RESPONSE STRATEGIES ADOPTED BY FINANCIAL INSTITUTIONS IN THE MORTGAGE INDUSTRY TO THE REQUIREMENTS SET OUT IN THE HOUSING AND URBANIZATION SECTION OF KENYA'S VISION 2030

BY:

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

To my husband Humphrey and my two sons Alec and Nathan for their enduring love and support.

ABSTRACT

The Government of Kenya (2007) launched the country's vision "Kenya Vision 2030 –A Globally Competitive and Prosperous Kenya." Kenya's vision 2030 is the long-term development blueprint for the country motivated by a collective aspiration for a better society by the year 2030. The aim of Kenya Vision 2030 is to create a "globally competitive and prosperous country with a high quality of life by 2030". The social pillar, which this paper is based on, seeks to create a just cohesive and equitable social development in a clean and secure environment by investing in the people of Kenya.

For the country to achieve the intended goals for the year 2030, close partnerships and collaboration efforts will have to be fostered between the Government and the private sector, civil societies and all other relevant stakeholders in Kenya's economy. This perspective created by the government through the vision 2030 has in turn fashioned the need for organisations to re-look their strategies.

This study, therefore, aimed at investigating what financial institutions in the mortgage industry have done, are doing or are planning to do in order to align themselves to the objectives set out in Kenya Vision 2030. For this study, the target population comprised of the financial institutions with a mortgage portfolio of over one billion. The study mainly used primary data, which was collected using a questionnaire that was administered either personally or via a telephone interview. The data obtained strived to explain the findings on the research problem and is presented in tabular form, percentages and uses descriptive statistics.

Findings from the research reveal that a very small percentage of the firms investigated are actually doing something to ensure they are catering to the needs of vision 2030, and those organizations that are indeed doing something towards the set objectives are yet to accrue any real benefits to the business. Several issues have also been noted to be the reasons why the alignment of the vision's objectives within the financial institutions still remains a challenge.

Organizations should therefore embrace vision 2030's proposed footprint as Kenya as a country has a lot of potential in the area of housing as currently there are only 13,803 mortgage loans out of a population of 30 million. This presents numerous opportunities for financial institutions engaging in the housing industry.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Kenya as a country has been politically stable since it gained its independence in 1963, and the Government has been embarking on policies that focus on economic development, building up the country's infrastructure and generating employment in a move directed at creating an investment-friendly environment. The Kenyan business environment has also been undergoing drastic changes for some time now, most of which are as a result of the accelerated implementation of economic reforms by the government, the liberalization of the economy, privatization and partial commercialization of the public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations in order to reflect the new external realities. Failure to do this may put the future success of the organization in jeopardy (Kanter, 1999).

The Government of Kenya (2007) launched the country's vision "Kenya Vision 2030: A Globally Competitive and Prosperous Kenya." The vision is expected to form a development blueprint for the country with the aspiration of making Kenya a better society by the year 2030. In order to realize the objectives set out, the Government of Kenya must work with all stakeholders in the country. This study focused on the social pillar of the vision, and more specifically, the Housing and Urbanization chapter that seeks to provide all Kenyans with adequate and decent housing in a sustainable environment through initiatives that aim to increase the building capacity of the building industry, allow for legislative, institutional and regulatory reforms, provide low cost housing as well as provide mechanisms that allow easy access to finance for low income households.

To delve further, the study looked at financial institutions that have critically embraced the issues highlighted in the vision relating to housing and urbanization and provided response strategies that will curb the deficiencies noted in the housing sector.

1.1.1 Strategic Responses and the Environment

The environment in which organizations operate is constantly changing, spurred on by the different factors influencing these organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Pearce and Robinson (2005) noted that coping with the increasingly competitive environment has called on firms to rethink their marketing strategies. Response strategies are concerned with decisions and actions meant to achieve business objectives and purpose. The strategic management planning process plays a very important role in leading an organization towards its desired goals. In today's business environment, it is a requirement for organizations to critically evaluate themselves holistically with the aim of internally reviewing and analyzing its competencies. An organization should be able to answer the questions where are we now, where do we want to go and in how long do we need to get there.

Porter (1998) stresses that when selecting the response strategy to be used by an organization, management usually undergoes the process of analyzing the competitive environment, strategic moves as well as signals, analyzing the industry by looking at the specific market segments and selecting a competitive strategy based on identified target market segments, strategic options and SWOT analysis.

This therefore implies that for an organization to survive in an ever-changing competitive environment, it is imperative that they adapt to these environmental needs and developments or risk being rendered extinct or obsolete to survive. Migunde (2000) is of the view that as the business operating environment changes, a more pronounced transformation of the business landscape lies ahead. Therefore, a response strategy is vital to the adaptation to the changing business environment.

1.1.2 The Housing and Urbanization Section of Vision 2030

Kenya's vision 2030 is the long-term development blueprint for the country motivated by a collective aspiration for a better society by the year 2030. The aim of Kenya Vision 2030 is to create a "globally competitive and prosperous country with a high quality of life by 2030". It aims to transform Kenya into "a newly – industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment". This vision is anchored on three key pillars that will further drive the country to being more developed and accelerated towards growth. These pillars are Economic, Social and Political Governance. The pillars are then anchored on the following foundations: Macroeconomic Stability for Long Term Development, Enhanced equity and wealth creation opportunities, Infrastructure, Energy, Science Technology and

Innovation (STI), Land Reform, Human Resource Development, Security and Public service.

The Economic pillar aims to achieve an average economic growth rate of 10% per annum and sustaining the same till 2030 in order to generate more resources to meet the MDGs and vision goals. This pillar, whose operation mantra is “Moving the economy up the value chain” will use 6 identified sectors to drive Kenya’s economy upwards, namely, Tourism, Agriculture, Manufacturing, Wholesale and Trade, Business Process Outsourcing (BPO) & Financial Services.

The social pillar seeks to create a just cohesive and equitable social development in a clean and secure environment by investing in the people of Kenya. This will be achieved by transforming the following key social sectors: Education and Training, Health, Water and Sanitation, the Environment, Housing and Urbanization and finally Gender, youth, Sports and Culture while at the same time making special provisions for Kenyans with various disabilities and those from marginalized communities.

The Political pillar aims at realizing an issue based, people-centered, results – oriented and an accountable democratic system with the sole purpose of moving to the future as one nation. The transformation of the country’s political governance system will take place across six strategic areas which include: Rule of Law, Electoral and Political processes, Democracy and Improved Public Service Delivery, Transparency and Accountability, and finally, Security, Peace Building and Conflict Management. These three pillars are all geared towards ensuring that Kenya successfully realizes its vision of "globally competitive and prosperous country with a high quality of life by 2030" (Government of Kenya, 2007).

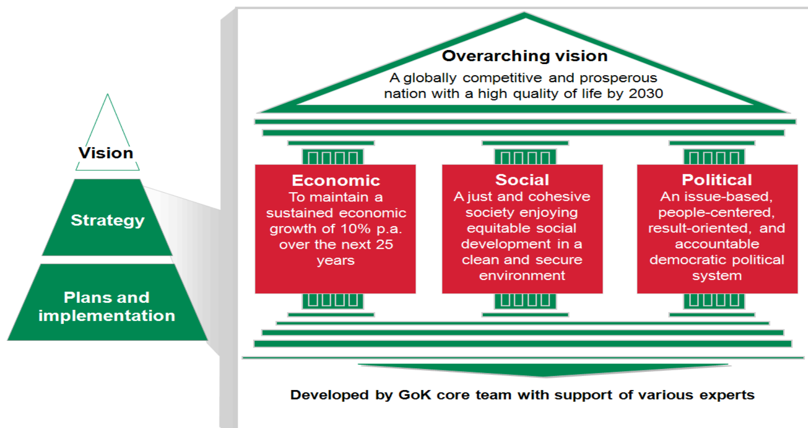

Figure 1: Kenya's Strategic Pillars for the Vision 2030.

Source: Delivering the vision, September 2007 – PPT (NESC Vision workshop, January 13–14 2006, Naivasha, Kenya)

The Kenya Vision 2030 is to be implemented in successive five-year Medium-Term Plans, with the first such plan covering the period 2008 – 2012. At an appropriate stage, another five-year plan will be produced covering the period 2012 to 2017, and so on till 2030. During the life of the Vision, strategies and action plans are expected to be systematically reviewed and re-adjusted in order to effectively respond to the changing global, regional and local environment.

This housing and urbanization section of vision 2030 seeks to address the improvement in the quality of life of all Kenyans through the provision of adequate and decent housing in a sustainable environment. The Government of Kenya has come to the realization that improved quality of life amongst Kenyans cannot come about if large sections of the rural and urban population are inadequately housed. According to Government of Kenya (2007), surveys conducted indicate that the quality and adequacy of low-income housing is better in rural areas than in urban areas, implying that rural houses are less crowded and are more likely to have better access to sanitation facilities than houses located in dense urban slums. The vision recognizes that the housing sector has a critical role to play as this sector can act as one of the principle levers in the economy for creating jobs among the youth through construction and tapping into linkages with other sectors of the economy which is highlighted best through integrated planning that in turn triggers forward and backward relationships and additional investments in manufacturing of building materials, marketing, transport and infrastructure development.

The housing and urbanization sub pillar, which this paper is based on, seeks to install physical and social infrastructure in slums in at least 20 urban areas, produce 200,000 housing units annually by 2012 under public private partnerships (PPP's) and other initiatives, establish housing technology centre's in each constituency, establish a secondary mortgage finance corporation to increase housing finance, position the city of Nairobi as an all round globally competitive city in business and in tourism and finally, enact the housing bill to legislate for a one stop housing development approval mechanism. These form the flagship projects identified for the year 2012.

1.1.3 The Property and Mortgage Industry in Kenya

The Property industry in Kenya is currently booming and the increasing demand for housing remains a challenge for all property providers, especially in the supply of housing to the middle to low income brackets as majority of the houses currently being developed are too expensive for the average Kenyan. An overview of the Economic Statistics by Kenya National Bureau of Statistics as analyzed by Kimani (2010) reveals that increased home lending and high returns seen in the construction industry have encouraged the flow of billions of shillings to the property market, which has seen home prices rise 3.5 times over the past decade hence making property affordable to a significant few.

