RESPONSE STRATEGIES ADOPTED BY CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION OF KENYA LIMITED TO ENVIRONMENTAL CHALLENGES

BY

MARY ATIENO MUKAWE

A Management Research Project Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA) of the University of Nairobi

September 2013
DECLARATION

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

Signed: …………………………………… Date: …………………………………

Mary Atieno Mukawe
Reg. No. (D61/66976/2011)

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

Signed: …………………………………… Date: …………………………………

Prof: Martin Ogutu
Senior lecturer
Department of Business Administration
University of Nairobi
DEDICATIONS

I dedicate this project to my redeemer Jehovah king of glory with whom I excel. To my dearest husband Zackayo Ouma, cherished daughter Chantelle Risper and to my affectionate parents Charles L. Mukawe and Josephine A. Lenya for their love, understanding, encouragement and support while conducting this study and throughout the MBA course.
ACKNOWLEDGEMENTS

First I would like to thank God for bringing me this far and enabling me to complete my MBA programme. “I will sing of the mercies of the Lord forever; with my mouth will I make known your faithfulness to all generations” (Psalms 89:1)

I wish to thank Prof. Martin Ogutu for being a supportive, encouraging and resourceful supervisor without whose instruction completion of this project would have been very intricate. I would also not forget to acknowledge the support and encouragement I received from my colleagues in the Industry and Central Depository staff; Judy Thuu, Anne Wachira, Teresa Saenyi, Peter Gatitu, Marion Kioi, Joan Kariuki and Alex Mwangangi.

I would like to thank in a special and honorable way my spouse Zackayo Ouma for his financial and emotional support throughout the voyage of completing my MBA programme. I sincerely thank daughter Chantelle Risper for her patience and the sacrifices she made in my absence as I took time to study for the MBA degree.

Lastly I thank my Parents, my brothers; Moses, Caleb, Yoweri, Sister Edna and my in-laws for patiently supporting me throughout the study period and for their prayers to make me succeed.

May the Almighty God bless you all abundantly.
ABSTRACT

The objective of the study was to identify environmental challenges facing Central Depository and the response strategies adopted by Central Depository to these challenges. This was a case study of Central Depository and Settlement Corporation of Kenya Limited (CDSC). Primary data was collected by use of an interview guide where interviewees were asked on challenges facing Central Depository and its response to the challenges. This data was further processed and analyzed using content analysis. The presentations of the findings are in qualitative form. The findings revealed that Central Depository faced macro environmental challenges such political, technological, socio-cultural, legal and physical environment challenges. The research also established that Central depository faced challenges from the industry and operating environment which include challenges from customers, government, general public and employees. Political instability in the region, inadequate infrastructure, financial instability, high interest rates, exchange rates and inflation rates, taxation, investment culture, poor saving culture, conman ship, proposed review of rules, regulatory framework and global climate. The organization responded to these challenges through corporate and functional strategies. The research found that control of operational costs, upgrade of technology, product diversification, dematerialization of securities, strengthening of revenue streams, human resource management and risk management were some of the strategies that Central Depository adopted.
# TABLE OF CONTENTS

Declaration......................................................................................................................ii  
Dedication.....................................................................................................................iii  
Acknowledgement........................................................................................................iv  
Abstract.......................................................................................................................v  

**CHAPTER ONE: INTRODUCTION**.................................................................................1  
1.1 Background of the Study.......................................................................................1  
1.1.1 Concept of Strategy..........................................................................................4  
1.1.2 Strategic Responses..........................................................................................5  
1.1.3 Capital Market Industry....................................................................................7  
1.1.4 Central Depository and Settlement Corporation of Kenya Limited...............7  
1.2 Research Problem................................................................................................8  
1.3 Research Objective...............................................................................................10  
1.4 Value of the Study...............................................................................................10  

**CHAPTER TWO: LITERATURE REVIEW**.................................................................12  
2.1 Introduction.........................................................................................................12  
2.2 The Concept of Strategy....................................................................................12  
2.3 Organization and the Environment....................................................................14  
2.4 Environmental Challenges................................................................................17  
2.5 Response strategies............................................................................................22  

**CHAPTER THREE: RESEARCH METHODOLOGY**..................................................29  
3.1 Introduction.......................................................................................................29  
3.2 Research Design...............................................................................................29
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The external environment of organizations is dynamic and organizations are always faced with uncertainties. The effect of environmental challenges on an organization’s current performance is relative and depends on the organization-environment typology and degree and magnitude of organizational changes. Organizations operation in the challenging environment can be steered by the dynamic capability theory and dependency theory. Teece et al. (1997) argue that dynamic capabilities enable organizations to integrate, build, and reconfigure their resources and competencies and, therefore, maintain performance in the face of changing business environments.

Teece (2007) recognizes that operational capabilities help sustain an organization’s technical fitness by ensuring its day-to-day operational efficiency, whereas dynamic capabilities help sustain a firm’s evolutionary fitness by enabling the creation, extension and modification of its resource base, thereby creating long-run competitive success.

As organizations conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. Organizations are open systems thus to ensure viability they must have an open and active adaptive relationship with its external environment (Pfeffer and
Salancik, 2003). In other words, a healthy viable Open System has a direct correlation with respect to changing values and expectations over time with its external environment. The corollary therefore is that if the values and expectations of a certain organization are out of sync with those that exist in the external environment then that particular organization will eventually become unhealthy and unviable. The environment consists of other organizations that exert various forces of an economic, political, or social nature. The environment also provides key resources that sustain the organization and lead to change and survival (Galbraith and Lawler, 1993). Contingency theory argues that the appropriate organizational structure depends on the contingencies confronting the organization (Ketola, 1993). The theory explains that stable environments create “mechanistic” organizations specialized in routine activities controlled with a strict line of authority yet distinct areas of assigned responsibility. Newman and Breeden (1992) argued that organizations are creatures of their environment, which is determined by social and political factors as much as, or even more, the technical and economic factors that were emphasized by conventional theories. Bures (1962) further argued that the distinction between organizations and environments was arbitrary because an organization is not simply a contributing member to its environment but is embedded within it.

External control in the organizational perspective is an extension of open-systems theories, where “the external control of organizations” is based on the notion that the behavior, choices, and actions of an organization are best understood by analyzing the environmental or the social context of that behavior. In this view, the environment is a
powerful constraint on organizational action to the extent that all organizational outcomes are based on interdependent causes or agents within their environment. Pfeffer and Salancik (2003) assert that what happens in an organization is not only a function of the organization, its structure, its leadership, its procedures, or its goals. What happens is also a consequence of the environment and the particular contingencies and constraints from that environment.

To Pfeffer and Salancik (2003), the organization’s environment "encompasses every event in the world that may potentially have an effect on the organization’s activities". Some elements of the environment are invisible to the organization, that is to say, the environment often differs greatly from the reality in which they ought to be dealing with (Roome, 1992). The theme of resource dependence theory is that an organization is both active and reactive to its environment. That is to say, though organizations are constrained by their situation and environments, strategic choices and opportunities are possible. Organizations may choose to adapt their activities and comply with environmental constraints, but more often they try to alter those constraints by changing the environment itself.

Organizations utilize the open systems perspective (Scott, 2002). Contingency theorists argue that organizations are organized in ways that best fit the environment in which they are embedded. Institutional theorists see organizations as a means by which the societal values and beliefs are embedded in organizational structure and expressed in organizational change. Resource dependency theorists see the organization as adapting to
the environment as dictated by its resource providers. Although there is a great variety in the perspectives provided by open systems theories, they share the perspective that an organization’s survival is dependent upon its relationship with the environment (Scott, 2002).

1.1.1 Concept of Strategy

Strategy is all about competition and the ultimate warfare in the business world. In a simple conceptualization, Hill and Jones (2004) says that the term strategy refers to the determination of the basic long-term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to carry out these goals. There is another view which states that strategy involves a pattern of decisions in a corporate enterprise that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving these goals. The strategy of a corporate entity defines the business in which it will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage (Pearce II and Robinson Jr., 1998).

Delaney (2008) opines that strategy is the weapon fashioned against competitive attacks from competitors in the corporate world. This is because the best weapon against competition is preparation of relevant arsenal to ward off competitors’ actions in the company’s line of business. This implies that companies never believe that the competitors will never attack. Therefore, they are always prepared for such as it will
amount to sheer folly to believe that a corporate entity will sit idle by given an engagement in business competition. According to Hill and Jones (2004), strategy represents a company's game plan in the world of stiff competition. In essence, strategy is a large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Therefore, grand strategy, for instance, specifies how the organization will be operated and run, and what entrepreneurial, competitive and functional area approaches and actions will be taken to put the organization into the desired position that would realize chosen objectives.

According to Thompson Jr. and Strickland (1987), strategies are usually formulated in relation to the current and potential activities of competitors. They are also formulated to deal with the vagaries of the business environment. Formulation is an intellectual activity that is devoid of shrewd corporate maneuvering or connivance. It is a continuous or systematic process aimed at challenging current and potential threats while utilizing current and potential opportunities to improve company's results.

1.1.2 Strategic Responses

Growing challenges in the environments of organizations substantially affects their strategic behavior and decisions. As challenges occur in the environment they generate available knowledge over time and with diligent surveillance, it becomes increasingly clear what are the threatening implications or the possibilities of opportunity. A key strategic concern of chief executives and their policy makers in modern organizations is whether, when, and how to respond to challenging events of environmental turbulence.
and, of course, how much and with what expectation of accomplishment for the resources expended. Shrivastava and Scott (1992) maintain that open-system organizations are largely dependent upon their environment for resources (e.g., power, information, money). As organizations operate in a dynamic environment, they must respond to this environment in a manner that will promote homeostasis and permit growth. Just like living cells, systems must exchange resources with the environment in order to survive. Furthermore, the boundaries of social systems are amorphous, permeable, and ever changing. To accommodate the challenges and demands of the environment, an organization will ingest the external forces or acquire control over them (Welford, 1994).

