR CREDIT SERVICES  
LIMITED  
TO CHANGES IN THE EXTERNAL ENVIRONMENT**

**IRUNGU NELSON GATHURU**

A Management Research Project Submitted In Partial Fulfillment of the  
Requirements for the Degree of Master of Business Administration  
(MBA), School of Business, University of Nairobi.

NOVEMBER 2010

## DECLARATION

This is to declare that this research project is my original work that has not been presented to any other University or Institution of Higher Learning for examination.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

**IRUNGU NELSON GATHURU**

**D61/70137/2007**

This is to declare that this project has been submitted for examination with my approval as the University Supervisor.

Signed: \_\_\_\_\_

Date \_\_\_\_\_

**PROF. E. AOSA**  
**Department of Business Administration,**  
**School of Business**  
**University of Nairobi**

## **ACKNOWLEDGEMENT**

I am grateful to the Almighty God for his provisions. His grace, mercy and favor for me are new every day.

Special thanks go to my supervisor, Professor. E. Aosa, who patiently and selflessly guided me throughout the entire process at times even on very short notice. My appreciations also go to all the people at AAR Credit Services Limited who responded to my research questions. I also owe much gratitude to my fellow students, Peterson Muthike, James Kimani Mbui and Simon Mwago for their contribution and support during my studies.

Finally, am thankful to my parents Mr. Joel Irungu Wainaina and Mrs. Lucy Wangui Irungu, my brothers, Micheal Wainaina and James Mwangi and sisters, Mary Wanjiku and Rachael Njoki. I am truly grateful for your support and understanding throughout my academic journey.

May God grant you favor.

## **DEDICATION**

My study is dedicated to my beloved fiancée Hannah Njeri, who stood by me and prayed for me tirelessly during my absence to do my studies and to research for this project. Thank you for the great understanding and patience.

May the Lord God, bless you abundantly.

## **ABSTRACT**

All organizations are environment dependent. They are in constant two way interaction with the environment and depend on it for continued survival. All organizations operate as open systems. This means that they take an assortment of resources from the environment, add value and then deliver them back to the environment. According to strategic success hypothesis advanced by Ansoff and McDonnell (1990), organization's strategy and internal capability must keep changing to match the environmental conditions. Strategy is therefore not static and it keeps changing even within an organization. As a result it would no longer be possible to devise a single prescription for response to challenges which would apply to all industries and firms.

According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment. An organizations' success is dependent on its responses to changes in the environment. The environment can be classified into the internal and the external environments. The internal environment is composed of elements within the organization; these include current employees, management philosophy, managerial leadership styles, organization culture, financial resources, technology, human resources and standard operating procedures. The internal environment is within the control of the organization and is composed of controllable variables.

This study set out to address one objective which was to determine what strategic responses AAR Credit Services Limited has employed to adapt to the changes in the external environment. To achieve this objective the study made use of both primary and secondary data. Primary data was collected through personal interviews with senior management at AAR Credit Services Limited.

Secondary data was obtained from AAR Credit Services Limited's financial statement and in-house publications. A content analysis was then carried out on the data obtained to allow for in-depth understanding of issues in the case. The study found out that the company did not respond to all the changes in the environmental conditions but to those changes which were deemed to impact on the company's

activities. The study identified the following factors to have initiated responses from the company. In the political environment the key variable had been the post election violence in 2008, in the legal environment the key variable had been in enactment of the micro finance Act of 2006. In the technological environment the key variable had been lack of adequate information system and high rate of obsolescence and new technological developments. In the economic environment key variables had been low income levels and high cost of factors of production. In the socio-cultural environment, key variables had been lifestyle changes, income distribution, lobby groups. In the competitive environment the key challenges had been from new entrants in the industry and business undercutting.

The study recommended that AAR Credit Services Limited should comply and get a license for taking deposits in order to lower the interest rates, improve human capital and get more equity funding to ensure low costs of operations, increased returns and specialization among the staff.

The study suggested that in order to understand the strategic responses responsible for the changes at AAR Credit Services Limited a further study could be carried out in other companies within the micro finance industry, a further study could also be carried out to determine why AAR Credit Services Limited choose to use the responses it had adopted. Further, a study could be carried out on AAR Credit Services Limited to determine how the company would alter its strategies to other changes in the environment in future.

The study concluded that even for companies that were successful, it is comparative that they continuously engage in strategic responses to ensure that the organization strategies are aligned and match with external environment.

## TABLE OF CONTENTS

<b>DECLARATION .....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>iii</b>
<b>DEDICATION .....</b>	<b>iv</b>
<b>ABSTRACT .....</b>	<b>v</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background.....	1
1.1.1 Strategic Responses to Environmental Changes .....	1
1.1.2 The Micro Finance Industry in Kenya.....	3
1.1.3 AAR Credit Services Limited .....	5
1.2 Research Problem .....	6
1.3 Research Objective .....	7
1.4 Importance of the Study .....	8
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>9</b>
2.1 The Concept of Strategy.....	9
2.2 Organization and the Environment .....	11
2.3 Strategic Responses.....	14
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>16</b>
3.1 Research Design .....	16
3.2 Data Collection .....	16
3.3 Data Analysis.....	17
<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND</b>	
<b>DISCUSSION.....</b>	<b>18</b>
4.1 Environmental Changes .....	18
4.2 Strategic Responses .....	20
4.2.1 Information System Changes.....	20
4.2.2 Diversification.....	21
4.2.3 Innovation .....	21
4.2.4 Product Differentiation.....	22
4.2.5 Product Development .....	23
4.2.6 Culture and organisation Structure Changes .....	23
4.2.7 Strategic partnership and franchise .....	24
4.3 Discussion of Results .....	25

<b>CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND</b>	
<b>CONCLUSIONS .....</b>	<b>27</b>
5.1 Summary of Findings .....	27
5.1.1 Strategic Responses to Changes.....	27
5.2 Recommendations .....	28
5.3 Limitations of the Study .....	29
5.4 Suggestions for Further Study .....	29
5.5 Conclusion .....	30
<b>REFERENCES .....</b>	<b>31</b>
<b>Appendices I: INTERVIEW GUIDE.....</b>	<b>34</b>



# **CHAPTER ONE: INTRODUCTION**

## **1.1 Background**

All organizations are environment dependent. They are in constant two way interaction with the environment and depend on it for continued survival. All organizations operate as open systems. This means that they take an assortment of resources from the environment, add value and then deliver them back to the environment. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment.