According to the Ministry of Housing (2004), it is estimated that 150,000 new and additional housing units are required in urban areas every year yet only an estimated 35,000 are currently produced annually with only 20% or 6,000 of the housing units produced catering to the low income groups. These statistics are out-of-date especially in light of the census results that were released in 2010 where the Kenyan population is seen to be growing at a rate of about 1 million Kenyans per year. Housing demand is a function of many factors: household income, the price of the dwelling, financing arrangements (including interest rates and the loan term), and the household preferences for the different attributes of the dwelling such as the location, number of rooms etc. This demand of housing in Kenya is severely constrained by low incomes relative to the housing costs. To overcome the numerous shortfalls in the country, the housing / property sector has a critical role to play in the achievement of the goals envisioned by vision 2030.

The Housing Finance Information Memorandum (2010) notes that, with increased investment from private sector and different incentives put in place by the government, it is estimated that a total of 4.3 million housing units will be produced between 2008 and 2030. Of these, 2.2 million units representing 52% of the total will be for low-income urban households.

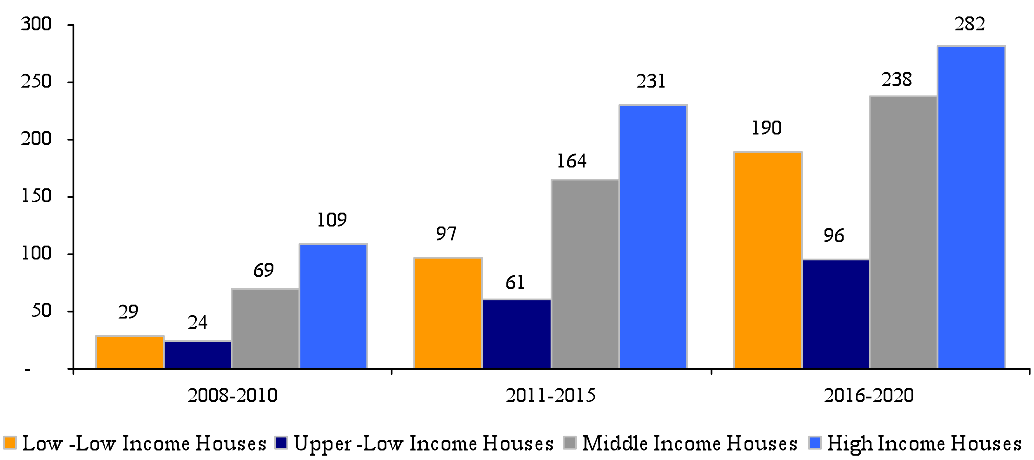

Figure 2: Housing Projections by the Ministry of Housing

Source: Housing Finance, Information Memorandum, 2010.

In a study done by the Central Bank of Kenya and the World Bank (2010), it was noted that Kenya's Mortgage market had more than tripled in the last 5 years. The market is said to have grown from Kshs. 19 billion in 2006 to just over Kshs. 61 billion by May 2010 translating to an annual average growth of 34%. Also noted in the study is the fact that the mortgage market is still relatively small compared to international standards, with only 13,803 loans indicating only a 3% penetration rate. These statistics clearly reveal that there are immense opportunities for growth in the Housing and Mortgage industry.

The Central Bank of Kenya (CBK) currently classifies banks based on assets size: large with assets above Kshs. 15 billion; medium sized banks with assets valued at between Kshs. 5 - 15 billion; and small with assets valued at less than Kshs. 5 billion. Kenya currently has 43 licensed commercial banks and one mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 Mortgage Finance Institution.

In the Central Bank of Kenya (CBK) and World Bank Report (2010), it highlighted that Kenya's mortgage market is dominated by the large banks which take up 90% of the outstanding loan assets portfolio in the market. The mortgage financing growth rates indicate that the small sized banks have the fastest growth rate of 38% on average, followed by medium banks which are growing at 25% on average and the large banks closely following at 24% on average. In addition, the report noted the fact that the market is further concentrated by having the top five lenders represent over 80% of the total mortgage portfolio. Two top banks hold over 50% of the mortgage market share and only a total of 9 banks have a mortgage portfolio exceeding Kshs. 1 billion annually.

1.2. Research problem

Markets are changing all the time, and in Kenya, the government has set up goals that will accelerate the transformation of this country to an industrialised and self-sufficient nation. The housing sector has been noted as a critical development area that will enhance and promote the growth of this country. Kenya Vision 2030 by the Government of Kenya (2007) explains that the housing sector is characterised by an inadequacy of affordable and decent housing, an outdated legal and regulatory framework that affects the amount of serviced land available to private and public sector developers, poor governance and inadequate financing to both buyers and developers. The financial sector is on the other hand faced with the following challenges: limited reach/ low penetration by the financial institutions, high interest rates resulting from the high interest rate spread between lending and deposit rates and high levels of non-performing loans. Investments into the Financial and Housing developments sectors form some of the key areas that will revitalise Kenya's economic growth.

For the country to achieve the intended goals for the year 2030, close partnerships and collaboration efforts will have to be fostered between the Government and the private sector, civil societies and all other relevant stakeholders in Kenya's economy. This perspective created by the government through the vision 2030 has in turn fashioned the need for organisations to re-look at their strategies to determine their strategic fit into building the 'new' Kenya by formulating and implementing effective response strategies to deliver the greatest value and vision for the country. Hill and Gareth (2001) acknowledge that determining the need to respond by an organization is a complex process as the executive management team must first recognize the need and factors necessitating the response strategy.

Based on the concerns highlighted in the housing and urbanization sub pillar, mortgage and financial institutions have to therefore have ways of ensuring they align themselves to the defined government set objectives in order to reap the maximum fruits. This study looked at reviewing banks with a mortgage portfolio of over one (1) billion as institutions with such a large portfolio of mortgages can be assumed to have submitted a significant proportion of its business to the mortgage product or service. These banks are as highlighted in the CBK and World Bank report (2010) and formed the basis of this study. They include; Kenya Commercial Bank, Housing Finance Company of Kenya, CFC Stanbic Bank, Standard Chartered Bank, Barclays Bank of Kenya, Commercial Bank of Africa, Development Bank, Eco Bank and First Community Bank. The statistics relating to the mortgage loan asset book by the banks in Kenya are highlighted in Appendix III.

Response studies in the banking industry have been done extensively by various scholars, for example, Miriti (2008) studied the Response Strategies by Equity Bank to competition in the Kenyan Banking Industry, Jebiwott (2008) studied the strategic responses by the Barclays Bank of Kenya to changes in the Environment, Muhoro (2009) and Limugi (2010) studied the strategic responses adopted by the Commercial Bank of Africa while Machai (2009) looked at all the strategic responses by commercial banks in Kenya to the environment. Most studies on financial institutions have been directed towards understanding the environment and the different operational facets surrounding the various organizations in the financial industry. In line with vision 2030 objectives, Muli (2010) looked at the strategic responses by the Ministry of Public Works to the challenges of Vision 2030. So far, none of the studies done have focused on the alignment of financial institutions and more specifically the institutions in the mortgage sector to the vision developed for the country.

This study therefore sought to investigate what financial institutions in the mortgage industry have done, are doing or are planning to do in order to align themselves to the objectives set out in Kenya Vision 2030. Specifically, this study sought to answer the question: What strategic responses have been adopted by financial institutions in the mortgage industry to ensure they are aligned to the housing and urbanisation section that seeks to provide Kenyans with adequate and decent housing in an adequate environment?

1.3 Research Objectives

This study was aimed at looking at and answering to the following research objectives;

i) Assess the relevance of Vision 2030 goals and objectives to specific financial institutions and review approaches adopted to further align these organizations to the developed vision for the country.

ii) Establish the benefits, if any, accruing to these financial institutions by adopting the set response strategies

iii) Establish the challenges faced by these financial institutions in adopting the defined response strategies.

1.4 Value of the study

The study will add to the existing body of knowledge on the concept of strategic response to benefit academicians and aid further research on the concept. It will also help to sensitize financial institutions in the mortgage industry as well as other property stakeholders in Kenya on the importance of response strategies and raise awareness levels on the concept, more so with respect to realigning internal operational activities of an organization to the country's overall vision. The financial institutions studied will also gain from the documentation and analysis of their response strategies and this will help them evaluate their current strategy and plan for the future.

Policy makers will benefit from the issues and insights raised in the study that are important in developing response strategies framework. The government will also be aware of the issues surrounding the adoption and implementation of vision 2030 by financial institutions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter shall delve into the strategic management framework with a view of understanding what is entailed in the strategic management process. More specifically, it evaluates components necessary to developing a competitive strategy and the various response strategies that an organization can adopt to remain relevant within the environment it operates. The chapter reviews and explores various theoretical and empirical literature developed on maintaining a competitive strategy and will also look at the various response strategies that would be available to an organization.

2.2 The Strategic Management Framework

Strategy is defined by Grant (1998) as a 'unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization'. He stresses the fact that it is not a detailed plan or a program of instructions. Grant goes ahead to explain strategy as a vehicle for achieving three key managerial processes which are: decision support i.e. simplifying decision making by constraining the range of decision alternative; coordination and communication and finally a tool for setting targets and aspirations for the company.

Aosa (1992) defines strategy as 'solving a strategic problem, which is a mismatch between the internal characteristics of an organization and its environment, by matching organization's core capabilities with the external environment, and minimize the impact of threats from the external environment'. Strategic planning is the core of the work of an organization. Without a strategic framework, an organization will not know where it is going, why it is headed in a particular direction and it therefore will not matter how it gets there. Barney (2007) indicates that a firm's strategy is its theory of how to compete successfully, that is, it is its best guess about what the critical economic processes in an industry or market are and how it can take advantage of these economic processes to enhance its performance.

According to Mintzberg, Lampel, Quinn, and Ghoshai (2002), companies are always formulating (or reformulating) their strategies more so when the companies are at crossroads, facing new threats or facing attractive opportunities. Determination of a suitable strategy for a company begins with identifying the opportunities and risks in its environment. Change in the environment of the business necessitates continuous monitoring of a company's definition of its operations lest it becomes obsolete. By definition, the formulation of strategy is performed with the future in mind, executives who take part in the strategic planning process must be aware of aspects of their company's environment especially those susceptible to the kind of change that will affect their company's future.