The impetus to respond may result from the understanding of significant issues raised in the strategic management process of various organizations and then analyzed and responded to in an orderly manner. Strategic competitive response capability is based on the extended definition of dynamic capabilities proposed by Eisenhardt and Martin (2000) to include the response to exogenous challenges (Helfat et al., 2007). This capability can be conceptualized as the ability of the firm to scan the environment, identify new opportunities, assess its competitive position and respond to competitive strategic moves. Challenges related to even minor technology shifts are often hard to be addressed effectively (Tushman and Anderson, 1986; Henderson and Clark, 1990). However, the capability to sense and strategically respond to environmental challenges is of utmost importance as it enables the firm to reconfigure certain competences before they become core rigidities (Teece et al., 1997, Eisenhardt and Martin, 2000).
The work of Ansoff (1979) classifies the characteristics that best describe the common trend or pattern of an organization’s strategic response behavior in serving its environment. Five categories of a profile are used: stable, reactive, anticipating, exploring, and creative. Ansoff indicates that the strategic responsibility of general or top management is to be “tuned and responsive to the ambient environment to identify and understand quickly the implications for change, to determine courses of action and guide their implementation.

1.1.3 Capital Market Industry

The capital market is part of the larger financial service system that facilitates the raising of long term funds for development. It brings together lenders (investors) of capital and borrowers (companies that sell securities to the public) of capital.

Access to the capital markets is provided by institutions that are licensed and authorized by the Capital Market Authority (CMA) to operate in the capital markets. The capital market institutions in Kenya include: the securities exchanges, central securities depositories, credit rating agencies, investment banks, stockbrokers, investment advisers, fund managers, authorized depositories, collective investment schemes and registered venture capital companies. The industry associations are the Kenya Association of Stock Brokers and Investment Banks (KASIB), Fund Managers Association and Association of Collective Investment Schemes and emerging sector specific associations such as the Bond Market Association.
1.1.4 Central Depository and Settlement Corporation of Kenya Limited

The Central Depository and Settlement Corporation Limited (CDSC) is a limited liability Company approved by the Capital Markets Authority under Section 5 of the Central Depositories Act, 2000 to establish and operate a system for the central handling of deliveries and settlement of securities in the Capital Markets in Kenya. It commenced its operations as a central depository on 10th November 2004. The Central Depository and Settlement Corporation Limited (CDSC) was incorporated on 23rd March 1999 under the Companies Act, 2000. Central Depository has six shareholders: the Capital Markets Challenge Fund (50 per cent), Nairobi Securities Exchange (22.5 per cent), AKS Nominees Ltd. (18 per cent), Capital Markets Investor Compensation Fund (7 Per Cent) and Uganda Securities Exchange (2.5 per cent).

Central Depository, an independent company limited by shares was established for purposes of operating a system for the central custody of book entry securities and electronic settlement of trades in for the securities. Through the Central Depository system Central Depository provides clearing, delivery and settlement services for securities traded at the Nairobi Securities Exchange. It oversees the conduct of Central Depository Agents comprising stockbrokers and investments banks which are members of Nairobi Securities Exchange (NSE), custodians who are subsidiaries of commercial banks as well as insurance firms appointed as Central Depository Agents. Central Depository is the quality provider of clearing and settlement services in the Kenyan Capital markets. In line with its mission, it offers secure central custody and simplified, swift and safe transfer of investors’ value.
1.2 Research Problem

Organizations cannot be sealed from the environment in which it exists. Organizations achieve their objectives by interacting with its external world at different levels. According to Johnson, Scholes and Whittington (2005), an organization exists in the context of complex political, economic, social, technological and legal world. The environment changes and affects different organizations differently. It can be emphasized that an organization is subject to external environment and for survival and growth it makes strategic plans as a response to the challenges in the environmental conditions. Many organizations have changed their business portfolios, market, products, capital and business units in response to the challenges.

To effectively adapt to challenges, Central Depository and settlement Corporation has a daunting task ahead in a variety of operational and procedural areas. The very culture of Central Depository needs to be reshaped to properly support the new processes introduced. Structures, reward systems, appraisal measurements and roles need redefinition. Successful adaptation to environmental changes necessitates an understanding about how to convert and rebuild from the complexities and legacies of the old, as well as generate designs about the new. Environmental changes necessitates that organizations realistically move beyond antiquated processes, empower and retrain employees, and incorporate advances in IT into the everyday work setting.
Central Depository as any other organization has faced and is still facing various challenges as a result of environmental challenges. External challenges in terms of technological, economical, legislation and socio-cultural challenges among others must have made Central Depository adopt various responses that countered these challenges. Consequently the purpose of this study is to investigate the response strategies adopted by Central Depository in Kenya due to its challenging work environment. Various literatures exist covering the area of strategic response. Wangia (2010) on strategic responses of real estate firms in Kenya to changes in the external environment; strategic responses adapted by KCB to changes in the environment (Ojwang, 2010); response strategies of Equity bank to competition in the banking industry (Gitonga, 2008); strategies adopted by commercial banks in Kenya in response to environmental changes (Macau, 2009) and Strategic responses by stockbrokers in Kenya to external environment (Muthaura, 2011). Although extensive research has been carried out on strategic responses, no single study exists which adequately covers response strategies by Central Depository to challenges in its environment. This is a research gap that this research to date has tended to focus on Central Depository rather than other organizations. The central question in this research asks how Central Depository responds to the challenges in its environment.
1.3 Research Objective

The objectives of this study are:

i. To identify the environmental challenges facing Central Depository and Settlement Corporation Limited

ii. To establish the response strategies Central Depository and Settlement Corporation Limited has adopted to address challenges in the environment

1.4 Value of the Study

The study will be of benefit in the following ways:

Findings from the study will particularly be useful in providing additional knowledge to existing and future institutions on Response strategies to environmental challenges and provide information to potential and current scholars on strategic management in Kenya.

The study will add to scholarly knowledge and help other scholars and academicians who may want to use the study to improve on the Response strategies that the study may not have captured. It forms the foundation of program development and policies.

Findings of this study will be useful to the top management of Central Depository as they will acquire the knowledge with respect to the underlying sources of responses. It will also help solve particular existing problems of concern.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to the study, an overview of the concept of strategy, response strategies and the environmental challenges.

2.2 The concept of Strategy

The top management of an organization is concerned with the selection of a course of action from among different alternatives to meet the organizational objectives. Strategy managers assess factors such as what is happening externally, what might be done, what resources are available, what capabilities and competencies are possessed need rational appraisal (Bailey, 2007). Strategy is the grand design or an overall ‘plan’ which an organization chooses in order to move or react towards the set of objectives by using its resources. Strategies most often devote a general programme of action and an implied deployed of emphasis and resources to attain comprehensive objectives. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies (Meima, 1994). There has to be integration of the parts into a complete structure.
Strategy helps the organization to meet its uncertain situations with due diligence. Without a strategy, the organization is like a ship without a rudder. It is like a tramp, which has no particular destination to go to.

Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure. In management, the concept of strategy is taken in broader terms. Johnson and Scholes (2002) have defined strategy as the direction and scope of management an organization takes over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets. Strategy is the determination of the basic term goals and objectives of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out those goals (Chandler, 1962).

In Chandler definition of strategy he attempts to view that strategy is as much as about defining goals and objectives as it is about providing the means for achieving them. Ansoff and McDonnell (1990) also separate goal setting (concerned with ends) from strategy (concerned with means). Strategy is a broad based formulae for how business is going to compete (Porter 1980), that is, what its goal should be, and what policies will be needed to carry out these goals. According to levy (1972) strategic decision making is seen as a crucial part of the process by which organization adapt to their environments. It is argued that those decisions that actually succeed in creating or changing organizations
do so via complex iterative process, which strategy theorists subsume under the concept of strategy implementation.

According to Mintzberg (1994) strategy is a plan, ploy, pattern, position, and perspective; strategy is a process of sensing, analyzing, choosing and acting. The strategy formulation has to complement the environment of operation and the available resources. Strategy can be seen as the matching of the resources and activities of an organization to the environment in which it operates (Stacey, 1998). Strategic decisions are normally about trying to achieve advantage for the organization over competition. Strategy is the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A strategy allocates an organization's resources into a unique and viable posture based on relative internal strengths and weaknesses, anticipated changes in the external environment.

Strategic decisions are likely to be concerned with the scope of the organization. Strategy can either be imposed, realized, unrealized, intended, or as an outcome of cultural and political process Strategy can be regarded as the long-term direction of the organization, which develops over time, and finally it can be seen as the outcome of cultural and political process (Johnson and Scholes, 1997). Any discussion on strategy inevitably ends on a knife edge; for every advantage associated with a strategy there is an associated disadvantage (Mintzberg, 1998). Strategy is a deliberate and conscious effort. Action must flow from reason.
2.3 Organization and the Environment

The environment of an organization in business is the pattern of all the external conditions and influences that affect its life and development (Mintzberg and Quinn 1992). For Brown and Eisenhardt (1998) this kind of environment is defined as a situation that is subject to continuous and substantial changes which are uncertain and unpredictable. Hedlof and Janson (1999) used a concept of Andrews (1992) that implies that environment of an organization in business is the pattern of all the external conditions and influences that affect its life and development. As one of pioneers, Emery in 1977 argued about turbulent environments. His conception about was related to environment in which modern countries appear to be moving and it is not sure whether adaptation is very probable. It is doubtful that individual systems can by their own efforts successively adapt to such richly textured fields.

Emery argued that, in a turbulent environment, adaptation is not possible unless one somehow comes to grips with the complex interaction of the effects that different parts of the ecological-social-economic-political environment are having on one another.

Every organization is confronted by external pressures which will have implications for the way it manages its internal operations (sticker, 1992). Competition, recession, government regulation and new technology are just a few of the many problems which currently affect organizations. By correctly identifying developments in the organization’s external environment and evaluating their possible effects, manager and
employees should be better placed to draw up and amend plans to ensure the long term viability of the organization with which they are associated. A host of external factors influence a firm’s choice of direction and action and ultimately its organization structure and internal processes (Pearce and Robinson, 2005). The immediate external environment includes, competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations and customers whose preferences often shift in explicitly. The remote external environment comprises includes those sectors that may not have a direct impact on the daily operations of a firm but will indirectly influence it often includes economic and social conditions, political practices and technological developments all of which must be anticipated, monitored, assessed and incorporated into the executive’s decision making (Norcia, 1993).

The environment challenges are complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment (Porter, 1998). Given the competitive nature of the organization environment, organization requires an effective competitive strategy to operate successfully in a market where there is established and potential competition. The basis of competition is either cost based or added value based. These decisions result in three possible competitive strategies: cost leadership; differentiation and focus (Porter, 1998). Choosing competitive strategies which will deliver competitive advantage are an inexact process. The achievement of competitive advantage and hence superior profits are central to the strategy of any organization. Believing ‘too much money has been invested and so quitting is not an option’ can be a poor approach to the dynamic environment. This approach indicates that
the organization is unwilling to accept it is failing and hence the organization continues to waste money. Organizations need to identify the strategies they are currently following and decide if they are likely to lead to success in the future given the turbulence in the organization environment.