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

### **1.1.1 Strategic Responses to Environmental Changes**

The environment can be classified into either internal or external environment. The external environment refers to those factors that are outside the organization's influence but which affect the organization's operations. The external environment presents opportunities which the firm can exploit and also poses threats/challenges which hinder the organization's activities. The internal environment refers to factors within the organization which the organization exercises a great deal of control over and which affect the organization's operations. The internal environment therefore constitutes an organization's internal capability which is essential in addressing the external environment. All organizations, regardless of the nature of their business, are always in constant two-way interaction with the environment. This means that an organization operates as an open system. At the very basic level of this interaction is the idea that the organizations derive their inputs from the environment and give their output to the environment. The inputs are usually in the form of raw materials, labour,

capital and skills. The firm then engages internal processes to convert the inputs to outputs which are fed back to the environment. The outputs are usually products, by-products and waste products. The environment will then give feedback to the organizations which the organizations use to improve their products.

Johnson, Scholes and Whittington (2005) found out that an organization exists in the context of a complex, political, economic, social, technological, environmental and legal world. The complex environment changes and its effects are specific to any organization. Accordingly, the effects to the organization include an understanding of historical environmental effects as well as expected or potential changes in the environmental variables. Many of these variables give rise to opportunities and others exact challenges on the organization or both. Firms operate in changing and at times hostile business environments. The environment does not always accommodate the interests of the firm. An organization in its environment might be likened to a ship at sea. Sometimes the sea is rough and the ship has difficulty in making progress on its journey, other times, it is calm and the weather is clear so that the ship can make steady progress. Organizational environments present the same kinds of opportunities and threats for the organization as the sea does for the ship. Organizations need to respond and adapt to changing environmental conditions if they intend to survive (Proctor, 2000).

Ansoff and McDonnell (1990) found that changes in the environment can be explained in terms of environmental turbulence. Environmental turbulence is a combined measure of the changeability and the predictability of the environment, where Changeability is the complexity of the environment and the relative novelty of the successive challenges an organization encounters in the environment. Predictability is characterized by the rapidity of the change and visibility of its future. Visibility shows the adequacy and timeliness of information about the future. They further argued that a firm's performance is optimum when the aggressiveness of the firm's strategic behavior matches environmental turbulence, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability support each other. Despite the different approaches, all the authors have one common idea that organizations must respond to changes in the environment if they have to survive. This is because the environment they operate in, dictates the

responses the organizations must adopt and thus guides managerial decision making. The environment by extension also dictates the capabilities the organization needs, to support the chosen strategies.

### **1.1.2 The Micro Finance Industry in Kenya**

Microfinance refers to the small-scale financial services that involve mainly credit and savings services to the poor (Robinson 2001). The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100, 000 clients. Currently, there are 43 registered microfinance organizations in Kenya (Source: AMFI) which have diverse legal status ranging from microfinance banks, Wholesale MFI's, Retail MFI's, development Institutions and Insurance companies which represent the entire landscape of the microfinance industry in Kenya. Products portfolio has evolved from financial services provision to provision of insurance, housing and investment services for low-income people.

Globally, microfinance is seen as an avenue for the poor to enrich their livelihoods and to have a greater impact on their countries' economic growth. In Kenya the sector is increasingly becoming the Kenya's most accessible and affordable financial service provider. This has been demonstrated by companies like Equity bank, Co-operative Insurance Company, Family Bank and Faulu DTM Limited all of which has played a critical role in increasing penetration of services to low income group. The enactment of microfinance Act of 2006 will introduce significant changes in the industry which for a long time was unregulated and therefore perceived as a high risk segment of the economy. The Act gives the Central Bank of Kenya regulatory powers for the industry. This means that there will be a clear regulator for the industry and a reference point for resolution of any disputes. The act provides for strict reporting requirements which the industry must now comply with and this will increase the operating costs for most microfinance institutions as they seek to comply with the Act from informal unregulated enterprises.

Under the Act, Clear guidance has also been given in regard to shareholding structure whereby no single shareholder can hold more than 25% shares of any operational

microfinance institution in Kenya. This has forced most microfinance companies to sell some of their shares to new shareholders or source for additional shareholders in order to dilute the shareholding of the current shareholders. This is one of the main legal issues in the microfinance industry in Kenya today. The operating capital for microfinance institutions has also been defined depending on the area of operation. Nationwide microfinance institutions are required to have a paid up capital of 60 million while district wide require 12 million. Currently most microfinance institutions operate nationally but with low paid up capital. This has presented a great challenge to comply with as most microfinance institutions will be restricted in their area of business. The microfinance institutions have been given powers to collect deposits from their members thus reducing their cost of borrowing. This will also mean they must develop capacity to handle the deposit taking functions in the industry (Micro Finance Act: 2006).

Competition has increased in the microfinance industry as new entrants join the industry. Since 1980's the microfinance industry has seen many companies collapse and exit from the industry due to threats posed by the external environment and also due to internal weaknesses of the firms, examples of companies that exited the industry include Rural and Urban finance limited, EABS bank. At the same time the industry has evidence of firms like Faulu DTM limited, Kenya Women Finance Trust Limited, AAR Credit Services Limited and Equity Bank limited have grown from small companies to huge industry players. The commercial banks have also presented competition in form of products which are designed for the same market.

All the companies have changed their strategies from focusing on the upper and middle class to lower class. Currently, all commercial banks in Kenya are developing products which are directly targeting the microfinance market. They have joined the sector either through acquiring an existing microfinance, partnering with existing microfinance organization like Standard chartered bank and Faulu DTM limited, operating a division specifically for the microfinance market like Barclays Bank Limited or designing products specifically for the microfinance market. Due to this, the microfinance organizations must embrace strategic responses in order for them to survive in the long term.