Akbar (2010) in his article, '*Elements of strategic management process',* mentions that strategic planning is more leadership driven and vision-based. He explains it as a process where the leaders decide on principles that will guide the organization toward established goals. He describes five components of the strategic management process which include developing a strategic vision, setting objectives, creating a strategy, executing the

strategy and evaluation for the purposes of measuring performance and correcting for future action. Barnat (2007) states that the implementation of an organization's strategy involves the application of the management process to obtain the desired results. Particularly, strategy implementation includes designing the organization's structure, allocating resources, developing information and decision processes, and managing human resources, including such areas as the reward system, approaches to leadership, and staffing. He also noted that the critical step in implementation is identifying the activities, decisions, and relationships critical to accomplishing the set objectives.
"Strategies need to be implemented once developed otherwise they are valueless unless effectively translated into action" (Aosa, 1992). To ensure success, Pierce and Robinson (1997) dictate that the strategy must be translated into carefully implementable actions. This means that the strategy must be translated into guidelines for daily activity of the firm's members and the strategy and the firm must become one i.e. the strategy must be reflected in the way the firm organizes its activities and in the firm's values, belief and tone (structure). It is a widely known and accepted fact that managing an organization strategy is easier when it is consistent with the organizations culture that is the shared values, beliefs and attitudes that shape the behavior of each member of the organization. The priorities and attitudes of the strategy and the culture need to coincide and if that is not the case, it then becomes very difficult to implement the strategy.

In implementing the strategy, the firm's managers must be able to direct and control actions and outcomes and adjust to change. This can be best achieved by empowering the operating personnel through policies to guide decisions and actions. For the strategy to become a reality, the people in the organization who actually ‘do the work’ of the business, need guidance in exactly what needs to be done today and tomorrow to make the set strategies become a reality. Further, organizations must maintain flexibility with regard to their strategies as decisions made with respect to today’s markets and technological circumstances may be suboptimal with regard to tomorrow’s competitive circumstance.

It is important to note that strategy formulation and strategy implementation decisions are highly interrelated. The desired results of an organization are established during the formulation phase while the implementation phase resolves to putting these formulated strategies to work, hence the realization that no strategy, no matter how well developed can succeed if not well implemented. It therefore becomes necessary for the organization to ensure that strategy implementation has been given key emphasis by the organization’s key stakeholders and that the strategic management processes are working in tandem with each other so as to avoid any unintended drift from the formulated strategy. Managers should therefore develop a systematic framework for thinking through various issues faced within the organization whether political, environmental, social or economic and should at the same time have contemplated a managerial response mechanism that should then be used to guide the organization through its operations.

2.3 Developing a competitive strategy.

Sustainable competitive advantage can be defined as the ‘prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of the selected strategy. Barney (2007) observes that a firms performance is defined by comparing the willingness of the firms customers to pay and a firms cost of developing and selling its products or services. He goes on to explain that firms that create greater economic value than their competitors gain competitive advantages, which can either be temporary or sustained; firms that create the same economic value as their competitors gain competitive parity; while those that create less economic value end up with competitive disadvantages which can also be temporary or sustained.

Kotelnikov (2001) notes that the opportunity for any organization to sustain its competitive advantage is determined by its capabilities of two kinds – distinctive capabilities and reproducible capabilities – and their unique combination effects to create and achieve synergy. The distinctive capabilities are those characteristics of the company which cannot be replicated by competitors, or can only be replicated with great difficulty; and these form the basis of an organizations' sustainable competitive advantage. Distinctive capabilities can be of many kinds: patents, exclusive licenses, strong brands, effective leadership, or tacit knowledge. Reproducible capabilities are those that can be bought or created by your competitors and thus by themselves cannot be a source of competitive advantage. Many technical, financial and marketing capabilities are of this kind. The organization's distinctive capabilities need to be supported by an appropriate set of complementary reproducible capabilities to enable the company sell its distinctive capabilities efficiently. These same capabilities have been defined by Johnson, Scholes and Whittington (2008) as unique resources and core competencies.

In an article by Pun (2011) highlighting Igor Ansoff's strategic success model, Ansoff advices that for a firm to optimize its competitiveness, performance and profitability, its strategy must match the environment and its supporting capability must match its strategy. He also recognizes that companies operating in different environments need different types of strategic recommendations to succeed therefore structures and strategies in the organization must be reflective of the happenings and complexities in the environment. The environmental turbulence surrounding an organization will normally cause an organization to adopt strategies and capabilities needed to competitively realign itself, for example, a firm in a stable and repetitive environment will probably adopt a highly structured and hierarchical work order while an organization that exists in an industry that is in constant flux will instinctively be more innovative and be receptive to implementing new ideas in its day to day operations. It therefore becomes important for firms to realize that for any organization to succeed, companies will need to constantly review the environments in which they operate, renew their strategy to match the environmental shifts, redesign their capability to fit into the newly designed strategy and manage resistance to change to realize the new strategy. Ansoff's strategic success formula emphasizes this.

It is important to note that sustainable competitive advantage cannot be achieved if the strategic capability of the organization is the same as its competitors; therefore, it is necessary for an organization to clearly define its strategic intent/ reason for existence. This can only be achieved once an organization has done a critical assessment of the environment in which it operates. To remain competitive in a dynamic environment, Wheelen and Hunger (2004) note that organizations have to become less bureaucratic and more flexible with organizations adopting a 'learning lifestyle', a formulation that avoids stagnation in the organization through continuous self-examination and experimentation.

2.4 Response Strategies.

Success in organizations is achieved by identifying growth segments within an overall market, enhancing quality and stressing operating efficiencies. Johnson, Scholes and Whittington (2008) note that the survival of organizations and the success of strategies are influenced by the ability to respond to competing pressures from the business environment. It is these competing pressures that create motives for pursuing some strategies and not others. These motives can either be environmentally based where a business strives to fit new strategies to the changing the environment, capability based where a business stretches and exploits the resources that enhance its competencies and can also be expectation based where a business endeavors to meet the expectations created by the cultural and political context. They go on to tackle various strategic options that would be available to an organization to ensure its success. According to these authors, an organization can opt to protect and build on its current position through strategies such as consolidation and market penetration, enhance is product and market development strategies with the aim of acquiring new markets or diversify its activities.

According to Johnson, Scholes and Whittington (2008), consolidation is concerned with the maintenance of market share in the existing markets and can be achieved through downsizing or withdrawal of some activities depending on the stated life cycles of a product, a company's prioritization and expectations of its activities or based on the realization of its competitive disadvantages. Market Penetration on the other hand is concerned with building on an organizations position to ensure a gain in market share. It is however highlighted that market penetration will depend on factors such as market growth rate, available resources and the complacency of market leaders. Product development occurs when changes in the environment create demand for new products or services and therefore requires an organization to deliver modified or new products to existing markets. Organizations should carefully monitor and strive to keep up with the changing needs of the customer. Johnson, Scholes and Whittington (2008) also note that market development is where existing products are offered to new markets. This happens in situations where an organization faces no further opportunities within the current market segments. Diversification on the other hand occurs when an organization moves away from its current market and products. Diversification activities whether related or unrelated will in most cases require a big investment in terms of resources therefore organizations need to use this strategy cautiously, taking note of its parenting capabilities that will allow and manage the more diverse set of operations resulting from the diversification activities.

Wheelen and Hunger (2004) are of the opinion that organizations will generally have three general orientation strategies depending on its strategic intent. These are growth strategies which seek to expand the company's activities, stability strategies where an organization opts to make no change to the company's current activities and retrenchment strategies which reduce the company's levels of activities.

Barney (2007) notes that there are two broad types of strategies that organizations can adopt, these are, business and corporate strategies. Business strategies according to Barney are those that a firm can take within a single market or industry to gain competitive advantage while corporate strategies are those that firms can take to gain competitive advantage by leveraging their resources and capabilities across several markets and industries simultaneously. Business strategies include cost leadership, product differentiation and tactic collusion which can be defined as cooperation between firms with the aim of reducing competition. Corporate strategies on the other hand include strategies such as vertical integration where a firm extends its services up the value chain, diversification strategies, strategic alliances and finally mergers and acquisitions.

Following the analysis above of the different response strategies available to an organization, an organization should always ensure that the new strategies being adopted fit into the future trends and changes in the environment to exploit the strategic capability of the organization and meet the expectations of the stakeholders. No matter which strategy is adopted by an organization, the aim should always be to eliminate weakness while exploiting opportunities for the organization.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was followed in carrying out the research to ensure that the objectives of the study were met. This section will outline how the research was designed, the techniques for data collection and analysis. This section will draw attention to the following sub sections; research design, target population, data collection and data analysis.

3.2 Research Design

The research design adopted for this study was a survey analysis. The research design provides a guide within which the collection and analysis of data is done in a manner that aims to combine relevance to the purpose of the research. For this study, the research design in case of descriptive research statistics was adopted, where the survey instrument was thoroughly analyzed with the aim of deriving facts useful to the study (Kothari, 2004). This research design type generally requires a thorough definition of what is to be measured, methods of measurement paired with a clear definition of the population to be studied, all with the aim of providing adequate safeguards against bias and unreliability of data.

3.3 Target Population

For this study, the target population comprised of the financial institutions with a mortgage portfolio of over one billion. Highlighted in Appendix III, these banks formed the complete census of study as the organizations with a mortgage portfolio of over one billion were nine. Due to the fact that the organizations were few in number, no sample was obtained from the population targeted.

The following financial institutions formed the target population: Kenya Commercial Bank, Housing Finance Company of Kenya, CFC Stanbic Bank, Standard Chartered Bank, Barclays Bank of Kenya, Commercial Bank of Africa, Development Bank, Eco Bank and First Community Bank.

These institutions were deliberately selected based on the fact that if a significant proportion of an institution's asset book is on mortgages, then it can be assumed that these financial institutions have a stake in the product / service of providing mortgages and will most probably have measures in place to expand or grow the mortgage line. The basis of selection was based on survey results from a CBK and World Bank study (2010) that was able to identify and categorizes financial institutions based on the mortgage lending capacity.

3.4 Data Collection

This study mainly used primary data, which was collected using a questionnaire that was administered either personally or via a telephone interview. The questionnaire consisted of open and close ended questions. A sample questionnaire developed for this purpose is as attached as Appendix II.