All Organizations operate in a ‘macro environment’ shaped by influences emanating from the economy at large. A company’s macro environment includes all relevant factors and influences outside the company’s boundaries (Thompson, 2007). Strategically relevant influences coming from the outer ring of the macro environment can sometimes have a high impact on a company’s business situation and have a very significant impact on the company’s direction and strategy. Happenings in the outer ring of the macro environment may occur rapidly or slowly with or without advance warning (Thompson, 2007). As organization managers scan the external environment, they must be alert for potentially important outer-ring developments, assess their impact and influence and adopt the company’s direction and strategy as needed. Senge (1990), Chaos theorists argue that the organizational world appears to be so turbulent and chaotic that it is not possible to predict what will happen or when, so traditional approaches to strategic management are simply not relevant.

2.4 Environmental Challenges

Organizations are confronted with challenges in their business environment (Stinger, 2002). These challenges originate from different forces, like political, demographic,
economic, legal, technological, infrastructure, ecology and social forces. The author winter (2003) emphasizes that the main forces “globalization, internationalization, innovation, technology and mass individualization” as the most influencing elements in the environment of organizations.

For Johnson and Scholes (1989), there are four groups of key drivers behind change, in short called PEST (Political, Economical, Socio cultural and Technical). Hedlof and Janson (1999) describe the first group as the political group, being responsible for changes in legislation and taxation are some factors that affect an organization. According to the authors, the economical group is related to interest rates, GPD trends and unemployment affect the organization. The third one, are Socio cultural factors, which includes changes in population, income, mobility, and attitudes. The fourth and last group is the technical group. Within this group Hedlof and Janson (1999) found changes in government spending on research, government and industry focus on technological efforts, new discoveries/development, speed of technology transfer, and rates of obsolescence. This force is a critical point to continuous innovation keeping success on business survival. Organizations are faced with a wide variety of external factors that provide potential opportunities and threats for short-term and long-term success in any given environment.

The organization’s external factors beyond the control of the firm that influence it’s choice of direction and action, organizational structure and internal process (Pearce and Robinson, 2007). A host of external factors influence a firm’s choice of direction and
action and, ultimately its organizational structure and internal processes. These factors, which constitute the external environment, can be divided into three interrelated subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment.

The operating environment, also called the competitive or task environment, comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities (Pearce and Robinson, 2007). The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and the jockeying among current contestants (Porter, 1980). The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation; economic, social, political, technological, and ecological factors. (Greeno and Robinson, 1992). From a macro environmental perspective, these factors can be effectively summarized with the acronym PESTEL.

Analyzing the entirety of the macro-environment is an extensive and complex task, but understanding the framework of what to look for allows an organized and strategic approach to isolating each opportunity or threat (Perks and Bouncken, 2004). Understanding these challenges is the first step to handling them properly. Today's fast-
paced environment requires people and organizations to develop the ability to adapt to pervasive change and upheaval "Cutting-edge technology, the triumph of capitalism over communism, a burgeoning global economy, a billion new entrants to the global workforce, and a surplus of products all feed into an environment that is highly competitive and fast-changing and more complex.

Emery and Trist (1965), on their theory of organizational environments, classify four types of environments based on two different dimensions: complexity and dynamism. Edelmann and Benning (1999) explain that the turbulent field is located in the highest level of dynamism and complexity, and it arises from variances in components of the environment in which the organization is part of.

The direction and stability of political factors are a major consideration for managers on formulating company strategy (Pearce and Robinson, 2009). Political factors define the legal and regulatory parameters within which firms must operate. Politics play a role in business, as there is a balance between free markets and systems of control. These factors specifically revolve around taxes, import/export tariffs, environmental and labor laws, potential subsidies, and the stability of a given operational region. As global economics now supersede domestic economics for many businesses, this provides a number of opportunities and threats when expanding into new regions or isolating the ideal areas for production (Bowman and Faulker, 1997). Political factors either may limit or benefit the firms they influence (Pearce and Robinson, 2009). The direction and stability of political
factors are a major consideration when evaluating the remote environment. According to Tikkanen and Halinen (2003), as competitive environments evolve, the ways in which companies respond to and trigger environmental changes is also altered, and the strategic management theories must also evolve.

Economic factors are metrics that measure and assess the health of a given economic microcosm of the entire global economy. Economic factors concern the nature and direction of the economy in which a firm operates (Pearce and Robinson, 2009). These factors incorporate exchanges rates, Gross domestic product (GDP), consumer purchasing indices, interest rates, inflation, and a number of other indicators of economic health or direction. Because consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry (Pearce and Robinson, 2009). These factors are critical to management, as they underline when it is a good time to borrow, if the economy will be friendly to an industry where businesses fluctuate substantially with GDP or spending power, etc. On both the national and international level, managers must consider the general availability of credit, the level of disposable income, and the propensity of people to spend.

The social factor that affect a firm’s involve the beliefs, values, attitudes, opinions, and life-styles of persons in the firm’s external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning. Social factors could loosely be seen as a demographic analysis, where specific groups display
preferences or tendencies that could be leveraged or could be threatening to a given incumbent.

According to Smith (1992) technology has become the engine of change for many organizations. Greeno and Robinson (1998) credited increased competition and globalization as the most sweeping factors in the new global change environment. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. A technological breakthrough can have a sudden and dramatic effect on a firm’s environment. Technological forecasting can help protect and improve the profitability of firms in growing industries. It alerts strategic managers of both impending challenges and promising opportunities. Technological forecasting refers to the quasi science of anticipating environmental and competitive changes and estimating their importance to organization’s operations (Pearce and Robinson, 2009). Technology plays a larger and larger role each year in business, and will continue to do so as research and development drive new innovations. Keeping pace with technology, and adapting accordingly, is an important facet of PESTEL to sidestep threats and embrace opportunities.

The legal elements involved, which can also be tied to the political framework. Legal issues such as affirmative action cases, patent infringements, anti-trust laws, health regulations, and safety regulations can all play a large role on a company that does not act responsibly. Understanding this legal landscape is important for avoiding pitfalls and remaining within the confines of important regulations, and management should always have legal advisers on board.
2.5 Response Strategies

Chaos theorists argue that the world appears to be so chaotic and turbulent that it is not possible to predict what will happen or when. Traditional approaches to strategic management are then not appropriate. According to Pearce and Robinson (1988) strategic responses area set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm’s objectives. For continued survival, management has to come up with a game plan in response to environmental changes. Strategic responses are the strategies that firms take that are triggered by environmental changes. The firm’s game plan in response to environmental changes constitutes its strategic response. For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. Therefore they need strategies to focus on their customers and deal with the emerging environmental challenges.

Organizations have to constantly scan their environments to identify the trends and conditions that may eventually affect the industry and adapt to them (Thompson and Strickland, 1993). The environment is dynamic and keeps changing. Therefore, strategy has to keep being altered to match the changes in the environment. Various authors have suggested some strategic responses that firms can adopt in matching the environmental changes. Based on appreciation that periodic planning systems are not able to perceive and respond to threats and opportunities in a turbulent/chaotic environment, timely response is critical to avoid adverse effects or missed opportunities.
Cost of none response could be lost of accumulative profits or cost of reversing the loss. Real time response to the challenges in the environment include: Detecting surprising changes and taking appropriate action; increasing time for response to be able to manage and monitor the rapid changes and responding in real time as and when the need demands. Actions required during strategic response could be immediate action; no action; delayed action or monitor for possible future action. In responding to the turbulence in the environment, it is not necessarily that periodic planning systems are disrupted. They can only be modified through monitoring and evaluation process. Response strategies can be grouped as corporate, business and functional responses.

2.5.1 Corporate Strategies

Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business (Johnson and Scholes, 1997). Corporate strategy is often stated explicitly in a "mission statement". Johnson and Scholes (1993) view corporate strategy from cultural perspective, they described it as a strategy based on the experiences, assumptions and beliefs of management overtime and which may eventually permeate the whole organization.

Corporate Strategy strategies are plans formulated to carry out values and performance objectives of a company (Andrew, 1987). These plans become more specific and detailed
the lower the organizational level. Corporate strategy is the art of using organizational resources to render the goals defined by the organization with minimum risk. Corporate strategy also involves marshalling the available resources for definite missions and planning alternative strategies in anticipation of changing contingencies and creating flexible conditions in structure and employee attitudes favorable towards achieving the corporate goal. The corporate strategy defined a company’s general posture in the broad economy.

There are various corporate strategic responses adopted by organizations to adjust to the environmental changes and complexity (Banerjee, 1999). These include: Diversification; mergers & acquisition; strategic alliances; Turnaround strategy, Outsourcing and vertical integration. Diversification may take place within a firm’s existing areas of specialization or may result in a firm going into new areas. Acquisition is where an organization develops its resources and competencies by taking over another organization. Mergers result from organizations coming together voluntarily. Outsourcing is a case whereby the company performs some value creation activities and leaves others for different companies to perform. Strategic alliance is a case where two or more companies collaborate by sharing resources and activities to pursue a common strategy.

2.5.2 Business Strategies

Business Unit Strategy is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs
of customers, gaining advantage over competitors, exploiting or creating new opportunities (Johnson and Scholes, 1997).

To cope with the five forces of the competitive environment, Porter (1980) advanced three generic strategies that firms can use to succeed in an industry. The three generic strategies are overall cost leadership, differentiation and focus. With Cost Leadership Strategies competition is based on price (Porter, 1980). The various functional strategies all emphasize cost reduction. This is an effective strategy when the market is comprised of many price sensitive buyers, when there are few ways to achieve product differentiation.

Differentiation strategies rely on some basis of product differentiation such as flexibility, specific features, service, time and availability, low maintenance, etc. as the basis for competition. Product development and market research are generally necessary components of a differentiation strategy. Generally, a successful differentiation strategy allows a firm to charge a higher price for its product. Organizations generally need strong Research and development departments with strong coordination between Research & development and marketing departments. Human Resource strategies must place emphasis maintaining a competitive skill base and motivating employees toward the basis for differentiation.