### **1.1.3 AAR Credit Services Limited**

AAR Credit Services was established in May 1999 primarily to improve the renewal rate of AAR members in addition to growing the membership portfolio by removing the large one-time cash flow requirement of new subscribers. It was registered as a division of AAR Health Services Ltd. In May 2000, AAR Credit Services was registered as a separate limited liability company with a paid up capital of 12million. It later spread its wings to the region and opened AAR Credit Services Tanzania Ltd in 2003 and in May 2004 AAR Credit Services Uganda Ltd was opened. The company's shareholders include AAR Health Services Limited, Loita Capital partners and other private individuals. Today, AAR Credit Services is a registered microfinance company with a client base of over 15,000 clients across East Africa but with a total of 15 staff across the region. The company has invested heavily in technology and partnerships with other companies in order to reach its target markets.

The Company's main products include, AAR Health subscriptions financing, General insurance premium financing, Africa online subscriptions financing, Term loans for AAR staff and sales agents, Consumer loans for individuals and corporate loans, Term loans for Afya Sacco members, Asset financing with various suppliers like, Zain Kenya, Sharp technologies, Copy Cat, PC World, Fones express, ICN Toshiba, Meccer Africa, Elite Computers and others under the brand Express credit, buy now pay later, and Safaricom Post Paid dealership. Over the years, the Company has built a solid credit reputation with a number of banks, which has enabled it to secure adequate wholesale financing facilities for its expanding business. Today, the Company's credit lines with various banks total in excess of Kshs.500 million. (AAR Credit Services Audit report: 2009)

The company was the first financial services company to offer easy payment plans for insurance and subscription payments in Kenya with the overall goal of increasing sales for the parent company. The concept has worked well due to the financed company accepting to offer collateral on behalf of the client and the collateral being the service rendered. In case of default by the customer neither party stands to lose. It is a flexible plan to the customer and helps to free the cash flows for the financed company. The company has invested heavily in state of the art software which is able

to manage a large portfolio of client with a small staff. The marketing strategy adopted is using the existing marketing team for the financed company to sell the products other than having their own sales staff. This has enabled the company to reduce its overall operating cost thus remaining competitive in the industry.

Due to the success of the concept banks and other financial institutions like Diamond trust bank, CFC Stanbic bank, Commercial Bank of Africa, NIC bank, Kenya commercial Bank have adopted the same and even formed departments specifically to develop products for the concept. This study is justifiable because despite the stiff competitions posed by major banks due to their cost of finances, AAR Credit Services Limited has continued to grow its business year-after-year by retaining innovative products, customer specific products and relying on the goodwill of its strong network of suppliers and service providers.

## **1.2 Research Problem**

According to strategic success hypothesis advanced by Ansoff and McDonnell (1990), organization's strategy and internal capability must keep changing to match the environmental conditions. Strategy is therefore not static and it keeps changing even within an organization. They further argue that parts of the challenge agenda faced by different industries are different and as a result it would no longer be possible to devise a single prescription for response to challenges which would apply to all industries and firms.

The Microfinance industry in Kenya has evolved over the years since 1960's. Over the period, companies like Rural and Urban credit and EABS limited have collapsed while others like Kenya Women Finance Trust (KWFT), Faulu Kenya DTM Limited and AAR Credit Services have continued to register growth. Companies like Faulu Kenya, DTM Limited are now licensed as Deposit Taking Microfinance Institutions (DTMI) under the Microfinance Act of 2006 while others like Equity bank and Family bank have successfully been transformed to commercial banks. This is despite the external challenges faced by all this companies. The consolidation of the various Acts regulating the industry to Microfinance Act of 2006 also posed a great challenge. Companies now are faced with the more challenges like capacity development, regulations by the Central Bank of Kenya, minimum capital requirements as per the

area of operation, restrictive shareholding structure as well as reporting challenges as per the Central Bank requirements. (Micro Finance Act: 2006). AAR Credit Services limited has operated in a changing business environment and is in the process of transforming to a deposit taking Microfinance Institution despite the changes in the Micro finance industry in Kenya.

Various studies have been carried out to determine how different organizations have responded to changes in the environment. Kiptugen (2003) did a study on the strategic responses to changing competitive environment, a case of Kenya Commercial Bank, Mulema (2004) carried out a study of responses to the environment in the service industry focusing on the Teachers Service Commission. Kandie (2001) focused his study on Telkom Kenya Limited. Migunde (2003) carried out his research on the Kenya Broadcasting Corporation and Mwanthi (2003) studied the British American Tobacco Kenya Limited.

Although researches have been done on strategic responses locally, the results obtained cannot be applied to any other company due to contextual differences. Even if the companies are in the same country, they would still have different strategies due to the differences in industry and internal factors.

This study addresses one question. What strategic responses has AAR Credit Services limited employed to adapt to the changes in the external environment?

### **1.3 Research Objective**

The objective of the study was to,

Establish the strategic responses by AAR Credit Services limited to these external environmental changes.

## **1.4 Importance of the Study**

This study will benefit a number of interest groups starting with the management of AAR Credit Services limited as a reference point as well as for recommendations on areas they can improve on. The study will also be beneficial to managers of other firms in the microfinance industry by learning from the AAR Credit Services limited case on how they can respond to environmental changes.

Business partners, service providers and suppliers of AAR Credit Services limited will benefit from this study by knowing the vision and mission of the company. This will aid them in improving their relations with the company. The business partners will also benefit by assessing the opportunities and threats posed by the company's strategies. The Association of Microfinance Institutions as the lobby group for the industry will also benefit from this study by establishing some of the external forces that affect microfinance institutions in Kenya.

The academic fraternity will benefit from the study since it will be a foundation upon which other related and replicated studies can be based on. The study will also aid Central Bank of Kenya as the regulatory body in establishing the effects of the new regulatory structure to the microfinance industry in Kenya. The study will also help future investors in determining whether to invest in AAR Credit Services limited or to establish their own company by gaining insight on the strategic responses employed by AAR Credit Services limited to adapt to the external environment.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 The Concept of Strategy**

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

According to Aosa (1992), strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. He defined a strategic problem as a mismatch between internal characteristics of an organization and its external environment. The match is only achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats. Chandler (1962) found strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals.