The questionnaire was administered to heads, assistants or senior strategy managers in Marketing or other departments in whose custody strategy lies.

3.5 Data Analysis

Data was validated, edited and coded and then analyzed using descriptive statistics. Descriptive statistics include tabulation and organization of data in order to demonstrate their main characteristics and involves use of techniques such as measures of central tendency or statistical averages, measures of dispersion, measures of asymmetry (skewness), measures of relationship and any other measures necessary to the study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter analyses the findings, interprets and presents data in line with the objectives of the study. The analysis is based on a target population of nine financial institutions with a mortgage portfolio of one billion. The data obtained strived to explain the finding on the research problem on this project and is presented in tabular form, percentages and uses descriptive statistics. The chapter is further sub divided into several sections that are pertinent to the subjects under study.

4.2 Response Rate

The organizations that participated in the study were; Kenya Commercial Bank, Housing Finance Company of Kenya, CFC Stanbic Bank, Standard Chartered Bank, Barclays Bank, Commercial Bank of Africa and Development Bank. Eco Bank and First Community Bank did not participate in the survey effectively.

The analysis of the response rate was as follows; out of the nine (9) questionnaires collected from the respondents, seven (7) questionnaires were deemed fit for analysis, one (1) did not meet the threshold for analysis as the questionnaire submitted had been filled by a junior person in the organization and had a lot of incomplete sections while one organization declined to participate in the analysis. This represents a 78% response rate, a rate that can be concluded to be fairly satisfactory based on the number of organizations under study.

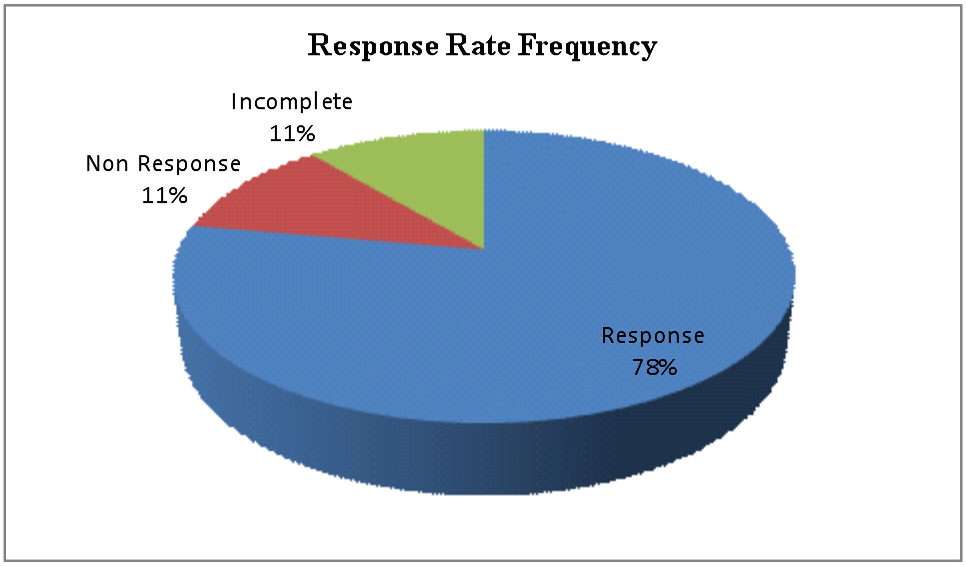

Figure 3: Respondents Response Rate

Source: Project Statistics

4.3 Basic Characteristics of the study population

The analysis in the study excludes the missing data sets and only evaluates the responses from the organizations whose questionnaires were satisfactorily filled. In this section, the ownership structure, years of operation, annual turnover and the position held by the various respondents will be reviewed.

From the analysis, only two of the institutions are considered locally owned; these are Kenya Commercial Bank and Housing Finance. Commercial Bank of Africa has both local and international ownership, while CFC Stanbic Bank, Standard Chartered Bank and Barclays Bank of Kenya claim international ownership.

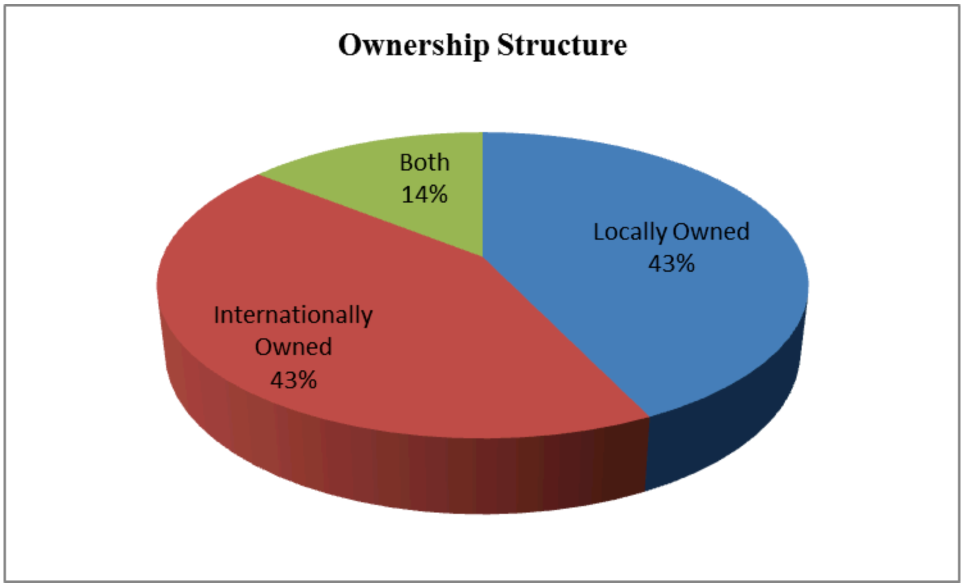

Figure 4: Organizations Ownership Structure

Source: Project Statistics

On the number of years that these institutions have been in operation, 72% of the institutions analyzed indicated that they had been in operation for over 45 years, while only one institution had been in operation for the period ranging between 25 to 45 years while yet another one institution had been in operation for a period ranging between 0-7 years representing a 14% respective from each of the segments.

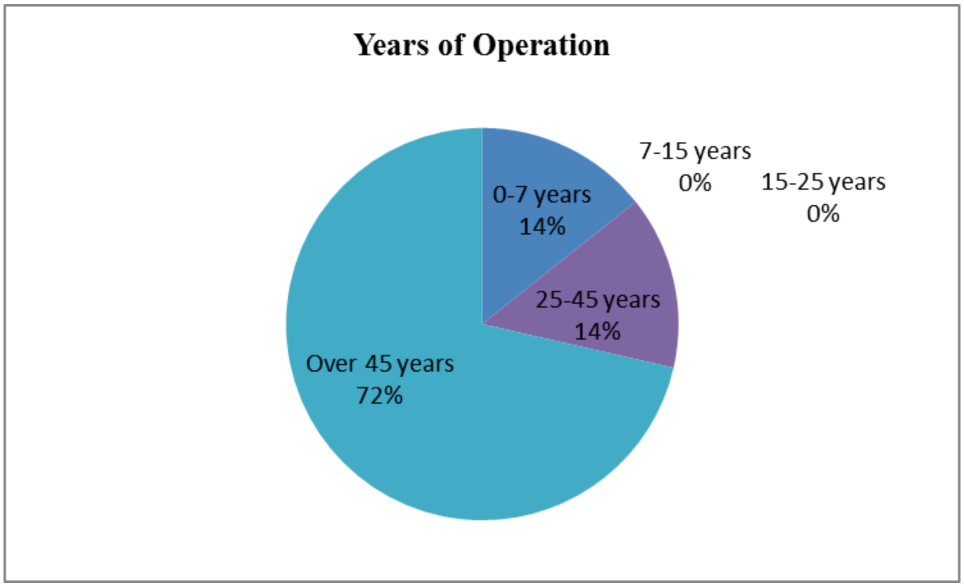

Figure 5: Respondents years of operation

Source: Project Statistics

Those institutions that had been in operation for over 45 years were Housing Finance, Kenya Commercial Bank of Kenya, Barclays Bank of Kenya, Commercial Bank of Africa and Development Bank. Standard Chartered Bank indicated an operation period of between 25-45 years while CFC Stanbic Bank noted that they had been in operation for a period of 0-7 years. This is attributed to the fact that this institution underwent a buyout in 2008 in which the Stanbic Bank of Kenya was bought by the Standard Bank, a bank that is headquartered in South Africa.

The annual turnover was found to be an important aspect of the analysis as it would indicate whether there was adequate allocation of capital reserves to mortgages. The following form the summary of sales turnover in billions in the financial institutions under analysis, Kenya Commercial Bank, 18 billion, Housing Finance, 3 billion, CFC

Stanbic Bank, 11 billion, Standard Chartered Bank, 16 billion, Barclays Bank, 17 billion, Development Bank, 7 billion and Commercial Bank of Africa at 13 billion.

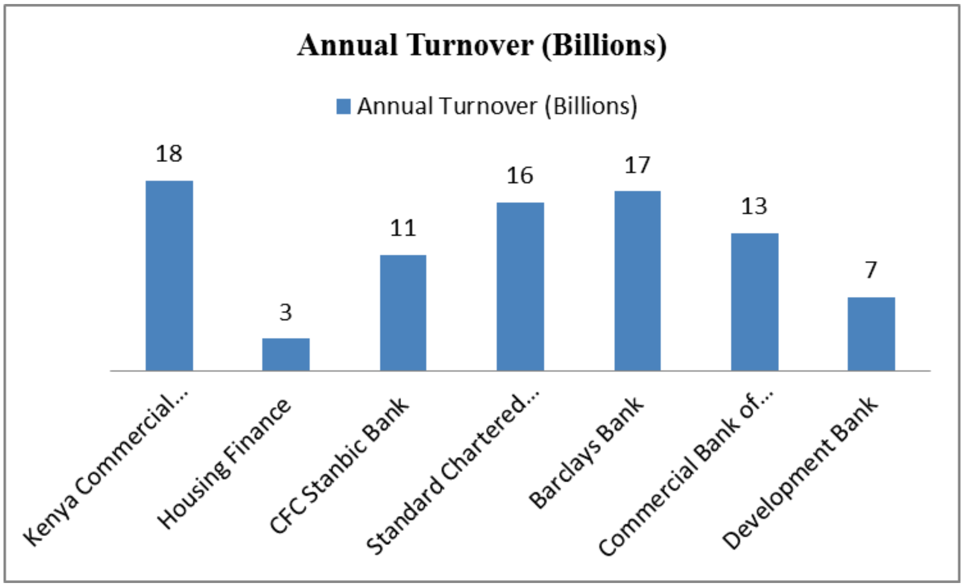

Figure 6: Respondents Annual Turnover

Source: Project Statistics

The turnovers indicated above show that these financial institutions have been reporting overall good financial results, however, there are assumptions to the figures above, the assumption being that mortgage is significant to their business as the reported numbers did not specify the turnover amounts specific to the mortgage business, rather, they reported on the overall business aspects, which would include and not limited to, retail and corporate deposits. The only known financial institution that remains to operate as the sole mortgage financier in Kenya is Housing Finance Company of Kenya.