A successful focus strategy depends upon an industry segment that is of sufficient size, has good growth potential, and it not crucial to the success of other major competitors (Porter 1980). Focus strategies are pursued in limited markets in conjunction with cost
leadership and/or differentiation strategies. Focus strategies are the most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors recognize the successful focus strategy and copy the strategy, or that consumer preferences drift towards those of the market as a whole. Pearce and Robinson (1991) proposed the grand strategies for surviving in the environment. A grand strategy is a comprehensive, general plan of major actions through which an organization will achieve its objectives in a dynamic environment. The grand strategies indicate how the business objectives are to be achieved. The grand strategies include concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation.

2.5.3 Functional Strategies

A functional strategy is the short-term game plan for a key functional area within a company (Paul and Lorsch, 1969). Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Thus, functional strategies clarify the business strategy, giving specific, short-term guidance to operating managers. Functional strategies must be developed in the key areas of marketing, finance, production, operations, research and development, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company to pursue the business strategy in daily activities.
Operational strategies deal with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people (Johnson and Scholes, 1997). Organizations adopt some operational strategies as a response to deal with the complexity of the environment. Some of these strategies include: Research and development; Restructuring and Re-engineering/Refocusing; Human Resources Management, Marketing; Management of change; Technological Up gradation. Research and development activities are backbone for an organization’s competitiveness in the highly competitive market. Research activities develop new knowledge and developmental interventions result into application of scientific knowledge. Today organizations give thrust to their Research & Development activities for renewal of growth and increasing the bottom line. In response to the changing business environment, some organizations follow organizational restructuring processes. Technological improvements are inevitable for making improvements in products and services .its quality and precision. Technological up gradation implies use of newer technologies which may be cost effective and lead to efficient products and services. Technological up gradation is absolutely essential for combating the fierce competition and market demands.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter shows the research design to be employed by the study, target population, sample design, data collection and data analysis.

3.2 Research Design

This research was a case study of Central Depository. According to Mugenda and Mugenda (2003), a research design is the specification of methods and procedures for acquiring the information needed.

The research problem presented was best conducted through a descriptive design. The descriptive design provides very focused and valuable insights to phenomena that may be vaguely known or understood. In the descriptive technique, information was obtained concerning the current status of the phenomenon to describe what exists with respect to variables in a situation.

3.3 Data Collection

In depth interview was conducted. An interview guide was used. Ten interviewees were targeted for the research in all levels of management positions at Central Depository. This
include; Manager Operations, Manager HR & corporate affairs, Manager Registry, Manager IT, Assistant managers and Supervisors in different departments.

The respondents were briefed in advance of questions to help them recollect facts before the actual interview date. For secondary data, the researcher used the corporation’s annual report, and company strategic plan.

3.4 Data Analysis

Data was analyzed based on content analysis. The quantitative data was analyzed by the use of descriptive statistics and then presented through percentages, means, standard deviations, frequencies and charts.

The researcher used the data with an aim of presenting the research findings in respect to the use of strategic responses to the external environment adopted by Central Depository.
CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The study sought to establish the response strategies adopted by Central Depository and Settlement Corporation of Kenya Limited to Environmental Challenges. The method of data collection was personal interviews by the aid of an interview guide which was given to the respondents in advance to enable them reminisce relevant facts. The chapter presents the analyses and findings of the study. The researcher interviewed the managers at the Central Depository and the results are presented to highlight the convergence of ideas from the respondents. Included in the research findings is additional data provided by the respondents.

4.2 Environmental Challenges

There are many environmental challenges that affect organizations. The researcher found out that not all these challenges had an impact on Central Depository. The interviewees indicated various challenges from the external environment that affected Central Depository’s operations. Some of the challenges include the following:
4.2.1 Political and Legal Challenges

The researcher asked whether the management had faced any political and legal challenges. The interviewee claimed that there were challenges in regulation policies that affected their operations, as well as political challenges. They argued that Political uncertainties and economic policies in Kenya have facilitated the decline in confidence in and subsequent poor performance of the stock market because of the risk of deterioration in the business climate. Interviewees claimed that before, the last general elections in Kenya in 2013, the Nairobi Stock Exchange experienced decline in market performance due to political and economic policies adopted by the government that led to the withdrawal of donor funding. The interviewees said that there was no renewed confidence in the market during general elections period. They argued that the capital market turnover and market capitalization declined due to the loss of confidence brought about by the present regime's political and economic policies. Interviewees reiterated that these political and economic policies that resulted to uncertainties affected the stock market turnover hence reducing the Central Depository transaction levy fee which is the organization’s main revenue source.

The interviewees posed that Central Depository faced legal challenges in its operating environment. They said that Central Depository was established in the year 2001 through an Act of Parliament i.e. the Central Depository and Settlement Act therefore it is regulated by this Act and the Capital Markets Act. According to the interviewees the oversight jurisdiction of the Capital Markets Authority over Kenya’s securities markets extends to its relationship with the Central Depository and Settlement Corporation, its
affiliate. They argued that powers conferred on the corporation are exercisable subject to those of or in consultation with the Capital Markets Authority. Interviewee further argued that although the Central Depository is empowered to appoint Central Depository Agents; it can only suspend or revoke their appointment in “consultation” with the Authority. The interviewees posed that the character of the consultation contemplated by the Rules remains unclear hence challenge to Central Depository. Some interviewees gave a case scenario when the Central Depository suspended the custodial license (central depository agent license) of Equity Bank Company Ltd. They argued that Capital Market Authority ordered the Central Depository to reinstate the license immediately and undertook to arbitrate the dispute between the two entities. They further probed that Capital Market Authority argued that it had not “approved” the suspension as required by the provisions of the Central Depositories Act, 2000. Surprisingly, the Central Depositories Act does not address the issue of suspension or revocation of custodial licenses and the applicable Rules require “consultation”. According to the interviewees these instances demonstrate that although the Central Depository appears to enjoy certain powers, ostensibly exercised by self-regulatory organizations in other jurisdictions, the powers are deeply circumscribed by the Capital Markets Act and its regulations. Concededly, the dynamism of the securities markets coupled with, globalization, advancement in technology and the unreliability of market intermediaries have rendered self regulation impracticable in many respects. Interviewees reiterated that the utility of self-regulation has progressively been undermined by the insatiable greed of market intermediaries which has necessitated substantial government intervention.
The interviewees argued that the Capital Markets Authority exercises plenary legislative and supervisory powers over the Central Depository. They further argued the Capital Market Authority powers are ubiquitous and its primacy over all aspects of the securities markets is incontestable. Even though the enveloping powers are justified on the need to protect investors and boost investor confidence, they still pose as challenge to Central Depository.

Adding more to the legal challenges that impacted on Central Depository, Interviewees said that international investors and those from Kenya, Tanzania, Uganda and Rwanda are faced with different legal environments in each market whose combined turnover is very small when compared to other world markets. Interviewees further argued that technical and procedural restrictions make it time consuming and cumbersome when trading in equities, adding to the illiquidity of shares creating a negative perception of investing in the securities market. Interviewees added that the legal framework and trading platforms in Kenyan capital market is of a big challenge. According to them there is a need for the harmonization of legal frameworks and trading platforms to make the trading environment more investor friendly.

4.2.2 Economic Challenges

The interviewees were asked whether management had faced challenges in the economic environment. They said that the corporation faced major challenges from the economic environment. Some of the interviewees further argued that economic growth in Kenya
was slow in early 2012 with the economy expanding by 3.4 percent and 3.3 percent in the first two quarters, as key sectors such as construction were negatively impacted by high interest rates. According to them this effect was a carry forward from 2011 when rising inflation and a depreciating currency forced policy makers to raise interest rates aggressively, driving up borrowing costs.

Interviewees further argued slow growth in construction and hotels seemed indicative of investments being held back a head of the March 2013 elections as investors adopted a wait and see attitude, fearful of a repeat of the post election violence of 2008. Tourism was in addition negatively impacted by increased insecurity following the war against Al Shabaab. The violence in the Delta and larger Mombasa dampened the allure of the Coast, and travel advisories in this regard hit tourism hard. Furthermore, the euro zone crises in major tourist source markets had a negative impact and tourism slowed to 11 percent during the third quarter of 2012, from 2.1 per cent in the same quarter of 2011. At the beginning of 2012, inflation had risen to 20 percent from 4 percent the previous year and the shilling was slowly recovering from historic low of Kshs.107 to the dollar recorded on October 11, 2011. Interviewees said that these economic challenges had an impact on Central Depository because the turnover from its transaction levy declined as trading activity reduced at NSE.

The Interviewees argued that low numbers of Kenyans investing in the stock market also posed as a challenge. It is estimated that less than 4% of adult Kenyans own shares compared to other markets where this ratio averages over 50%. They said low savings rate had constrained demand and supply of equity in stock markets. Poverty, war,
political unrest and disease had resulted in a large portion of the population living on less than a dollar a day thereby constraining savings. They further argued that Central Depository had been affected by the low-income levels, business cycles, and cost of factors of production. They said low-income levels had posed a challenge because most people could no longer afford to invest in the stock exchange.

Interviewees posed that the stock exchange lacks attractive and diverse types of securities to offer foreign investors. Generally, there may be only two or three corporations of interest to foreign investors and most of these may either be subsidiaries of major multinational corporations or recently privatized companies. Consequently fund managers choose the safer course and invest in parent company. High real short-term interest rates have reduced the demand for capital market instruments and crowded-out substantial domestic savings to short-term government securities. Deposit rates are too low and lending rates too high thereby discouraging domestic savings and investment. The domestic savings are less than 10% of GDP and World Bank, Capital Markets Integration thereby insufficient to meet investment needs and generate demand for equities and debt instruments.

The interviewees argued that the high cost of acquiring the appropriate IT infrastructure was a big challenge for Central Depository and this could affect the efficiency of a settlement system. Central Depository is not adequately capitalized and therefore do not have the resources to acquire these facilities that will ensure speedy settlement of trades. The lack of resources by Central Depository can also impact on its ability to acquire the
appropriate IT infrastructure that will facilitate speedy data exchange with the settlement system

Interviewees argued that the current tax law—full of business jargon—reduced the number of goods and services that are tax-exempt and zero-rated. They said this had many implications on the pricing of certain products and services. Some of the interviewees said that consumer goods prices rose at the highest rate driven by introduction of value added tax (VAT) on previously exempt and zero-rated goods. According to them inflation, the rate at which the price of a select basket of goods rises, hit the 8.29 per cent mark in September 2013 from 6.67 per cent the previous month mainly driven by the near three per cent rise in the prices of food and non-alcoholic beverages that account for 36 per cent of the basket of goods used to measure the price changes or the Consumer Price Index (CPI). The interviewees said imposition of VAT on a large number of consumer goods and seasonal factors affecting supply of common food crops were the main causes of the rise in the cost of living. According to them prices of food and non-alcoholic beverages rose at the rate of 2.87 per cent followed by a 2.29 per cent rise in the prices of alcoholic beverages and tobacco. Interviewees further posed that consumers also had to contend with significant price escalation in key household expenditure areas such as housing, electricity and gas thus decreasing the amount to be invested in the stock exchange thus reducing amount of levy that Central Depository earns from the transactions. Interviewees reiterated that with the VAT bill, the wave of consumer price increases to have double impact of hurting aggregate demand for goods and services as
well as spark demand for higher wages, saddling businesses with the twin challenges of slow revenues and higher operating costs.