Mintzberg et al (1998) viewed strategy from five interrelated definitions. They viewed strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a deliberate, consciously intended course of action that is designed in advance of the actions it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception, this they termed as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the

organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. They further argued that no one definition should be preferred to the other but they should be considered as alternatives or complementary.

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

Johnson and Scholes (1997) found that strategy exists at different levels in the organization which include corporate level, business level and operating level. They argue that at the corporate level, strategies are about the overall purpose and scope of the organization. This involves how the organization is to be run in structural and financial terms and how resources are to be allocated. At the business level, strategy is about how to compete successfully in a particular market. At this level, strategies should be related to a strategic business unit (SBU) which they define as a unit within the overall organization for which there is an external market for goods or services distinct from another SBU. At the operating level, strategies are concerned with how the component parts of the organization are combined to deliver the overall strategic direction. According to Pearce and Robinson (1991) businesses that engage in only one activity, may have the corporate and business levels rolled up into one level and therefore they have two levels only, that is the corporate level and the functional level.

## **2.2 Organization and the Environment**

All organizations are environment dependent. They are in constant interaction with the environment and depend on it for continued survival. Organizations operate as open systems. This means that they take an assortment of resources from the environment, add value and then deliver them back to the environment. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment. According to Johnson, et al (2005), an organization exists in the context of a complex political, economic, social, technological, environmental and legal world. The environment does not always accommodate the interests of the firm. Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Kanter (1989) likens organizations to elephants that need to learn how to dance as nimbly and speedily as mice if they are to survive in an increasingly competitive and rapidly changing world.

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

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

Ansoff and McDonnell (1990) explained the changes in the environment in terms of turbulence. Environmental turbulence is a combined measure of the changeability and predictability of a firm's environment. Changeability consists of the complexity of the firm's environment and the relative novelty of the successive challenges the firm encounters in the environment. Predictability consists of the rapidity of the change which is the rate of the speed with which environmental challenges evolve compared to the speed of the firm's response and visibility of the future which assesses the adequacy and timeliness of information about the future. They categorized environmental turbulence in five levels namely repetitive, expanding, changing, discontinuous and surprising.

Figure 1: Matching turbulence/Aggressiveness/Responsiveness triplets

Turbulence level	1	2	3	4	5
Environmental turbulence	<u>Repetitive</u> No Change	<u>Expanding</u> Slow incremental change	<u>Changing</u> Fast incremental change	<u>Discontinuous</u> Discontinuous predictable change	<u>Surpriseful</u> Discontinuous unpredictable change
Strategic Aggressiveness	<u>Stable</u> Stable base on precedents	<u>Reactive</u> Incremental change based on experience	<u>Anticipatory</u> Incremental change based on extrapolation	<u>Entrepreneurial</u> Discontinuous new strategies based on observable opportunities	<u>Creative</u> Discontinuous novel strategies based on creativity
Responsiveness of general management capability	<u>Stability seeking</u> Rejects change	<u>Efficiency driven</u> Adapts to change	<u>Market driven</u> Seeks familiar change	<u>Environment driven</u> Seeks related change	<u>Environmental creating</u> Seeks novel change

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

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

In advancing the strategic success hypothesis, Ansoff and McDonnell (1990) introduced what they term as a firm's strategic aggressiveness. This they described by the degree of continuity from the past of the firm's new products, competitive environments and marketing strategies and timeliness in introducing the new products appearing on the market. Timeliness ranges from reactive, anticipatory, innovative and creative. Discontinuity ranges from no change, incremental change, discontinuous and creative change. The strategic success hypothesis prescribes that for a firm to succeed its strategies must match the environment and further that its internal capability must match the strategies. The strategic success hypothesis states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behavior matches the turbulence of its environment, the responsiveness of the firm's capability matches the aggressiveness of its strategy and components of the firm's capability are supportive of each other. If these are not matching, a strategy-capability gap results.

Pearce and Robinson (1991) argued that for strategy to succeed three ingredients must be in place. The strategy must be consistent with the competitive environment conditions, the strategy must place a realistic demand on the firm's internal resources

and capabilities and the strategy must be carefully executed. They suggested that internal analysis is therefore very crucial in order to succeed however difficult and challenging it is. Despite the different approaches by the above authors, the dominant idea is that an organization has to respond to changes in the environment. This is because the environment it operates in, dictates the responses the organization puts in place to guide managerial decision making. The environment by extension also dictates the capabilities the organization needs to support chosen strategies.

### **2.3 Strategic Responses**

Deriving from the perception on the environment, some authors have advanced alternative strategies that organizations can pursue in addressing the environmental changes. Ghemawat (2007) advanced the AAA triangle framework for firms facing global challenges. Pearce and Robinson (1991) proposed the grand strategies for firms facing dynamic environments.

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

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

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

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

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

Challenges faced by different industries are different. As a result it is no longer possible to devise a single prescription for response to challenges which would apply to all industries and firms (Ansoff and McDonnell, 1990). This therefore means that each organization develops strategies that match its own conditions. What works for one organization may not work for another. Each organization must find what works for it in order to succeed. According to Ferrell, Hartline and Lucas (2002), each organization must carry out a situational analysis which must always include analysis of the internal and external environments to determine the responses to adopt in order to survive and succeed in the environment.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This was a case study of AAR Credit Services limited. This methodology was suited to identify the complexities and details of AAR Credit Services Limited. Kothari (1990) described a case study as a careful and complete examination of a social unit, institution, family, cultural group or an entire community. A case study he argued embraces depth rather than breadth of a study.

The study therefore involved an in-depth exploration of the strategic responses by AAR Credit Services limited to changes in the external environment. The study allowed for an in-depth understanding of AAR Credit Services limited but could not be used to generalize for any other company or industry.

### **3.2 Data Collection**

The study made use of both primary and secondary data. Secondary data was obtained from the company's records such as published financial statements, promotional materials, magazines and publications. Data was also obtained from newspapers, trade journals, magazines, websites and internal communication media like the notice boards and posters. This method assisted in obtaining data quickly and cheaply and also assisted in probing when collecting primary data. Primary data was collected through in-depth interviews.

An interview guide was used to help steer the interview as well as to ensure crucial data is not forgotten during the interviews. The interview guide made use of both open-ended questions and closed questions. Open ended questions allowed the respondents to explain phenomenon in their own words and in more detail. Closed questions were used to aid ease of comparison and in analysis of respondent's answers. The target respondents for the study were three (3). These will include; Chief Executive Officer, Finance Director, Sales Manager.