The respondents who responded to the questions in the questionnaire on behalf of the organization were from varied areas of the business. According to the analysis, 57% of the respondents who participated were Marketing Managers or Directors of the organizations, 29% were product development managers and 14% were operation managers. Of importance is the acknowledgement from the respondents that while the strategy may not necessarily lie with them, the information on the organization's direction is available to guide the day to day operations of the business.

4.4 Strategic Review and Analysis by Organizations

This section of the questionnaire sought to understand the importance of a strategy or a strategic plan to an organization. The questionnaire engaged the respondents on the availability of a formally documented strategic plan, the review period of the strategies in place as well as the triggers that lead to a strategy review.

From the analysis, six out of the seven institutions, representing 86% of the population indicated that they had a documented strategic plan in place.

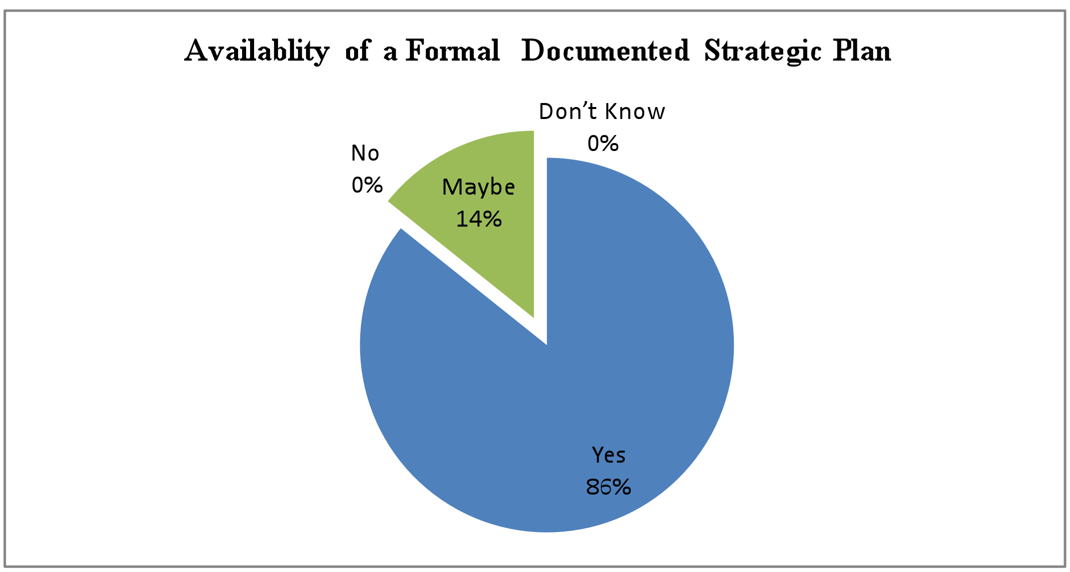

Figure 7: Responses on the availability of formal documented strategic plans

Source: Project Statistics

These institutions were Kenya Commercial Bank, Housing Finance, Barclays Bank, Standard Chartered Bank, CFC Stanbic Bank and Commercial Bank of Africa. The Development Bank respondent however indicated that they were not sure if there was a formally documented strategic plan but indicated a plan did exist in some form on how to take the business forward. The nature of the plan in existence was however not disclosed.

Further analysis on the frequency of reviewing the strategic plans revealed similar results as those on the availability of the documented strategic plan. Kenya Commercial Bank, Housing Finance, Barclays Bank, Standard Chartered Bank, CFC Stanbic Bank and Commercial Bank of Africa indicated that a review of the strategic plans is done every five years representing 86% of the population in question. Commercial Bank of Africa however noted that this is a new initiative to the business as the initial strategic reviews were done on a need to need basis. Development Bank indicated that their strategies are currently reviewed on a need to need basis.

On the triggers that determine the need to review the strategic plans, all the institutions surveyed indicated that the environment will to a large extent determine the direction in which a strategy will be drawn. Other factors that are considered important to the review process and were ticked alongside the environmental issues were; competition and government policies.

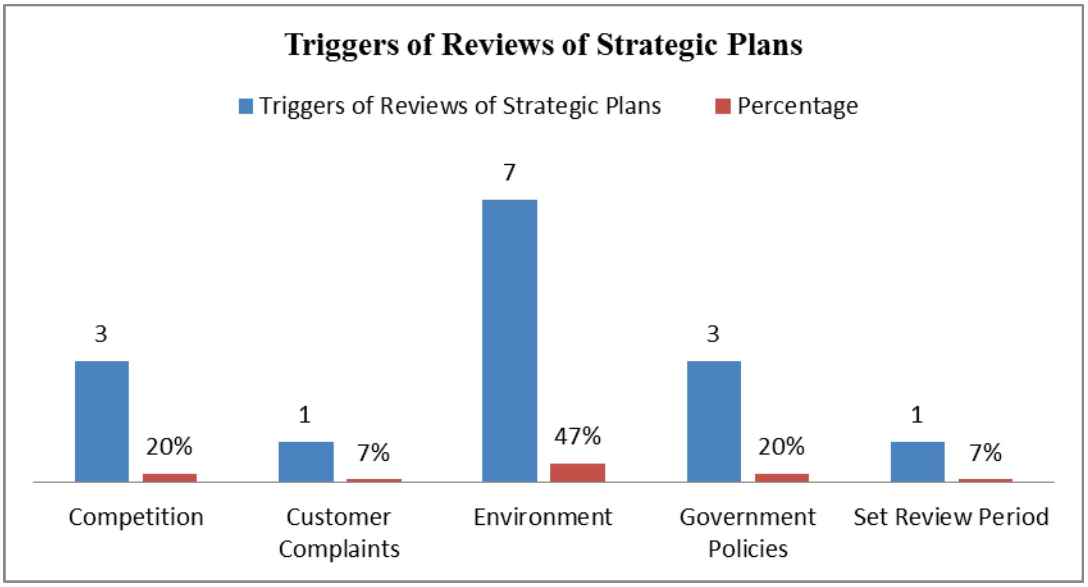

Figure 8: Responses on the triggers resulting to strategic plan reviews.

Source: Project Statistics

Some of the respondents went ahead to explain and give examples of such policy changes that have affected the thinking of business operations. Such is the case with the introduction of counties, forcing organizations to think through penetration strategies into the newly developed regions to ensure maximum reach to customers. The frequency percentages of the factors were as follows: 47% relied on environmental factors, 20% of the reviews were based on the Government Policies and an evaluation of the competitor analysis each, while 7% of the reviews relied on set period as well as customer complaints.

An analysis of the extent in which the factors listed in the questionnaire influence the development and review of the strategic plans revealed that 80% of the respondents believe the mother company's request has no importance to the review process while only 20% will look at the strategic plans based on a request from the international head office.

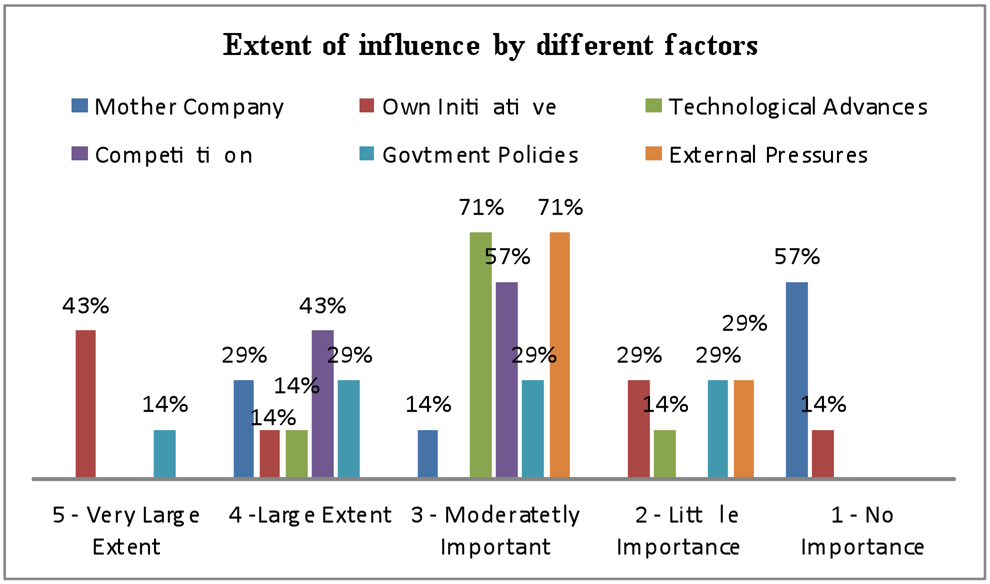

Figure 9: Responses on the extent of influence exerted to organizations by various factors

Source: Project Statistics

On whether the development and review of the plans is based on the company's own initiative revealed that 43% of the respondents to a very large extent review based on their own initiatives while about 60% of the respondents had varied responses ranging from moderately important to no importance on a split of 14% each. Technological advances appears to have a great influence on the strategic review process as the responses given implied that technology affected decision making greatly, with a total of 85% of the responses inclined towards the importance of technology in determining the influencing factors in determining its strategic direction efforts. These similar percentage patterns can be adopted for Government legislations and regulations. On competition, 57% of the responses were rated as moderately important and 42% considered competition to affecting strategy to a large extent. On the external pressures whether from suppliers, clients or the society, it was evident that 71% of the responses considered these pressures as a good source of information for an organization's strategic initiatives with only 29% indicating little importance.