Interviewees further elaborated that economic growth is expected to suffer from the persistent high interest rate regime that discourages new borrowing for investment in the capital market. According to the interviewees, high interest rates have the effect of raising costs for existing borrowers and delaying new investments as businesses wait for more favourable credit terms. Some interviewees said that they expected demand for both essential and non-essential goods to slow down as consumers seek to balance their budgets in the wake of the all-round price increases.

4.2.3 Socio-cultural challenges

Interviewees were asked whether there were any challenges that management face from the socio-cultural environment. The interviewees said that Investment culture in Kenya had changed. There are various ways in which investment is done apart from the stock market i.e. “chamas”, investment groups, real estates. This makes most investors to go for alternatives. Poor saving culture of Kenyans and poverty was also seen as a challenge. The interviewees indicated that Perception of the Capital Markets by investors – as a result of bad experience in Safaricom initial public offer collapse of Stockbrokers and poor financial literacy was a major challenge. They said Conman ship and frauds in the stock market caused mistrust among investors. According to the interviewees this made most investors to shy away from investing in the stock market and also imposed reputational risk on Central Depository as the custodian of securities.
Interviewees were further queried if there were some other socio-cultural challenges. They argued by saying that another key challenge had been low financial literacy in Kenya and limited investor education and public awareness. They argued that substantial number of investors are retail investors, many of whom are not sophisticated and lack sufficient knowledge of market operations and processes therefore they prefer to buy and hold their securities and not willing to immobilize/dematerialize their certificates. They further argued that the implication of this was that such investors were reluctant to accept the change and participate in any settlement system that mandates immobilization of certificates for purpose of trading and settlement of the trades. Interviewees posed that while dematerialization of share certificates into a central depository may eliminate most of the risks associated with physical movement of certificates, the attitude of investors in holding on to share certificates as veritable properties could affect the acceptance or otherwise of a central depository. According to them integrity of the settlement system and its employees is therefore very essential in building investors’ confidence.

Interviewees indicated that transparency and reliability of information was also another challenge to Central Depository operations. According to them the financial markets are information driven thus an efficient securities settlement system requires transparent and reliable information. They argued that the inadequacy of appropriate IT infrastructure in many emerging markets impact on the integrity and reliability of some of the market information and this could pose a challenge to the settlement system as some of the critical participants are unable to meet the IT requirement for data exchange.
On the issue of fraud and conman ship, interviewees argued that investors’ confidence had dwindled in the recent past following widespread fraud and collapse of several stockbrokers with millions of investor funds in the past three years. They said retail investors had been at the mercy of stockbrokers, who in turn take advantage of the situation. They further elaborated that as it were the case with Francis Thuo, the first stock broking firm to go down and Nyaga, which was the largest firm to follow suit and others such as Discount Securities which are under the capital market radar; investors complained that stockbrokers sold shares without authorization. In most cases, investors noticed the fraud when it was too late, through their statements or when they placed sales orders only to realize they had no shares. Some of them elaborated that according to Thomas Murray, a custody risk rating and advisory company specializing in the global securities services industry, the capital market infrastructures in Africa represent the most underdeveloped of all regions globally in terms of their ability to support efficient clearing and settlement which to them was a challenge that Central Depository faced.

Interviewees said that fraud and forgery was alarming. They posed that fraudsters in the stock market were targeting wealthy investors in sophisticated theft schemes that involve stealing identities and selling shares using fake names, the According to them, this marked a shift from the previously popular approach that involved simple unauthorized sale of investors’ shares. They argued that Inactive investor accounts were the most prone to fraudsters. They further argued that the Kenyan stock market was hit by a wave of collapse of stockbrokers between 2007 and 2010 that was attributed to the unauthorized sale of investors’ shares. Four stockbrokers went under in quick succession, sinking with
billions of shillings of investors’ funds. Some interviewees said that recently, the Central Depository and Settlement Corporation (CDSC) raised the alarm over some operators in the stockbrokerage industry who collude with dealers and Central Depository staff to sell dormant shares either with intent to return them after scooping the profit or selling them for good to other unsuspecting investors. They claimed that agents could be easily used for fraud. They posed that Central Depository intended to procure a new software in a bid to make it difficult to carry out fraud in the automated trading system; though it regretted that the conmen were always steps ahead of the regulator and genuine operators.

The interviewees further argued that Central Depository joined the bandwagon of the many companies seeking to provide their services through the mobile phone. “Tafakari Hisa”, a short messaging service, sms, alerts that notifies investors of any transactions within the Central Depository accounts. Interviewees said that this is one of the ways investors could manage to track unauthorized movements, but the uptake of the service had been low since only 20,000 investors had subscribed to the SMS alerts. This was a challenge to the Central Depository sms service.

Interviewees said that another form of fraud used by the conmen was the execution of a trade using shares owned by someone else and subsequently putting the money in a bank account opened using a fake ID or nominee account. The fraudster then disappears. They said commercial banks, which would be the destination of the proceeds from the transactions, always refused to reveal the details of accounts involved in the fraud on the basis of protecting customer confidentiality.
Manpower development and capacity building posed as a challenge facing Central Depository. Interviewees argued that while effort to develop capacity is vigorously pursued in the capital market, the low level of well trained personnel to effectively manage the system may pose a problem to its efficient functioning. Inadequate training funds may be a challenge to Central Depository effort to build staff capacity. They argued that apart from this, there is an obvious gap in knowledge of the dynamics of the market between participants and most investors in the Kenyan capital markets.

Interviewees indicated that inadequate access to information and lack of awareness was a challenge that impacted on Central Depository. In the Kenyan capital market access to information by investors and some of the participants is hampered by poor infrastructure. This has also impacted on the accuracy of information which is a big challenge in many of these jurisdictions. Generally, there is lack of awareness and information on the role, functions and operations of the Central Depository among potential investors and business entities. Many Kenyans throughout the country do not know enough about the Central Depository, and the company does not seem to market itself sufficiently to potential investors or provide a variety of products to attract companies. This may be attributed to financial and human resource constraints. The lack of public awareness on Central Depository operations is a major hindrance to corporate participation in the capital market.
4.2.4 Technological challenges

Interviewees said that the ever more critical need for Central Depository to transition its technology architectures to next-generation capabilities was challenging. They argued that Internet and information technology are moving and changing very fast thus Central Depository need to be redesigned to stay to sustain the competitive advantages.

Interviewees agitated that the reliance on new technology to provide services makes security and system availability the central operational risk of Central Depository. They explained that security threats can come from inside or outside the system, so Central Depository management must ensure there are appropriate practices in place to guarantee the confidentiality of data, as well as the integrity of the system and the data. They argued that Central Depository security practices should be regularly tested and reviewed by outside experts to analyze network vulnerabilities and recovery preparedness and capacity planning to address increasing transaction volumes and new technological developments should take account of the budgetary impact of new investments, the ability to attract staff with the necessary expertise, and potential dependence on external service providers. They posed that managing heightened operational risks needs to become an integral part of Central Depositories’ overall management of risk, and supervisors need to include operational risks in their safety and soundness evaluations.

Interviewees further alleged that breaches of security and disruptions to the system's availability can damage Central Depositories’ reputation. They argued that the more the Depository relies on electronic delivery channels, the greater the potential for reputational
risks. If one electronic transaction encounters problems that cause customers to lose confidence in electronic delivery channels as a whole or to view depository’s failures as system wide supervisory deficiencies, these problems can potentially affect other users of the depository system. They further argued that reputational risks also stem from Central Depository Agents misuse of security precautions or ignorance about the need for such precautions. According to them security risks can be amplified and may result in a loss of confidence in the Capital Market. It is a fairly settled issue as regards the minimum technology required to ensure the efficiency of a securities settlement system. The cost of acquiring and replacing this infrastructure in the face of technological innovation (which occur regularly) can be a big challenge to a settlement system in the Kenyan Capital market and so interface with global settlement systems in situations of cross-border transactions can become problematic.

Interviewees said that managing information is a complex and ongoing issue and it’s vital to Central Depository. Not only does the company need to make sure that data is available to the right people at the right time, competitive pressures demand that data be leveraged to help identify trends, respond more quickly to customers and to optimize day-to-day operations. Stakeholder’s expectations are very high and grow higher with each interaction, so Central Depository must continue to improve the customer experience by making historical and transactional information readily accessible to the services. Critical business information is needed at the CEO’s fingertips at all times to help make more informed business decisions. Beyond day-to-day operations, the organization environment is one of increasing regulations as well as more stringent internal corporate
governance. Under these regulations and policies, information must be accessible and secure, and stored for long periods of time. It is becoming increasingly important to capitalize on business information, transforming data into relevant, accessible information that creates business value. Central Depository must also find ways to sustain compliance and support governance mandates while controlling costs.

Interviewees alleged that another set of IT risks which are gaining importance these days are related to software and hardware glitches in the technology implementation. To name a few such risks like, ‘Phishing’, ‘SQL Injection’, ‘Advance Fee frauds’, Database and Server Hacking, Network attacks, ‘Denial of Service’ attack, Web Defacing, Cross Site scripting, IP Spoofing, Man-in the Middle Attacks etc. have resulted in huge losses for the Central Depository. They further alleged that the Information System (IS) Security issues, Information System Audit and adoption of international standards in the technology domain are the other challenges for the Central Depository. They indicated that these have become more pertinent in view of data breach cases. They posed that major challenge which Central Depository encounters apart from the emerging IT Threats is the ‘Change Management’ issue and the shortage of skilled IT personnel in technology development and the Information Systems security and audit area.