### **3.3 Data Analysis**

Data collected from the study was qualitative data. The data was checked and edited for completeness and consistency. A content analysis was performed on the data to allow for an in-depth understanding of issues in the case. Nachmias and Nachmias (1996) defined content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends.

By performing a content analysis, a clear understanding of respondents' answers was obtained. This approach had been used successfully by other researchers for previous similar studies like Muse (2006), Kathuku (2005) Muthike (2009) and Mulema (2004).

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Environmental Changes**

The study established that there had been many changes in the external environment variables, however not all these changes had large impact on AAR Credit Services Limited. The following variables had impacted AAR Credit Services Limited to above medium extent leading to the company drafting strategic responses to address the changes in these variables. In the political-legal framework, the company had faced greatest challenges from the gazetement of the Micro finance Act 2006 which require a lot of changes to be implemented internally in order acquire a deposit taking license as a micro finance, and the 2012 elections. The challenge posed by these two variables was due to the high capital requirement, high expertise level, fear and loss of business risks that would befall the company. AAR Credit Services suffered great loss during the last general elections by very high default levels experience immediately after the 2008 post election violence. Its also expected that deposit taking will greatly reduce cost of fiancé for the company.

In the technological environment, AAR Credit Services had been operating with an information system which is currently in adequate for the operations, the reporting requirements of the Micro Finance Act of 2006 and due to the improvements in technology. The current system is Insurance Premium Financing and AAR Credit Services Limited had challenges in coping with the high rate of technological development, high speed of technological transfer and high industry dependence on technological efforts. AAR Credit Services Limited was challenged by these variables due to its high dependence on ICT in its operations. The Micro finance industry is characterized with high number of innovative products enabled by the advancement in technology.

In the economic environment, the company had been affected by the high cost of credit lines, inflation, disposable income, Economic growth, consumer spending patterns, consumer willingness to spend and cost of factors of production. These variables had an impact on the affordability of credit and thus the company's bottom

line. The world economic down town of 2008 and the uncertainty of the Kenyan political situation also caused economic challenges to AAR Credit Services Limited.

The socio-cultural environment variables like younger population, more educated population and, changing lifestyles such as spending patterns, and social habits had an impact on AAR Credit Services Limited. The high awareness of the cost of credit among the urban population increased as the population became more elite. AAR Credit Services clients were more concerned with the value of their money and therefore demand premium services for extra interest paid. The AAR Credit Services demographic spread denotes more young married adults and more professional in the formal sector than those in the informal sector. AAR Credit Services was concerned that the young adults and professionals have a high risk of default in case someone loses employment or over committes the pay slip with no other sources of income.

Competition pressures from main stream commercial banks, new entrants, and high bargaining powers of both suppliers and customers have had a large impact on AAR Credit Services Limited. These variables threatened to reduce business and erode the company's profits. Commercial banks charge low interest rates and are financing even insurance Premium Financing and have also approached AAR Health Services Limited to offer financing at cheaper rates to their clients. AAR Health Services had also started a product with monthly installments payments through direct debit authority from the member's accounts. This has also presented a challenge to AAR Credit Services Limited as the client numbers would reduce. The interest rates in the country have reduced and thus clients are highly bargaining for better rates which erode the profitability of AAR Credit Services Limited. Credit vetting has been intensified by commercial banks and if perceived to be a high risky company the credit is availed at high interest rates. This also erodes the profitability and at times scares away the customers if it is passed on to the clients.

## **4.2 Strategic Responses**

AAR Credit Services Limited had put in place some specific strategies in response to the changes in the external environment. These strategic responses were depended on the company's internal capabilities and were found to be adequately aggressive to effectively address the threats that changes in the external environment exerted on the company. The strategies enjoyed support from the entire organization and were supportive of each other.

### **4.2.1 Information System Changes**

AAR Credit Services Limited has contracted Fintech Company a leading software developer to supply a tailor made state of the art Information System known as finmfi which has been approved by the Central Bank of Kenya who are the regulators for the industry. This is a real time system which is user friendly and integrates the front office operations to the back office therefore giving real time reports anytime they are required. The system will also have communication facilities like bulk sms, and well as adopting mobile money transfer and mobile banking services. The new system will ensure full compliance with the regulators as well as offering value additional services to the clients. The new IT system was expected to increase effectiveness and efficiency in operations by automating business processes and promoting real time capturing of business transactions and controls.

The company has also commissioned an interactive web site and with the new system members will be in a position to query their accounts from their mobile phones. The system had been in response to the need for a streamlined system, enhanced accountability, robust internal controls and provision of real time data for decision making triggered by availability of new technology. The benefit of the IT system has included reduced customer turnaround time to ten (10) minutes that is above the industry average.

### **4.2.2 Diversification**

The Insurance Premium financing market in Kenya was getting saturated with all commercial banks and other financial companies offering similar services as those of AAR Credit Services. The Insurance premium financing market at AAR Credit Services is seasonal as it follows the renewal trends of the financed insurance companies. AAR credit Services Limited was therefore pressed with a need of having a steady stream of income that the insurance premium financing alone could not provide. To respond to the threat of new entrants AAR Credit Services Limited diversified its services into the highly profitably unsecured personal loans and Asset Financing. The company has introduced unsecured loans for the staff of AAR Health Services and also signs up agreements with other companies such as PC world to give loans to their staff and then arrange for deduction to be done at source. The company has also started financing ICT company's clients such as PC World, ICN Toshiba, Sharp electronics, Ibrahim's Electronics and Elite Computers.

The company also started to give loans to other small and medium companies which may not access huge amounts due to lack of credit history or high perceived risk. This other channels are very lucrative as the interest charged are at the discretion of AAR Credit Services limited and the buyers do not have much alternative. This diversity was in response to the increased competition posed by new entrants and it was a different line of business from the Insurance Premium Financing. Thus AAR Credit Services Limited was assured of a sustainable income. Revenues of the company have stabilized over time as the new line of business has added to the number of services that the company provides, this has had the desired effect of steady streams of income.