4.5 Importance of Mortgage Financing to Organizations and the link to the Vision 2030 objectives.

This section of the questionnaire sought to determine the importance of mortgage financing to the organizations sampled and at the same time understand the level of interactions these institutions have had with the vision 2030.

On whether the banks considered Mortgage Financing a key strategic business initiative for the organization, 100% of the respondents indicated that mortgage was indeed an important aspect of the business with the levels of importance varying at 43% being to a very large extent, 29% indicating it at a large extent and the balance of respondents considering it moderately important.

Respondents were also asked to rate the challenges identified in the industry to the extent in which the affect or relate to them. The skew of the challenges affecting the mortgage market verses the organizations interviewed was as analyzed in the table 4.1.

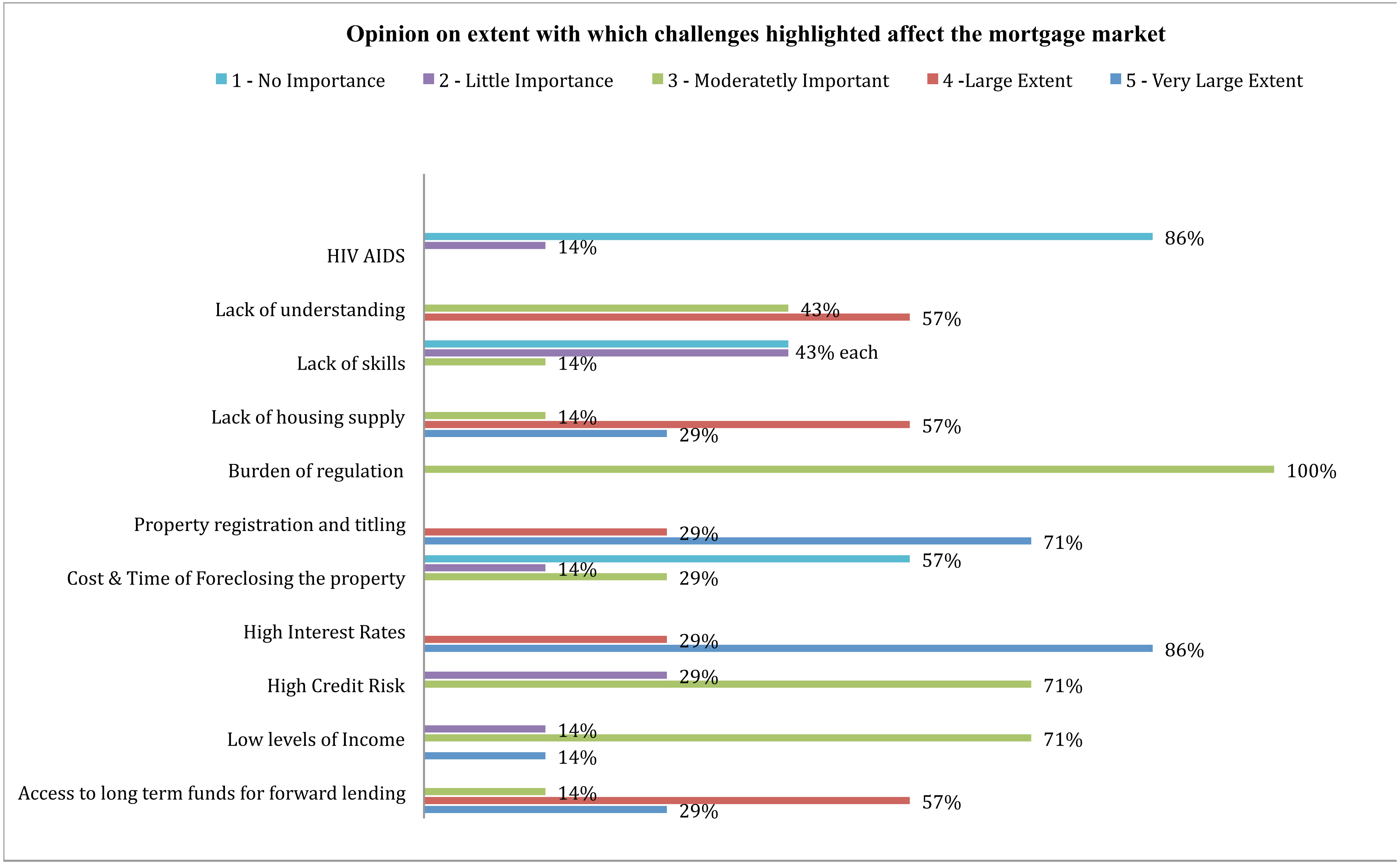

Figure 11: Responses on the extent within which challenges highlighted affect the mortgage market.

Source: Project Statistics

From the table above, it is clear that some of the key challenges facing organizations relate to access to long term funds for forward lending. This is the case as most of the deposits raised by banks are mainly short term in nature and mortgage lending requires long term sources of funds. Other challenges noted were; high interest rates charged on the loans as this makes borrowing unaffordable, difficulties with the registration and titling process as this lengthens the lending process, lack of housing supply, implying that new constructions are limited and finally, the lack of understanding of the mortgage product by the customer.

An investigation on whether the banks had in any way interacted with the plans and objectives of vision 2030 revealed that 100% of the banks had interacted with the plans and also thought that the outlines of the vision were important to the organizations future. The general response was however that, although the objectives noted in vision 2030 were good for the country, they somehow seemed far removed from the organization's objectives. Reasons noted for the above were on the action points in the vision 2030 that require government intervention and action. Organizations were concerned at the pace at which the government is working as this pace is considered slow to a majority of the organizations.

An analysis of whether the financial institutions see a link between the firms operations and strategic plans for the future and the housing and urbanization sub section of vision 2030 reveals that, 57% of the institutions indicated yes while 43% of the institutions responded with a no. Among the organizations that responded with a yes were; Housing Finance, Kenya Commercial Bank, CFC Stanbic Bank and Development Bank of Kenya. Those that indicated that they did not see a link are Standard Chartered Bank, Barclays Bank of Kenya and Commercial Bank of Kenya who indicated that most of their immediate mortgage target customers are from the high end market who are currently enjoying a good supply of houses in the market, albeit at a very high rate. Of those that responded yes, 50% (Housing Finance and Kenya Commercial Bank) responded that they had coping mechanisms in place to deal with the shortages while 50% indicated that the coping mechanisms would be developed in the near future. An organization like Housing Finance indicated that it had developed certain products that were geared toward making home ownership affordable and it was working at developing additional solutions along with some of the partnerships that it has developed. Kenya Commercial Bank indicated that they had entered into strategic partnerships with organizations like National Housing Corporations (NHC) to finance the solution that it had brought to Kenyans on prefabricated houses, solutions that are aimed at making houses affordable to the common man.

An analysis of the factors that would best be used to achieve the stated vision 2030 objective of providing adequate, decent and affordable housing reveals that 86% of the financial institutions believe that the following actions would result to reducing the gap currently being experienced in the country on affordable housing solutions; production of more housing units in major urban towns away from the city centre (which would go hand in hand with improved infrastructure), reduced cost of raw materials necessary for construction, use of alternative building technologies to construct the low cost houses and government intervention in regulating the property prices.

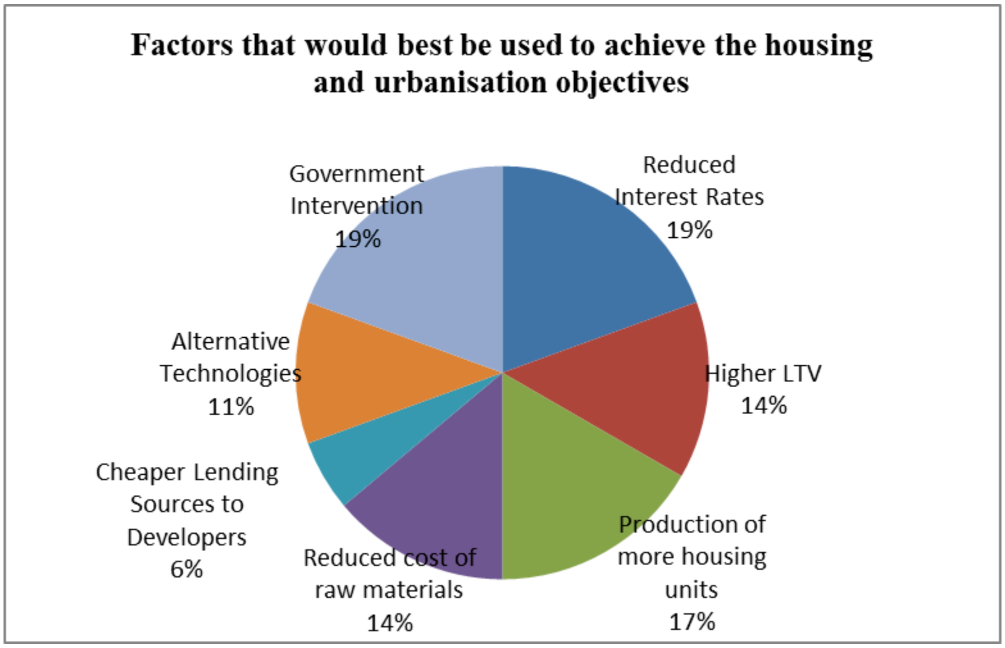

Figure 11: Responses on the factors that would best achieve the housing and urbanization objectives.

Source: Project Statistics

On the final section of the questionnaire, respondents were allowed open-ended questions on the coping mechanisms that their organizations have in place to ensure that they are geared towards ensuring that the housing and urbanization sub section is achieved, the benefits and the challenges encountered in the process. Some of the initiatives mentioned include; development of affordable housing product that will allow the masses to put up a home. Such is the case with Housing Finance which has a product known as Makao which produces a complete solution in which construction experts from Housing Finance are able to produce a home, a two bed-roomed bungalow for Kshs. 1 million giving the customer a hassle free and affordable solution.