Problems associated with Non-straight through processing procedures also posed as a challenge to Central Depository. The interviewees were asked what they meant by Straight -Through Processing (STP) and they said it is the automated end-to-end processing of trades/payment transfers and this includes where relevant, the automated
completion of confirmation, matching, generation, clearing and settlement of orders. According to them in the Kenyan capital market there is no direct link between the securities settlement system and critical participants such as custodians. They added that in many instances there is automation gap between the settlement systems and the registrars (share transfer agents). They posed that there is therefore the need for more investment in IT infrastructure in line with global best practices.

4.2.5 Physical Environmental challenges

Interviewees were asked if management faced any challenges from the physical/ecological environment. The interviewees indicated that drought in many parts of the country, erratic rainfall affecting the country’s food supply, and global climate had a negative impact on the operations of the Central Depository.

4.2.6 Operating and Industry environmental challenges

Interviewees were asked if the management faced any challenges from the micro-environment that composed of customers, general public, government and employees. They said there were challenges faced by the management in all this areas.

On the customer perspective, interviewees said that the major challenge was that the customers were not confident about the security/safety of their investments in the securities market when credited in the Central Depository system. They further argued that due to lack of understanding of the processes that involve transactions of investors’
securities, the investors became impatient and hostile. Interviewees also said that due to the past experience of fraud, forgery, collapse of stock brokers and other malpractices in the capital market the investors were not ready to adopt to new changes like surrendering their certificates to be deposited in the Central Depository system.

Interviewees said that management faced some challenges from the general public. According to them there was the issue of reputational risk due to malpractices like fraud, forgery, conman ship e.t.c. of the Central Depository Agents (CDAs) who are known to be doing some transactions on behalf of Central Depository and initiate some processes like: Transfer of securities, pledging of securities, Amendment of client details and Immobilization. They also said that the general public do not trust or feel safe transacting in the securities market due to the short falls of some Central Depository Agents in the recent past. They further argued that the general public does not understand the processes that go with transactions of securities i.e. settlement time/period hence making some of them to shun away from investing in the securities market.

According to the interviewees management also faced challenges from the government and employees. They said the government had put up stringent measures for operations such that the management does not have lee way to implement some stuff that may benefit the market on their own. The rules are too stringent. They also argued that approval of central Depository new business proposals and change of some sections in the Act takes long periods before approval by the regulatory body e.g. proposal of
revision of transaction levy and fee that Central Depository submitted to Capital markets Authority some years back which till today has not been approved or implemented.

On the part of employees interviewees posed that the main issue was how to deal with the so called “Generation Y” who happens to be the largest part of employees in the organization. Interviewees said generation Y are the workers who give the job their best but before the management can think of an appropriate reward, competitors snatches them away. They further argued that it is a headache replacing a good employee. According to them, it is therefore important, cost effective and production- enhancing to keep retain such staff. They further argued that Managers are finding it challenging to deal with this new breed of employees and staff turnover rates is on the rise.

4.3 Response Strategies

The interviewees were asked if the management had adopted any response strategies to deal with the environmental challenges. They argued that various strategies were put in place to ensure that the company survived in the challenging environment. Interviewees further gave out the following specific strategies:

4.3.1 Strengthening of Revenue Streams

The interviewees indicated that in addition to strengthening Central Depository capacity to achieve its core mandate, Management intended to offer a broader range of services
such as collateral management, day trading, settlement services for government securities, lending and borrowing so as to cope with the economic challenges. Through its subsidiary Central Depository registrars, it intends to pursue the delivery of other value added services such as Over the Counter (OTC) settlement and asset servicing while growing the registrar services business.

Interviewees also said that in line with strengthening the institutional financial base, Central Depository, proposed to Capital Markets authority to review its fee structure given its national role and the increased risks from ongoing dematerialization and consolidation initiatives.

4.3.2 Upgrade of Technology

Interviewees said that Central Depository leveraged on technology to enhance its mandate as a custodian of investors’ shares and at the same time give investors the power to scrutinize their accounts at their convenience. Interviewees further argued that Central Depository planned to invest Sh15 million in a new version of the Central Depository System, designed by Millennium Information Technologies (MIT) of Sri Lanka. Interviewees posed that the company enabled the country to implement the Central Depository in 2004 as well as migrate from the public outcry system to the current Automated Trading System (ATS) in September 2006. They said the new version of the Central Depository system, which sits on a completely new and modern infrastructure,
was to move the Central Depository from client server architecture to a three tier network centric architecture.

They alleged that Central Depository planned to adopt a computer system that facilitated holding of securities in electronic accounts and facilitated faster and easier processing of transactions for Nairobi Stock Exchange securities such as shares and bonds in their website. They further argued that the new system will be web enabled, meaning investors can log onto a website to transact online, as well as monitor all the activities of the account. They said the website system will especially be useful for investors in foreign countries as well as Kenyans in the Diaspora who will not have to rely on third parties, for example, to buy shares and get information concerning their CDS accounts.

Interviewees further argued that the Central Depository system is already robust enough to guarantee 99.9 per cent uptime and is backed by a strong IT team. The system comfortably handled the largest initial public offer (IPO) in East Africa: Safaricom’s Initial Public Offer (IPO). The IPO by Kenya's largest mobile telecommunications network service provider offered 10 billion shares priced at Sh.5 a share totaling to shares worth Sh.50 billion at the time of the IPO in March 2008. Some of them alleged that with the experience acquired in past IPOs in Kenya, Central Depository registrars a subsidiary of Central Depository has invested in a modern electronic and IPO processing and Registry system that is linked to the main CDS software. According to the interviewees Central Depository has developed an IPO Share processing System which is a module within the main CDS system. They alleged that the system is designed with robust
workflow components to guarantee efficient IPO processing and ongoing registry maintenance services. Interviewees concluded that the business and technology of Central Depository and its subsidiary is fully supported by Central Depository the key personnel.

4.3.3 Control operational cost.

The interviewees posed that Central Depository controlled operational costs as a response strategy to economic challenges. They further explained that control of operational costs was mainly with regard to postage costs which could be potentially crippling. According to them postage costs had been brought down by consolidation of client statements per Central Depository agent (CDA) into one, a review of the presentation to make better use of the papers space hence reducing the number of pages per statement, sending out of statements by email and aggressively collecting email addresses from investors for this purpose, identifying dormant accounts and ceasing to send out statements to such account unless they are reactivated, and reducing the frequency of statements to non-active accounts.

Some interviewees argued that it was however noted that operational costs continued to be high, averaging 80 – 90% of revenue. They said that the annual postage costs alone to service 1.8 million accounts could potentially be in the region of Kshs. 120 million. Given that there is no direct link between CDSC’s revenue and the requirements to service these accounts, Central Depository had to come up with ways of managing this cost which otherwise would have crippled the Company within one year.
The interviewees posed that the following cost reduction initiatives were undertaken:-
Accounts that are not active in the year are now receiving their statements once a year, as opposed to twice a year. This is done on a rolling basis such that no additional statement is sent to a client who has been active in the year and has thus received a statement in the last 12 months. Accounts that have not been active for more than 12 months do not receive any further statements until the account is reactivated.

Statements are being sent on email to clients whose email addresses are on the database. There is a concerted effort to collect email addresses for all clients, to ensure that e-statements are sent, and the costs of stationery and postage are avoided. To date, about 250,000 emails have been collected.

4.3.4 Human Resource Review and Management

The interviewees indicated that in 2012 Central Depository engaged a consultant to carry out an organization review with a view to rationalizing its staff complement, developing a more robust performance management system, and benchmarking of salaries against the market. Interviewees further argued that the implementation of a new organizational structure and performance management system in 2012 and early 2013 ensured that Central Depository had the right staff complement to perform its obligations professionally and efficiently to achieve its objectives in the strategic plan.

According to the interviewees, Central Depository is a service based company and the human resource is therefore a critical asset in the achievement of the company’s business
strategy. They further alleged that Central Depository’s human resource policies are geared towards raising professional standards, developing the particular skills required for effective and efficient performance at work and promoting and supporting management of staff through its professional hierarchy. They posed that Central Depository has able, committed and qualified personnel with vast experience in capital markets.

According to the interviewees, the company strives to promote internal cohesion within the company by encouraging staff to identify with the organization’s visions and objectives. They said Central Depository understands the need to balance family life work and strives to achieve HR policies and working environment that is at par with local and international standards,

Interviewees indicated that Central Depository continues to develop and deepen its employee’s core competencies and skills through short and medium term professional courses, seminars and workshops. Central Depository takes pride in continuous investment in the company’s employees and ability to hire and retain competitive skills from the market. They added that in 2007, Central Depository participated in a survey carried out by the center for research on work and family in collaboration with Strathmore Business School and IESE International Centre of work and family. Scores were awarded based on the following parameters: Flexible work policies; professional training; on salary benefits; and organizational family supportive culture. Central
Depository scored an “A” mark with 74.8 marks out of possible 100, and was placed in the top five out of 40 companies surveyed.

4.3.5 Regional Cooperation and integration

Interviewees posed that in line with the East African Community integration initiatives, Central Depository is actively working together with other East African Capital and financial markets to set up a single central depository for all capital markets and financial securities. They said Central Depository is part of the ongoing regionalization efforts of the East African Stock Exchanges and became an associate member of the East African Securities Exchange Association (EASEA) in September 2007. Other members are the Nairobi securities exchange, Uganda Securities Exchanged Dar es Salaam stock exchange and Rwanda stock exchange. Interviewees added that Central Depository continues to work together with the Nairobi Stock Exchange to foster the continued growth and deepening of the capital markets in Kenya.

The interviewees alleged that Central Depository tends to encourage regional integration through its Central Depository system infrastructure through cross-border trading, clearing and settlement. Cross-border investment flows will enhance the economic development of the East African region. Additionally cross-border listings can help firms raise more capital by targeting new shareholders. The electronic link between Kenya and Uganda stock markets has gone live, opening new possibilities for investors seeking cross-border trade opportunities. The Regional Inter Depository Transfer Mechanism
(RITM), which links Kenya’s Central Depository and Settlement Corporation and Uganda’s Securities Central Depository, made the first trade of Umeme possible.

### 4.3.6 Risk Management

Interviewees said that risk management was one strategy adopted by Central Depository management. They alleged that risk management at Central Depository is carried out by the finance department under policies approved by the board of directors. They explained that finance identified, evaluates and hedges financial risk. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk and investing excess liquidity. The interviewees further elaborated that the group does not hold investments that would be subject to price risks; hence this risk is not relevant.