### **4.2.3 Innovation**

The Micro finance industry was facing stiff competition and the only way to create an edge is to innovate products as well as the operational processes. Most companies in the insurance Premium financing offered just that but AAR Credit Services had innovated other value adding services to create premium products. Such services include offering unsecured loans as long as one is a client of insurance premium

financing, enabling clients to get covers immediately upon receipt of documents, charging different interest rates for different premiums. The staffs have also been given the full mandate to deal with the client and make final decisions. This is a procedural innovation in order to reduce on time wasted on consultation and provide a one stop solution to all clients. The AAR Credit uses the sales force of AAR Health Services Limited and those of other financed companies like Copy cat, Sharp Electronics, Elite Computers to sell on its products. It also gives them incentives like shopping vouchers to increase their sales. The use of this sales people reduces the operational costs and ensures high quality staff sells its products.

#### **4.2.4 Product Differentiation**

AAR Credit Services Limited had always strived to be perceived as different by market. In order for AAR credit Services Limited to achieve this objective it has gone to great length to create a specific image to the eyes of the market. Most companies offering Insurance Premium financing services have the same image and thus clients do not feel the difference between them. AAR Credit Services Limited portrays an image of a high quality service that offers high quality within the shortest time possible and high customer service.

AAR Credit Services Limited has agreements with most insurance companies that enable them advance cover even with an e mail communication from them to the insurance company. They also provide personalized serviced to the extent that customer service executives know their clients by their first names. All their loans are processed within 24 hours while insurance premium financing is done on a real time basis or as per the agreement with the specific insurance company.

AAR Credit Services Limited internal layout includes spacious meeting rooms cozy seats spacious office setting that removes a feeling of congestion and offers a high class treatment feeling. The aim is to make clients feel like they are dealing with the best company in the industry and also feel appreciated.

#### **4.2.5 Product Development**

At the beginning, AAR credit services Limited was only financing AAR Health Services Limited premium subscription but due to changes in the market the company has developed other products in order to increase its revenue and add more value to its clients. The company started by entering into an agreement with the then AIG Kenya (currently Chartis Kenya Limited) to finance staff of AAR Health Services for their motor vehicle insurance. This proved very profitable and was replicated to other clients of AIG and later to other insurance companies like Lion of Kenya, Jubilee, APA insurance among others.

Due to the need by the staff to borrow money, they started a skim to loan to staff against their salaries and the same has now being replicated to companies like PC World. Each product has its own interest rate and even in asset financing each company is financed different from the others. This ensures that each company is treated differently from the rest and therefore ensures there is personalized service.

The company has responded to the threat competition as a result of new entrants. AAR Credit Services Limited varies its products and prices according to the needs of its clients. For instance the interest charges on corporate loans is specific to the company taking the loan and also the asset financing interest rates and method of computation is specific to the company from which you purchase the product and even in some instances specific products in the company. The AAR health Membership financing is negotiable depending on the financed amount. This ensures that the clients services are not standardized rather they are highly specialized.

#### **4.2.6 Culture and organisation Structure Changes**

AAR Credit Services Limited promotes an open door policy where it is very easy to access senior management without setting appointments. This culture has enabled easy share of information horizontally among the same level of management and vertically across different levels of management. AAR Credit Services Limited also moved from formalized interactions to a near informal way of interacting among staff, management and with suppliers. This has had the benefit of better business

relationships and more trust among staff and management. All staff irrespective of their position is addressed using the first name and they do not use Mr or Mrs while addressing each other. AAR Credit Services Limited has also promoted a culture of constant meeting by way of its Thursday meetings which is called the management meeting where the staff and management meet over lunch to evaluate the progress and discuss the way forward.

The management also uses the meeting to explain the new developments to the staff. There is also free communication through email to all staff and they all enjoy unlimited internet access. This has promoted communication in the organization. Accompanying this change of culture was a change of reporting structure. Previously the structure had several levels but this was changed and now adopted horizontal structures where there are only the Chief Executive Officer as the head of the organisation, Finance director as the deputy and all the other staff report to the Finance Director in their specific area of operation. This has enabled better communication and faster decision making hence implementing flexibility in their operations.

#### **4.2.7 Strategic partnership and franchise**

AAR Credit Services Limited has embraced this strategy by forming business alliances and partnerships with specialized companies in order to increase its customer reach and increase its revenue base. AAR Credit Services Limited has formed a business partnership with Tamarind gardens a renowned company specializing in construction and sale of houses to construct some apartments for sale. The company has also formed partnership with banks like Equity bank which give huge credit lines and also human capacity support. They have hired a consultant to help in the transitional process into a deposit taking micro finance company.

The company has also partnered with Afya Sacco in order for it to loan to Afya Sacco members and then they split the revenues earned from the arrangement. AAR credit Services Limited has also formed a partnership with Post bank Kenya Limited to give loans to its customers since post bank is not authorized to loan but has a huge customer base, AAR credit now lends to their clients based on the savings of the customer. The company has also partnered with several computer companies in order to finance their



customers. An example is Copy Cat Limited where their customers like schools are financed by AAR Credit but it's the sale staff of Copy Cat who sell the products. This has enabled the company to operate with a lean staff that serves a very large market.

The company also formed an alliance with the Loita Capital partners where the company bought some shares in the company and in exchange one of its subsidiaries supplied the state-of-the-art software and is charged with the responsibility of maintaining the software at subsidised fees. This was done to ensure access of high quality software but at favorable costs.

AAR Credit Services is an international company with presence in three countries in the East Africa region. However, the company's subsidiary in Uganda is just able to break even while they have franchised the Tanzania entity due to losses to Micro Africa, a company that has been successful operationally in Tanzania. Micro Africa Limited took over Tanzania business and will continue operations with the brand name then pay brand royalties to the parent company here in Nairobi. Despite concentrating its main operations in Kenya and Uganda, AAR Credit Services is aware of the benefits that are brought about by globalization and thus the decision to adopt a franchise method so that upon acquiring internal capability, the company can regain direct control of the Tanzania office in the future.