Other solutions noted were the development of savings products that are designed to encourage individuals to start saving towards home ownership, development of construction solutions that allow incremental building for what a customer can afford thereby undertaking partial construction with the aim of completing the overall project once income increases, entering into strategic partnerships with institutions that will facilitate partial fulfillment of the objectives. Housing Finance for example noted strategic partnerships with institutions such as Shelter Afrique and Brand Kenya, while KCB mentioned the relationship with National Housing Corporation. Although the details of the partnerships were not discussed, it was clear that the partnerships were aimed at ensuring Kenyans have options that would ensure they could access to decent and affordable shelter solutions. The respondents could not quote any immediate benefits that were as a result of the initiatives noted above.

The study did find the following challenges; developer preference in construction is mainly on commercial properties and high-end properties as these have higher and faster economic returns. This implies that a developer of a property would prefer not develop property for the masses as the margins for such properties is usually lower especially given the current cost of construction inputs. In addition, such properties will normally take longer to realize as the targeted masses would not usually have a lot of disposable income and will in most cases opt to lending options which take longer, that is, through following the bank's appraisal process which takes an average of 3 months; an option that a developer would rather avoid and preferably deal with customers with a larger percentage of cash deposits.

Another challenge noted is on the cost of land. This was noted as a major hindrance as land has become very expensive and will in most cases contribute to the overall price of the property. The current economic status of the country was also noted as a major hindrance to providing home ownership as individuals now have less disposable income resulting from the high inflation and rising cost of living thereby implying less savings and money getting diverted to the necessities of the household.

Lastly, the rising interest rate although the general direction cannot be ascertained is also likely to be a challenge for individuals, as the cost of borrowing is generally considered expensive in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The purpose of the study was to analyze the summary of the findings in line with the objectives of the study that seeks to establish the response strategies adopted by financial institutions in the mortgage industry to the requirements set out in the housing and urbanization sub pillar of Kenya's vision 2030. This section will also analyze the implications and limitations of the findings of the study and also provide possible areas for further research based on the gaps experienced in the course of this research project.

5.2 Summary of Findings

Based on the analysis done in chapter four, this section will seek to summarize the finding in relations to the objectives set out for this study. One of the objectives that was set out for this research was accessing the relevance of vision 2030 goals to specific financial institutions and review approaches adopted to align these organizations to the developed vision of the country. From the analysis, while all the 7 institutions studied had interacted and understood the underlying benefits of merging the visions goals to the organizations goals, the general feel was that although the objectives noted in vision 2030 were good for the country, they somehow seemed far removed from the specific organization's objectives as a lot of the action points noted in the vision 2030 require government intervention and action, and the pace at which the government is seen to be working is considered slow to a majority of the organizations. Also, of importance is the fact that only two (2) financial institutions seemed to have fully embraced the plans of the vision 2030 and had activities in place towards achieving the objectives. Some of the approaches quoted by these financial institutions were development of affordable housing product that will allow the masses to put up a home. Such is the case with Housing Finance which has a product known as Makao which produces a complete solution in which construction experts from Housing Finance are able to produce a home, a two bed-roomed bungalow for Kshs. 1 million giving the customer a hassle free and affordable solution.

Other solutions noted were the development of savings products that are designed to encourage individuals to start saving towards home ownership, development of construction solutions that allow incremental construction based on what a customer can afford with the aim of completing the overall project once income increases and entering into strategic partnerships with institutions that will facilitate partial fulfillment of the objectives. Housing Finance for example noted strategic partnerships with institutions such as Shelter Afrique and Brand Kenya, while KCB mentioned the relationship with National Housing Corporation (NHC). KCB confirmed that the partnership with NHC is around the pre-fabricated housing solutions that National Housing Corporation is looking to establish and sell in which case KCB then comes in as a partner to finance the end buyers making houses affordable to the common man.

Although the finer details of the partnerships were not discussed, it was clear that the partnerships were aimed at ensuring Kenyans have options that would ensure they could access to decent and affordable shelter solutions. The above analysis will also answer to the research question being investigated as it provides an analysis of the strategic responses adopted by financial institutions.

The second objective of the study was to understand the benefits accruing to the financial institutions that have set response strategies. From the analysis, it was difficult to establish whether any benefits had accrued to these financial institutions, partly because the instrument of collecting data did not capture this question in a clear and distinct way, however, a call back to the two financial institutions on the same revealed that the benefits, even to these institutions were yet to be realized as the concepts were still relatively new to the market. KCB specifically mentioned while the memorandum of understanding was already in place, interactions with the market have revealed to them that the market may require education to be able to fully embrace the alternative technology options being proposed. Housing Finance on the other hand noted that while their solutions had been designed with the masses in mind, the actual uptake of the product is from the high-end investors who are more interested in the hassle free solution that comes with the product. Housing Finance however confirms that the uptake of the savings products has been positive in the market but is yet to realize conversion of the same into the mortgage market. On the partnerships established by Housing Finance, much is also yet to be realized as the projects were said to be more long term in nature. Further details were not disclosed beyond that.

The final objective of the study was to establish the challenges facing these financial institutions by adopting the defined response strategies. From the analysis, several challenges were noted. One of the challenges noted was around developer preference in construction of commercial properties and high-end properties are these have higher and faster economic returns. This implies that a developer of a property would prefer not develop property for the masses as the margins realized from such properties is usually significantly lower especially given the current cost of construction inputs. In addition, such properties will normally take longer to realize as the targeted masses do not usually have the required disposable income to make instant purchases and will in most cases opt to lending options which take longer following the bank's appraisal process – an option that a developer would rather avoid.

Government legislation was also seen as a huge challenge. Organizations noted that even though there are alternative building solutions that would be available to customers, government policies need to be amended to reflect and accept these new technologies as acceptable building solutions for the country. At the same time, customer education is necessary, as a majority of the Kenyans believe that these new building technologies available in the market are substandard, a facade that is not necessarily true.

Another challenge noted is on the cost of land. This was noted as a major hindrance as land has become very expensive and it contributes greatly to the overall price of the property to be developed and sold. The current economic status of the country was also noted as a major hindrance to providing home ownership as individuals now have less disposable income resulting from the high inflation and rising cost of living thereby implying less savings, and money get diverted to the necessities of the household. Lastly, the rising interest rate, although the general direction is unknown for now, is also likely to be a challenge for individuals as borrowing is expected to get expensive.

5.3 Limitations of the study

One of the limitations experienced in this study was the inability to effectively answer to the research questions and objectives. This can mainly be attributed to the design and structure of the data collection instrument that was used in the study. While the questionnaire was able to collect the top line information about the importance and the link of the vision objectives to the organizations objectives, it was not able to drill down to actual reasons as to why the answers provided were as they were. The researcher was therefore left with a lot of unanswered questions that would sometimes oblige the researcher to make a telephone call to some of the respondents.

In addition to the above, the quality of research may have been compromised due to the time constraints that were set on the project. Despite the above limitations, the researcher was able to present a detailed analysis providing an exploration of the topic in question based on the objectives set out by the project.

5.4 Implication of the Study

From the findings of the above study, this research will be of interest to all financial institutions in the mortgage business as well as the government. While the study only focused on those institutions with a mortgage book of Kshs. One billion and above, the findings will be of interest to all institutions providing mortgage as the results provide an indication of what is happening in the industry as a whole. The study will provide the government with an understanding of exactly what the business fraternity is doing to adopt and implement the objectives of the vision. What is clear from the analysis is that all financial institutions and the government need to work together in better fulfilling the objectives of the vision as business will focus more on solutions that also drive to their profit making agenda. In addition, financial institutions as well as the government need to dramatically improve on the delivery of the said objectives. This research analysis will provide baseline statistics and will be used in future to measure the varying degrees of adoption of the government's visions into the different businesses.

From this research analysis, the following questions arise and would form research possible questions for future research; Is the government making any strides in fulfilling its end of the bargain in ensuring that the housing and urbanization sub pillar is achieved? How is the government ensuring the various stakeholders in the business industry fulfill the agenda items mentioned in vision 2030?

5.5 Recommendations

Based on the study findings the following recommendations were made: Banks should align their strategies with vision 2030 in order to enhance their reach of customer hence increasing annual turnover. It is important to note that there's more wealth in the masses therefore the ability to provide shelter to the masses will automatically unlock the sales potential of the financial institutions and Kenya as a country has a lot of potential as currently there are only 13,803 mortgage loans. Banks should therefore embrace the use of alternative building technologies as these will focus on developing the low-end properties thereby ensuring effective distribution of wealth.

The Government should review and develop an effective land policy in order reduce the cost of acquiring and developing property. The interest rate charged on mortgage loans should be streamlined in order to increase home ownership. A policy framework should be put in place to regulate the sector for better achievement of growth.

5.6 Conclusion

From the study, it is clear that there are countless opportunities for organizations in the property industry to tap. The private sector has to work closely with the government institutions with the aim of closing on the gaps that are hampering the growth and development of the property and housing industry.

In addition, while the vision 2030 is a commendable step by the government towards improving growth and development in the country, it does not adequately address the structural causes of economic inequality in the country, therefore, while financial institutions may make necessary strides to ensuring affordable housing solutions, the market that could willingly afford these houses may not be readily available.

The government therefore needs to be aware of these challenges and develop policies that will work for the benefit of both the citizens of the country as well as financial institution.

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Appendix I: Questionnaire

Declaration

This research aims at looking at the strategies adopted by financial institutions whose mortgage books exceeds Kshs. 1 billion as at 2010 to the goals of vision 2030 of the housing and urbanization sub pillar that aims to provide decent and affordable housing.

There are no wrong or right answers and the results are strictly confidential and will only be used for academic use. Your honest participation in this survey will be highly appreciated.