According to the interviewees Central Depository holds interest bearing assets in form of fixed deposits. This risk has been managed by negotiating interest rates on the deposits with the banks resulting in consistent earnings during the duration of the deposits. Interviewees posed that Central Depository only deals with listed companies in the stock exchange and authorized central depository agents who are considered credit worthy counterparties hence credit risks is well managed. They said that Individual risk limits are regularly assessed by the management of Central Depository. According to them, the utilization of credit limits is regularly monitored.
The interviewees alleged that Central Depository has set up trade guarantee funds or settlement guarantee funds. They further explained that the main significance of these funds is that in case of a failure of a member broker to fulfill his pay-in liabilities, the fund would provide the necessary resources and thus ensure timely completion of settlements. They further claimed that having such funds would give greater confidence to investors in the settlement and clearing procedures of the stock exchanges. They said the initial contribution to the Guarantee Fund was increased from Ksh.1.5M to Ksh.5M. This was to ensure that Central Depository had enough resources to mitigate against any shortfalls of settlement funds, in an environment where the market has grown in leaps and bounds. They said Central Depository system (CDS) has reduced the possibility of mutilation, theft or loss of share certificates since shares are held in the custody of the depository. In addition, it has reduced the risk of fraud, fake certificates, duplicate certificates, on-settlement and non-delivery.

The interviewees explained that Central Depository’s core mandate calls for strict measures to address and mitigate against settlement risks in the market, in this regard, settlement limits were introduced in the market with effect from January 2010, ensuring that no single Central Depository Agent can commit to a settlement above what is permitted by their limit, without providing additional collateral to support those transactions. They alleged that this is in line with international best practice for central depositories on standards of performance for securities settlement systems. Interviewees
posed that Central Depository Introduced multiple settlement Banks in 2012. Central Depository appointed three additional settlement banks. The three new banks that joined CFC Stanbic Bank are Barclays Bank, Cooperative Bank and Equity Bank. According to them, this has enhanced the settlement services and diversifies the risk of relying on a single settlement bank. It also gives Central Depository Agents a wider choice of settling equity and debt transactions through their preferred bank.

4.3.7 Change of Settlement Cycle

Interviewees indicated Central Depository reduced the settlement cycle from over T+7 to T+3 and this in turn has significantly increased the liquidity in the market as demonstrated by the growing daily number of transactions. Automation cut the settlement of transactions from 14-21 days previously to just three. They argued dematerialization strategy smoothly paved the way for rolling settlement and Kenya joined other developed markets that are following T+3 settlement system. In the physical segment there is a long gap between delivery and payment. This gap narrowed down, and it is almost on Delivery Versus Payment basis (DVP). The near real time DVP reduced market risks considerably.

The interviewees said that the policy decisions necessary to instigate the changes were made jointly by Central Depository and the Nairobi Securities Exchange. They further explained that to effect the new settlement cycles, NSE Trading Rules and Central Depository Operational Rules had to be amended and this required approval by the Capital Markets Authority (CMA) and the active participation and support of market
players, particularly the stockbrokers, investment banks and custodians. Interviewees noted that a shorter settlement cycle has significant benefits for investors in the Capital Market.

4.3.8 Dematerialization of Securities

Interviewees posed that in response to economic and physical environment challenges, Central Depository adopted the Dematerialization strategy. They said dematerialization in this context is the process of converting all share certificates into electronic records which will be kept by the Central Depository. Interviewees’ further argued that dematerialization of securities is one of the major steps for improving and modernizing the Kenyan market and enhancing the level of investor protection. They said that recognizing the far reaching benefits that would accrue to the market through the removal of physical securities, the speeding up of the dematerialization process has therefore been high on the agenda of Central Depository.

Interviewees alleged that there were various problems like inordinate delays in the transfer of share certificates, delay in receipt of securities and inadequate infrastructure in banking and postal segments to handle a large volume of application and storage of share certificates. According to them, to overcome these problems Central Depository made compulsory trading of shares of all the companies listed in stock exchanges in dematerialized form thus physical dealing in securities is eliminated.
4.3.9 Product Diversification

Interviewees explained that Central Depository’s main financial resources are from the Depository Levy and Transaction Levy charged on every stockbrokerage firm in the market. They further posed that Depository levy is charged on the basis of the number of share certificates which have been immobilized through a particular stock broker and transaction levy on the other hand is charged on the basis of the number of transactions (sale and purchases) the stockbroker has had in a particular month. They said these two levies are thus the major providers of finance to the Central Depository. Other sources of finance include transfer fee, pledge and release fee charged on shareholders who have bought shares through loans. According to the interviewees, given that the main financial source of Central Depository is not enough and depends on so many factors in the securities market, the management decided to diversify by adding new products and service lines and starting new businesses within Central Depository significantly to enhance its ability to grow rapidly.

Interviewees alleged that Central Depository established a new subsidiary called Central Depository Registrars Ltd which is a private company limited by shares and registered under the Companies ACT (CAP 486) of the laws of Kenya. The subsidiary was incorporated in October 2009. The main objective of the subsidiary is to offer registry services both locally and in the region.
According to the interviewees this includes services directly to issuers, as well as services to the existing registrars. They said Central Depository Registrars Ltd, has already carried out registrar services for Bralirwa S.A. Ltd in Rwanda, Bank of Kigali, and Deacons Kenya Ltd. in Kenya on the other hand Central Depository was appointed by National Bank of Rwanda to perform depository, clearing and settlement services for transactions executed on the Rwanda Stock Exchange.

4.3.10 Customer Service

On the issue of customer service, the interviewees said that keeping investors informed and educated about the market is central to the achievement of Central Depository’s mandate. They alleged that in order to boost investor confidence in the market, Central Depository has created customized solution which will ensure that investors are aware of the transactions that happen in their CDS accounts whenever they occur. The Central Depository operates three electronic services to help investors stay informed about their shares anywhere and at any time. All investors are encouraged to register for these services.

Interviewees argued that the SMS service allows inventors to access their CDS account and keep track of their shares through a mobile phone. The investors will also receive alerts whenever there is an activity in his/her account. One can also view mini statement for the last five transactions. Email service allows an investor to receive monthly CDS
statements via email every time there is an activity in their account. Web service allows investors to view, print and downloads their statements online.

Initially the Central Depository SMS service was optional for investors but the interviewees said that the Central Depository and Settlement Corporation (CDSC) was planning to register all account users in its system, which will allow holders to get a SMS notification whenever any transaction happens on their accounts. They said Central Depository had adjusted its system to put safeguards against internal fraud, which had not been envisioned by the Sri Lanka developers who claimed malpractices in the Central depository system are “unheard of” in the south East Asian country.

4.3.11 Outsourcing of Services

Interviewees said that Central Depository had outsourced most of its non-core activities. They further alleged that the company had outsourced services like recruitment and training, information technology hardware management, security, cleaning, printing services. They alleged that the need to outsource arose from the want to reduce cost in order to remain profitable occasioned by low economic growth and also to improve efficiency. They posed that in addition, outsourcing would also help to meet changing consumer needs since the non-core activities which would take up a lot of management time would be removed from them allowing them time to concentrate on customers’ needs.
4.3.12 Public Awareness and Investor Education

Interviewees said that Central Depository had responded to the challenge of investor education by hosting workshops on themes pertinent to the development of capital markets, giving presentations at professional and business functions and publishing an annual report that is available to all market players. In addition, the interviewees said that Central Depository had made arrangements for its members of staff to visit other countries and learn how they have worked to develop their depositories in an attempt to build its capacity and learn from other more successful markets. Interviewees concluded by saying that there is need to improve the coverage of Central Depository investor education not only to large corporations and the business community in the city of Nairobi but also to the general public in other parts of the country.

Interviewees alleged that the Capital Markets Authority and market players in the industry which included the Nairobi Securities Exchange, the Central Depository and Settlement Corporation Limited and investment banks were working hand-in-hand to disseminate information to the public on the need to do long term investment in the industry. They posed that the Capital Markets Authority developed a comprehensive investor education and public awareness programme. The interviewees further explained that the programme had been implemented targeting issuers, investors and the general public to encourage increased participation in the market.

4.3.13 Fraud Investigation

Interviewees were asked on what response strategies are put in place to cope with socio-cultural challenge like forgery and conman ship. Interviewees said that Central
Depository works hand in hand with Capital Markets fraud investigation unit to handle fraud cases of both the Central Depository Agents employees and Central Depository employees who collude with fraudsters in perpetrating illegal dealings.

4.4 Discussion of Findings

The research found that Central Depository faced a good number of challenges from the external environment that affected the attainment of the key objectives of Central Depository. This conforms to Hill and Jones (2004) argument that every organization is confronted by external pressures which will have implications for the way it manages its internal operations. The research found that some of the challenges include; impact of regionalization on the capital markets covering issues such as harmonization of capital markets legislation, the implementation of the monetary union, the mandate under the East African Treaty to create a single stock exchange, cross listing and cross border trade and other activities. The impact of technology on capital markets and the competition arising there from India and China who are keen to invest in African markets and the establishment on Electronic Communication Networks (ECNs) has the potential of rendering the traditional stock market infrastructure obsolete. This findings are in line with Winter (2003) emphasis that the main forces; globalization, internationalization, innovation, technology and “mass individualization” as the most influencing elements in the environment of organizations.
The research also identified that Central Depository had strategic goals and each strategic goal had various objectives that aimed at achieving positive results for the organization to enable it achieve sustainable competitive advantage. This is similar to conceptual argument by Hill and Jones (2004) which argues that the term strategy refers to the determination of the basic long term goals and objectives of an organization and adoption of relevant courses of action and the allocation of resources to carry out these goals. The research further established that Central Depository engaged in strategic planning. Strategic planning was conceptualized and implemented at Central Depository as an instrument around which all other control system budgeting, information, reward and organization are integrated. Central Depository Strategic plan specifically entails the allocation of resources to programmed activities in such a way as to achieve a set of organization goals in the challenging environment.

The research found that to enhance organizational efficiency, Central Depository had a revised structure and revised job descriptions. Central Depository’s mandate was to be a more efficient and responsive organization. In view to this the research found that Central Depository reviewed the organization structure ensuring that the structure positions it to effectively deliver on strategic objectives and the job descriptions at Central Depository were also reviewed to reflect the new structure thus the management ensured that positions identified in the structure were recruited and optimal staff number maintained. This conforms to Stacey (1998) definition of strategy as the matching of the resources and activities of an organization to the environment in which it operates. The research also established that Central Depository has put measures in place to attract, retain and
motivate the highest quality of human resources at all levels. Interviewer also found out that the Central Depository works hand in hand with Capital Markets Authority to ensure that fraud issues are minimized.