### **4.3 Discussion of Results**

The strategic success hypothesis of Ansoff and Mc Donnell (1990) argues that a firm's performance is optimized when the aggressiveness of its strategic behavior matches environmental turbulence, the responsiveness of the firm's capability matches the aggressiveness of its strategy and the component of the firm's capability supports each other. The results of this study have supported this hypothesis and demonstrated that the various strategies adopted by AAR Credit Services are dependent on the environmental turbulence and its internal capability. The realignment of the organisation structure from vertical to horizontal has developed internal capability of quick decision making and high feedback levels to management thus facilitating specialized services and creating a niche for their customers. This has facilitated the use of product differentiation as a strategy to counter its competition. In some instances, AAR Credit Services has been forced to adopt less aggressive strategies like partnership and business alliances where the competition is

stiff but there is a serious lack internal capability to counter the completion. This has enhanced its survival despite the high completion in the industry.

The studies also have evidence that supports the theory of Pearce and Robinson (1997) that in order for organization to achieve their goals and objectives it is necessary for them to adjust to their environment. From the above study it is evident that AAR Credit Services Limited had to adjust to the changes in its external environment by adapting strategic responses like restructuring, differentiation, and franchise in order to achieve its goals and objectives as set out by the management and the Board of governors.

The results of this study are comparable to other similar studies done to determine how different organizations have responded to changes in the environment such studies include Kiptugen (2003) did a study on the strategic responses to changing competitive environment, a case of Kenya Commercial Bank, Mulema (2004) carried out a study of responses to the environment in the service industry focusing on the Teachers Service Commission. Kandie (2001) focused his study on Telkom Kenya Limited. Migunde (2003) carried out his research on the Kenya Broadcasting Corporation and Mwanthi (2003) studied the British American Tobacco Kenya Limited. Muthike (2009) did a study on the strategic responses of Acacia Medical health to changes in the external environment.

## **CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS**

### **5.1 Summary of Findings**

The study set out to determine the strategic responses that AAR Credit Services Limited had put in place to deal with the changes in the external environment. The study made use of primary data and secondary data.

#### **5.1.1 Strategic Responses to Changes**

The study established that in coming up with strategies, AAR Credit Services management and Board considers the changes in the external environment and the internal capability of the organisation. This dictates the aggressiveness of the strategy that the organisation adopts. The strategies which have been adopted by AAR Credit Services Limited included franchising of its international branches to help consolidate its local market, Marketing mix, partnerships and business alliances, initiating culture and organizational changes aimed at strengthening its internal capacity and aligning it to external changes in the environment. The company carries out continuous product development in order to serve the expanding market as well as retaining the current customers due to the changing tastes and preferences.

AAR Credit Services limited also carries out product differentiation which is used to target the specific clientele. The loan product is normally highly differentiated to serve specific clients. The interest charged for financing assets by AAR Credit Services Limited is specific to the company and the products within the financed company. This has created customer loyalty due to the specialized nature of service at AAR Credit Services Limited.

AAR Credit Services Limited also carries out continuous innovation of its products and procedures. The process of continuous innovation of both products and services has led to diversifying of the product lines and therefore increase revenue streams for the organisation. The company originally was financing insurance premiums but over the years it has changed the procedures of financing. Previously, the physical

documents were the evidence for financing to the insurance company but this has changed to e mail communication as a confirmation process in order to reduce the lead time of transactions. AAR Credit Services Limited has invested heavily on information system with the aim of reducing the staff numbers and increase efficiency in the service delivery. The continuous upgrading the information systems has been used as a response to differentiation and implementation of flexible interest rates as well as assisting in monitoring of the debt portfolio of the company.

## **5.2 Recommendations**

AAR Credit Services Limited had been very successful in its strategic responses and had managed to dominate the Insurance Premium Financing industry. This is however being threatened by the high cost of interest charged by the company and therefore AAR Credit Services Limited should move very fast to comply with the regulations and get a license to operate as a deposit taking Micro Finance institution as this would reduce its cost of funds. This would facilitate development of more products and increase the loan portfolio to its clients.

The company's products are all short term loans with the longest being 3 years. All loans short-term loans are expensive and clients qualify for smaller amounts. To guarantee long term business, AAR Credit Services Limited should venture into long term financing which is more profitable than short term financing. This should be facilitated by increasing the equity contribution by the shareholders to finance the long term venture. This would help develop its internal capability and manage to tackle the competition more aggressively even at the international front.

AAR Credit Services Limited should invest in human capital by hiring extra work force so that staffs do not have to handle too many roles. This will increase the levels of staff specialization and thus establishing specific departments that serve specific needs of the clients.

### **5.3 Limitations of the Study**

The biggest challenge in conducting the study was due to the fact that most companies keep their strategies confidential because they use them to gain competitive advantage. Therefore, the respondents were not very willing to disclose their strategies in some cases or give details of how they have implemented them. This could have limited the study because the success rate could be under estimated. The time available for the study was also limited and especially in data collection considering the interview method of data collection.

The other challenge was on accessing some of the senior management due to their busy schedules. Therefore, in some cases the study relied on data from the two senior managers, The Finance Director and the Marketing Manager, which may have limited the research findings. Lastly, this study focused on senior management only while the company's stakeholders are many. The findings of this study are therefore limited to the views from senior management only.

### **5.4 Suggestions for Further Study**

The study focused on AAR Credit Services Limited's responses to environmental changes. To further understand, the strategic responses possible for these changes, further studies could be carried out in the other companies in the industry affected by the same environmental changes. This would give a clear understanding of the industry as a whole.

A further study could be carried out to understanding why AAR Credit Services had chosen to use these strategies. Lastly, the environment is dynamic and keeps changing overtime. With these changes, the strategic responses were expected to change. Therefore, further studies could be carried out on AAR Credit Services to determine how the company would alter its strategies to other changes in the environment in future.

## **5.5 Conclusion**

AAR Credit Services Limited had employed a great mix of strategic responses in order to cope with environmental changes. The company used some of the strategic responses as advocated by Pearce and Robinson's (1991) namely concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation. Despite being among the market leaders in the insurance premium financing industry, the company engaged in the strategic planning and constantly monitored the external environment in order to design the strategic responses.