1. Name of Bank: ____
2. Type of organization (Tick where appropriate)

Internationally owned	
Locally owned	
A combination of both	

3. How long has the company being in operation in Kenya? (Tick where appropriate)

0-7 years	
7-15 years	
15-25 years	
25-45 years	
Over 45 years	

4. What is the firm's approximate annual turnover? ________________________
5. Position held within the organization: __________________________________
6. Does your organization have a formally documented strategic plan? (Tick where appropriate)

Yes	

No	
Maybe	
Don't Know	

7. If your answer to question 6 is No, does the company maintain any kind of operation plan? __________.

   Please explain: ____

   ____

   ____

8. If the answer to question 7 is still a No, please explain why the organization does not have a plan? ____

   ____

   ____

9. If yes, how often are the strategic plans for the organization reviewed? (Tick where appropriate)

Every 5 years	
Annually	
Semi-annually	
On a need basis	
Never	

Any other period? Please specify ____________________________________

10. What triggers the need to review the strategic plans of your organization? (Tick all that apply)

Competition	
Customer complaints	
Environment (Political, Legal, Social-	

Cultural, Technological or Ecological)	
Government policies	
Review is always done after set defined periods	

Others. Please specify: ____

____

11. To what extent do the following factors influence the development and review of a strategic plan (whether formal or informal) within the organization? (Indicate on a scale of 1 to 5: 5=Very large extent, 4=Large extent, 3= Moderately important, 2=Little importance, 1=No importance)

	5	4	3	2	1
Mother Company request					
Own initiative					
Technological advances					
Competition					
Government legislations / regulations					
External pressure (Clients, Suppliers, Society etc)					

Part B: Strategic Responses in relation to the Housing & Urbanization Sub Pillar

12. Does the bank consider mortgage financing a key strategic business initiative for the organization? (Tick where appropriate)

Yes	
No	
Maybe	
Don't Know	

13. To what extent would you say mortgage financing is important to the business? (Tick where appropriate)

Very large extent (5)	
Large extent (4)	
Moderately important (3)	
Little importance (2)	
No importance (1)	

14. The following are some of the challenges affecting the mortgage market. To what extent would you say the same challenge applies to your bank? (Indicate on a scale of 1 to 5: 5=Very large extent, 4=Large extent, 3= Moderately important, 2=Little importance, 1=No importance)

	5	4	3	2	1
Access to long term funds for forward lending					
Low levels of income					
High credit risk (last of documented credit histories)					

High interest rates					
Cost and time of foreclosing on a property					
Difficulties with property registration/titling					
Burden of regulation (provisioning, capital requirements, liquidity rules, etc.)					
Lack of housing supply - new construction					
Lack of capacity/skills in banking sector to develop products, carry out loan underwriting					
Lack of understanding of mortgage product by consumer – lack of financial literacy					
AIDS/HIV as an inhibitor of long term lending					

15. Has the bank in anyway interacted or incorporated the plans and objectives of vision 2030 to its long-term operations? (Tick where appropriate)

Yes	
No	
We plan to, in the near future	
No, and we do not intend to?	
Don’t know	

16. Do you think the outlines of vision 2030 are in any way important to the future of your organization? (Tick where appropriate)

Yes	
No	

Maybe	
Don't Know	

17. Does the bank see a link between the firms operations / strategic plans for the future and housing & urbanization sub pillar of vision 2030 which aims to reduce the 'acute shortage of low income houses particularly in urban areas by proving the country's population with adequate, decent and affordable housing'? (Tick where appropriate)

Yes	
No	

18. If yes, are there any coping mechanisms that have been developed towards the achievement of this objective? (Tick where appropriate)

Yes	
No	
We plan to have some in the near future	
Don't know	

19. Which of the following factors / actions would you say would best be used to achieve the stated objective under housing and urbanization? (Tick all that apply)

Reduced interest rate	
Higher LTV (loan-to-value) rates on lending	
Production of more housing units in major urban towns (away from the city centre)	
Reduced cost of raw material necessary for construction	
Cheaper lending sources of finances to developers of large	

scale properties	
Use of alternative technology to construct low cost houses	
Government intervention in regulating property prices	

Can you think of other interventions that can be put in place by financial institutions to make housing more affordable? ______________________

____

____

20. What coping mechanisms have been put in place by your organization towards ensuring the housing and urbanization sub pillar is geared towards?

____

____

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21. What challenges have you so far encountered during the process?

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THANK YOU FOR YOUR COOPERATION.

Appendix II: Survey statistics on the Mortgage Loan Asset Book by the Banks in Kenya for the period 2006 – 2010

		2006		2007		2008		2009		2010	
Bank Name	Bank Segment	Mortgage Loan Assets	# of Loans	Mortgage Loan Assets	# of Loans	Mortgage Loan Assets	# of Loans	Mortgage Loan Assets	# of Loans	Mortgage Loan Assets	# of Loans
KCB	Large	4,077,361,000	2,077	6,264,323,000	2,518	9,703,074,000	3,170	15,639,607,000	4,176	17,974,354,000	4051
HFCK	Large	8,330,000,000	3,478	8,960,000,000	3,441	11,300,000,000	3,805	15,100,000,000	3,869	16,900,000,000	3988
CFC Stanbic	Large	652,415,000	149	2,725,152,000	421	5,349,932,000	743	6,137,238,000	869	6,497,427,000	939
Standard Chartered	Large	2,909,875,000	941	3,646,074,000	1,019	4,424,805,000	1,118	4,897,843,000	1,122	4,960,423,000	1107
Barclays Bank	Large	968,525,109	254	1,701,917,328	449	2,365,937,424	618	2,913,833,384	726	3,055,270,533	742
Commercial Bank of Africa	Large	361,584,000	49	446,911,000	77	911,488,000	150	1,113,257,000	220	1,158,811,000	238
I&M Bank	Large	246,496,540	78	323,373,160	70	502,938,415	121	686,304,912	132	732,413,468	135
Equity Bank	Large	N/A	N/A	29,560,000	4	299,272,183	70	537,699,122	129	673,267,179	151
National Bank of Kenya	Large	N/A	N/A	N/A	N/A	272,877,637	14	452,703,776	36	568,277,703	57
Diamond Trust Bank	Large	N/A	N/A	130,415,000	33	225,684,000	49	350,084,000	69	562,312,000	90
NIC Bank	Large	N/A	N/A	122,897,000	28	379,780,000	52	477,341,000	96	517,096,000	112
Bank of India	Large	27,591,000	65	42,890,000	79	109,026,000	93	355,130,000	116	310,215,000	125
Cooperative Bank of Kenya	Large	N/A	N/A	N/A	N/A	N/A	N/A	55,515,840	5	246,317,981	27
Prime Bank	Large	29,462,291	183	44,366,412	265	42,931,681	532	98,400,674	612	227,551,195	651
Imperial Bank	Large	23,044,514	7	51,242,541	15	133,516,944	37	121,388,447	36	128,598,809	37
Bank of Africa	Large	62,065,750	27	53,364,165	24	54,960,180	24	74,883,451	25	106,538,418	31
Bank of Baroda	Large	52,068,000	67	42,007,000	54	45,263,000	49	45,263,000	88	51,341,000	84
Citibank N.A.	Large	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Development Bank	Medium	N/A	N/A	N/A	N/A	683,812,000	60	1,709,598,985	185	1,711,007,860	322
Consolidated Bank of Kenya	Medium	N/A	N/A	N/A	N/A	N/A	N/A	207,620,973	18	794,515,803	120
Family Bank	Medium	21,954,411	7	89,357,219	22	164,006,996	49	694,779,916	124	663,260,138	154
Victoria Commercial Bank	Medium	20,260,875	5	25,888,410	8	17,340,280	7	86,332,458	11	61,080,865	7
Chase Bank	Medium	283,187,000	47	380,876,000	75	421,952,000	109	483,110,000	126	528,743,000	151
Fidelity Commercial Bank	Medium	N/A	N/A	10,978,031	3	25,772,217	6	69,800,147	12	113,867,259	19
African Banking Corp	Medium	22,331,000	10	31,357,000	11	36,228,000	12	33,243,000	13	58,238,000	15
Giro Bank	Medium	19,712,000	8	51,414,000	13	52,306,000	18	48,539,892	14	43,171,609	11
EcoBank	Medium	1,215,869,000	302	1,143,673,000	218	1,135,173,000	206	969,013,000	183	1,203,569,000	146
Guardian Bank	Medium	N/A	N/A	10,000,000	2	7,500,000	2	6,219,000	2	3,400,000	1
Fina Bank	Medium	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gulf African Bank	Medium	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Habib AG Zurich	Medium	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
K-Rep Bank	Medium	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
First Community Bank	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,162,295,656	157
Paramount Bank	Small	108,427,589	51	122,616,638	59	179,146,023	63	160,014,052	72	193,781,768	78
Trans-National Bank	Small	17,208,832	5	79,857,962	13	134,487,062	24	190,002,203	34	69,066,731	21
Credit Bank	Small	N/A	N/A	2,707,328	2	10,782,401	5	12,748,830	7	45,897,330	9
Middle East Bank	Small	4,166,000	3	5,133,000	4	12,864,000	8	17,734,000	7	34,528,000	9
Habib Bank	Small	25,091,000	18	29,401,000	16	34,704,000	16	25,147,000	13	23,295,000	13
Oriental Commercial Bank	Small	1,885,773	3	1,495,876	3	2,009,755	3	2,316,323	3	12,282,205	4
Equatorial Bank	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,209,000	1
UBA Kenya	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dubai Bank	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City Finance Bank	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Southern Credit Banking Corp	Small	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL		**19,480,581,683**	**7,834**	**26,569,248,069**	**8,946**	**39,039,570,198**	**11,233**	**53,772,712,385**	**13,150**	**61,397,423,508**	**13,803**

Source: Central Bank and World Bank Report on Housing Finance in Kenya (2010)

Appendix III: Letter of Introduction to Respondents

Alice Wambui Ngatia,

P.O Box 100449 – 00101,

Nairobi.

Dear____________,

I am a student at the University of Nairobi currently undertaking an MBA degree and majoring in Strategic Management. I am undertaking a management research in partial fulfillment of the academic requirements on the topic 'Response Strategies adopted by Financial Institutions in the Mortgage Industry to the Requirements set out in the Housing and Urbanization Sub Pillar of Kenya's Vision 2030.

Your esteemed firm has been selected to form part of this study based on the fact that your mortgage asset loan book amounts to Kshs. 1 billion per annum (based on a survey titled 'Mortgage Finance in Kenya' done by the CBK and the World Bank in November 2010).

I would be grateful if you would spare some time to respond to the questions listed in the attached questionnaire as truthfully as possible. All information provided will be used purely for academic purposes only and will be treated with the utmost confidentiality. A copy of the final report will be made available to you on request.

In case of any queries or clarifications on any of the questions, please do not hesitate to contact me on the details provided below.

Your assistance and co-operation will be highly appreciated.

Yours faithfully,

Alice W. Ngatia,	Dr. Wahome Gakuru,
MBA Student,	Project Supervisor,
University of Nairobi.	University of Nairobi.
Tel: 0720391697	