The research also established that to be a going concern, Central Depository adopted various strategies to react to the challenges in its environment. This is in line with Porter (1998) notion that the environment challenges are complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment. The finding also confirms Pearce and Robinson (1998) concept that for continued survival management has to come up with a game plan in response to environmental challenges. The research revealed that Central Depository adopted the following strategies in response to the challenges; control of operational costs, upgrade of technology, regional integration, product diversification, human resource review and management, outsourcing of services. This is similar to Johnson and Scholes (1997) strategies that include; human resources management, marketing, management of change and technological upgradation
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary, conclusion, recommendations, and limitations of the study and suggestion of further research.

5.2 Summary of Findings

The study set out to identify challenges in the external environment that had affected Central Depository and the response strategies that Central Depository had put in place to deal with these challenges. The study made use of primary data. Primary data was collected through personal interviews.

The study established that in coming up with strategic plans, Central Depository executives would consider the external environmental challenges. The study further established that the following variables had impacted Central Depository and thus influenced the company’s response strategies. In the political-legal environment the key variable had been challenges arising from taxation. In the technological environment the rates of obsolescence and new technological developments had played a major role. In the economic environment key variables had been the income levels and willingness to spend, cost of factors of production, business cycles. In the socio-cultural environment,
the key variables had been gender, lifestyle changes, income distribution, lobby groups, accident rates and safety concerns. In the physical environment key challenges had been the weather patterns, pests and diseases and infrastructure.

In addition the study established that Central Depository had put in place strategies to address the environmental challenges. Key strategies that Central Depository had employed are market development, product development and modification, information systems change, innovation, outsourcing, culture and structure change, aggressive marketing campaigns and corporate social responsibility.

5.3 Conclusion of the Study

Central Depository had engaged a great blend of response strategies in various parts of the business in order to cope with environmental challenges. Though not clearly distinct, the response strategies adopted by Central Depository seemed to be in line with the Pearce and Robinson’s (1991) grand strategies namely concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation. In addition the company had adopted other recent strategies like outsourcing, dematerialization, regional integration, strengthening the Central Depository brand, Regional expansion, Risk management, strengthening revenue streams, strengthening organizational capacity, learning and growth.
Central Depository has been one of the successful depositories in the country. The company had managed to bank on technology to efficiently deliver services to its customers. It is Central Depository’s intention to capitalize on the emerging opportunities and offer a basket of services that will develop Central Depository into a world class central depository service provider.

However, the company still found it necessary to engage in strategic planning. The company still monitored challenges in the environment and put in response strategies to address the challenges. This answered one of the key questions posed by the study, which was whether strategy was important for a company that operated as a monopoly. From the findings of the study therefore, strategy was still important for a company that had operated as a monopoly and faced no competition challenge. This was because environmental challenges could still drive the company out of the market and force it to wind up. Therefore environmental scanning and responses strategies to environmental challenges were very important for a company to survive and remain profitable in the environment.

5.4 Recommendations of the Study

The investing public is a major stakeholder in Central Depository and, their financial and investment literacy is important in enhancing the development of these markets. The Central Depository need to develop education and awareness programmes and thereby ensure that public understanding of the Central Depository is enhanced. The investor
education program should be restructured to target not only the investors but also the issuers as well as the intermediaries. Issuers are key players within the capital markets as they create the demand for surplus capital. It is critical therefore for the issuers to be sensitized on the available fund raising opportunities within the market. Intermediaries on the other hand are the lubricants of the capital markets system through their financial intermediation activities. Financial literacy among intermediaries promotes general integrity within the market.

Given the dynamism of the operating environment the Central Depository needs to enhance its integrity. Good corporate governance, the rules and practices that govern the relationship between the managers and shareholders of Central Depository, as well as stakeholders such as employees and creditors, are factors that underpin market confidence, financial market integrity and economic efficiency hence the management should give focus in to this.

With the ever-changing technology which poses significant opportunities and challenges, modernization of the Central Depository infrastructure is a key priority to mitigate systemic risk and in order to move at par with the best international standards. Central Depository needs to address issues of market access including conduct among Central Depository Agents, corporate accountability and overall supervision of the Central Depository Agents. There need also be efforts to encourage effective competition and innovation and guard against the potential new risks.
Central Depository should also offer broader range of services to compete effectively in the capital market industry as well to achieve its vision and strengthen its revenue streams. Central Depository should also market themselves to the public through the media to create awareness in the general public. Reputational risk is of concern thus Central Depository need to come up with better ways of dealing with rogue brokers and its employees who collude with fraudsters. To perform efficiently and effectively, Central depository need to have systems that ensure the best possible use of resources, facilitate the exploitation of synergies, manage risks, build an enabling working environment, upgrade equipment and infrastructure.

Taking into account the increased funding needs of Kenya, it is becoming more evident that there is still shortage in the supply of sufficiently diversified capital market products and services amid increasing appetite for investment especially from foreign institutions and investors abroad. Notwithstanding this surge, it is notable that domestic investor participation in the capital market remains low which may be attributable to low financial literacy and saving levels. In considering the necessary foundations for an effective and efficient capital markets industry, due attention must also be paid to the capital market infrastructure and institutional arrangements which may require strengthening, refinement, empowerment and capacity building in order to ensure trading, clearing and settlement systems and practices are aligned to international best practice for improved integration with the global economy. Given its cross cutting mandate of both Central Depository regulation and facilitation of development, the institutional capacity of the Central Depository to effectively deliver its mandate also requires consistent
strengthening with particular focus on internal processes, human resources and financial sustainability.

The Central Depository should conduct Internal systems Auditing in such a manner to ensure that Information Systems security policies and standards are enforced in the depository on a ‘continuous’ basis rather than at the end of the specified cycle or on a spot basis. The failure to do so may result in serious internal control lapses resulting in losses. The adoption of international standards and industry’s best practices in the IT sphere by the financial institutions would certainly result in benefits for the organization and supplement efforts for sustaining growth. In this regard, adoption of ISO/IEC 38500 Standard, which is the first international standard for IT governance may help Central Depository for establishing an efficient and effective framework for IT governance for a better alignment of IT and business goals.

It is imperative; therefore, that Central Depository adopts standardized methods and procedures for all technological changes in the organization to bring efficiency and to save the consequent problems that any organization usually faces due to non-adherence to ‘Change Management’ principles. In this background and especially in the light of shortage of skilled qualified IS Security and Audit personnel at present, the issues like staff selection, staff retention, staff posting, staff rotation, staff screening, etc. have become more relevant today. The researcher would further like to emphasize the fact that the success of any technological initiative is dependent on ‘technology’ factors only to the extent of 50% and the rest is dependent on how the organization manages the ‘human’ element in it.
5.5 Limitations of the Study

The findings of this research were limited due to some factors arising in the course of the study. The biggest challenge in conducting the study was that some respondents were not very willing to disclose their strategies in some cases or give details of how they have implemented their responses.

The time available for this study was also limited and especially in data collection considering the interview method of data collection. The other challenge was on accessing the senior management since at the time of study most of them were attending a series of conferences outside the country. Therefore, in some cases the study relied on data from middle level managers, which may have limited the research findings. Lastly, this study focused on management only while the company’s stakeholders are many. The findings of this study are therefore limited to the views from management.

5.6 Suggestions for Further Study

The study focused on Central Depository’s responses to environmental challenges. These environmental challenges affect all companies in an industry and sometimes all companies within a given location. To understand, the strategic responses possible for these challenges, further studies could be carried out in the other companies in the same industry affected by the same environmental challenges i.e. Nairobi Securities Exchange and Capital Market Authority.
Different companies respond to environmental challenges in different ways. Central Depository had applied the response strategies identified in this study. However, to gain a full understanding of why Central Depository had chosen to use these strategies, a further study could be carried out. This would focus on the response strategies available and why Central Depository had chosen to use the responses it had adopted i.e. dematerialization strategy.

Lastly, the environment is dynamic and challenging. With these challenges, the response strategies were expected to change. Therefore, further studies could be carried out on Central Depository to identify how the company would alter its strategies to other challenges in the environment in future.
REFERENCES


Hedlof, C. and Janson, U. (1999), The Cultural Aspects of Knowledge Management, with a Focus on Knowledge Transfer, Bachelor Thesis, Department of Management and Economics, Linkoping University, Linkoping, Sweden.


Appendix 2: Interview Guide

SECTION A

1. Position/Title of Interviewee
2. Department
3. Length of service in the Department

SECTION B

PART 1: MACRO-ECONOMIC ENVIRONMENT CHALLENGES

1. Have you faced challenges in the economic environment? What kind of challenges are these and why do you think they are a challenge?
2. Have there been any challenges in the regulation policies that have affected your operations? What are some of these challenges?
3. What are some of the challenges CDSC has impacted due to political climate? What makes you think they are a challenge?
4. Have you faced any technological challenges? What kind of challenges? What makes you think they are a challenge? How have they affected your operations?
5. Is the socio- culture factor a challenge at CDSC? Why? What aspects of the Socio-cultural factor are challenging, if any?
6. Are there any ecological factors that affect CDSC operations? What are some of this challenges and what makes you think they are a challenge?
PART II: INDUSTRY AND OPERATING ENVIRONMENTAL CHALLENGES.

7. Do you face any challenges from the customers? What kind of challenges are these? Why do you feel they are a challenge?

8. Do you face any challenges from the suppliers? What kind of challenges are these? Why do you think they are a challenge?

9. What are some of the challenges that you face from the organization human resources?

10. Are there any challenges that you face from the general public? What are these challenges and what makes you feel they are a challenge?

11. Do you experience any challenges from the government? What are some of these challenges?

SECTION C: RESPONSE STRATEGIES

12. Does Central Depository have a strategic plan and after how long is the plan reviewed?

13. Does Central Depository have any strategic goals and Objective?

14. What strategic tool does Central Depository use to scan its environment?

15. What strategies have you adopted to deal with the following macro-economic challenges that affect Central Depository?
   a. Political and legal challenges
   b. Economic challenges
   c. Socio-cultural challenges
   d. Technological challenges
   e. Ecological challenges

16. What strategies have you adopted to deal with the challenges arising from: general public, customers, government, employees?