The use of strategy despite being a market leader showed that strategy was important for a company that was facing changes from the external environment. From the results of the study, we can conclude that future profitability of the company can only be guaranteed by the continuous monitoring of the external environment and design of the response strategies and aggressiveness which consider the internal capabilities of the company. This was because environmental changes were continuously exerting pressures on the environment and failure to change could be detrimental to the going concern of the company.

## REFERENCES

- Abbot, D.J. (2007, July 17). This Thing Called Strategy. Daily Nation. Retrieved August 31<sup>st</sup>, 2009, from <http://dn.nationmedia.com>.
- Ansoff, I. (1984). *Implanting Strategic Management*. London: Prentice-Hall.
- Ansoff, I. and McDonnell, E. (1990). *Implanting Strategic Management*. Englewood Cliffs, NJ: Prentice-Hall.
- Aosa, E. (1992). *An Empirical Investigation of Aspects of Strategy Formulation and Implementation within Large Private Manufacturing Companies in Kenya*. Unpublished PHD Thesis, University of Strathclyde, Scotland.
- Burnes, B. (2004). *Managing Change: A Strategic Approach to Organizational Dynamics*. England: Prentice-Hall.
- Byars, L.L. (1991). *Strategic Management: Formulation and Implementation*. Harper Collins Publishers.
- Chandler, A. (1962). *Strategy and Structure: Chapters in the History of American Industrial Enterprises*. Massachusetts: Cambridge MIT Press.
- Chase, R.B., Aquilano, N.J and Jacobs, F.R. (2003). *Operations Management for Competitive Advantage*. New York: McGraw-Hill Companies Inc.
- Ferrell, O.C., Hartline, M.D. and Lucas, G.H. (2002). *Marketing Strategy*. New Delhi: Vikas Publishing House.
- Ghemawat, P. (2007). *Managing Differences: The Central Challenge of Global Strategy*. *Harvard Business Review*, March 2007, 58 – 68.
- Johnson, G. and Scholes, K. (1997). *Exploring Corporate Strategy*. Europe: Prentice-Hall.
- Johnson, G., Scholes, K. and Whittington, R. (2005). *Exploring Corporate Strategy: Texts and Cases*. England: Pearson Education Limited.

- Kandie, P. (2001). *A Study of the Strategic Responses by Telkom Kenya Limited in a Competitive Environment*. Unpublished MBA Project, School of Business, University of Nairobi.
- Kanter, R.M. (1989). *When Giants Learn to Dance: Mastering the Challenges of Strategy Management and Careers in the 1990s*. London: Unwin.
- Kathuku, J.K. (2005). *The Strategic Responses to Changes in the Environment by the Cooperative Bank of Kenya Limited*. Unpublished MBA Project, School of Business, University of Nairobi.
- Kiptugen E.J. (2003). *The Strategic Responses to Changing competition Environment* Unpublished MBA Project, School of Business, University of Nairobi.
- Kothari, C.R. (1990). *Research Methodology: Methods and Techniques*. New Delhi: Wishwa Prakshan.
- Lalampaa T. J. (2006). *Responses by the Higher Education Loans Board to Environmental Challenges of Financing Higher Education in Kenya*. Unpublished MBA Project, School of Business, University of Nairobi.
- Microfinance Act, 2006 (Laws of Kenya).
- Migunde, F.A., (2003). *Strategic Responses by the Kenya Broadcasting Corporation to Increased Competition*. Unpublished MBA Project, School of Business, University of Nairobi.
- Mintzberg, H. (1987). *Crafting Strategy*. *Harvard Business Review*. (July/August, 66-75).
- Mintzberg, H., Quinn, J.B. and Ghoshal, S. (1998). *The Strategy Process*. London: Prentice Hall.
- Mulema, N. (2004). *Responses to Changes in the External Environment in the Service Industry: A Case of the Teachers Service Commission*. Unpublished MBA Project, School of Business, University of Nairobi.



- Muthike, P. (2009). *Strategic Responses by Acacia Medical Centre Ltd to Changes in the External Environment* . Unpublished MBA Project, School of Business, University of Nairobi.
- Muse, N. (2006). *Responses to Environmental Challenges by Agricultural Finance Corporation of Kenya*. Unpublished MBA Project, School of Business, University of Nairobi.
- Mwanthi, J.W. (2003). *Strategic Responses of the British American Tobacco Kenya Limited to Current Environmental Challenges*. Unpublished MBA Project, School of Business, University of Nairobi.
- Nachmias, C.F. and Nachmias, D. (1996). *Research Methods in the Social Sciences*. Edward Arnold Inc.
- Pearce, J.A. and Robinson, R.B. (1991). *Strategic Management: Strategy Formulation and Implementation*. Illinois: Richard D. Irwin Inc.
- Pearce, J.A. and Robinson, R.B. (1988). *Strategic Management: Formulation, Implementation and Control*. Illinois: Richard D. Irwin Inc.
- Pearce J.A. and Robinson, R.B. (1997). *Strategic Management: Formulation, Implementation and Control*. USA: The McGraw-Hill Companies Inc.
- Porter, M.E. (1980). *Competitive Strategy. Techniques for Analyzing Industries and Competitors*. New York: The Free Press.
- Proctor, T. (2000). *Strategic Marketing: An Introduction*. London: Routledge.
- Robinson, M. 2001. *The Microfinance Revolution: Sustainable finance for the Poor*. The World Bank

## **Appendices I: INTERVIEW GUIDE**

1. What is your general description of the external environment in which AAR CS is operating?
2. Does AAR C S have a strategic plan and how often is the plan reviewed to reflect the changes in the environment?
3. At what level in the organization are strategies made?
4. To what extent have changes in competitive pressures impacted on AAR C S? Which strategies did you use to respond to these changes?
5. To what extent have changes in socio-cultural variables impacted on AAR C S? Which strategies did you use to respond to these changes?
6. To what extent have changes in economic variables impacted on AAR C S? Which strategies did you use to respond to these changes?
7. To what extent have changes in the political-legal variables impacted on AAR C S? Which strategies did you use to respond to these changes?
8. To what extent have changes in the technological advancement impacted on AAR C S? Which strategies did you use to respond to these changes?
9. Are there any environmental changes that have impacted on your company's strategies and how have you responded to such changes?
10. What are some of the factors within the organization's internal environment that affect AAR C S?