COMPETITIVE STRATEGIES APPLIED BY FUND MANAGERS IN KENYA

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

AUGUST 2011

DECLARATION

DECLARATION BY THE CANDIDATE

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

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DECLARATION BY THE SUPERVISOR

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

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ACKNOWLEDGEMENT

I am very grateful to the Almighty God for giving me strength to go through this demanding but rewarding exercise. The completion of this study was realized through the will of God and the contribution and support of many people who heartily supported me.

Special thanks go to my supervisor, Ms. Florence, who patiently and selflessly guided me throughout the entire process at times even on very short notice. My appreciations to all the people at Fund Management firms who responded to my questions and helped me address my research objectives. I also owe much gratitude to my fellow students in the MBA Module II program who either contributed or supported this study in one way or another.

Finally, am thankful to my dad Mr. Karanja, my sister Eunice, and brothers' Charles and Stephen. I am truly grateful for your support and understanding throughout my academic journey.

May the Almighty God bless you all.

DEDICATION

I dedicate this research project to my loving husband and friend, Charles Kimani, for his continuous emotional and financial support throughout my MBA studies. May God richly bless you.

ABSTRACT

Having competitive strategies is necessary for a firm to compete in the market. Firms must identify their position relative to the competition in the market. The objective of this study was to identify competitive strategies and challenges faced by the fund managers in Kenya.

All fund managers were sampled for the study and questionnaires were administered. Secondary data was obtained from various company records to supplement the primary data. Data collected was quantitative in nature and were analyzed using percentages, frequencies, cross tabulation, mean scores and standard deviation. Analyzed data was presented in graphical and tabular form.

This study found that most fund managers were offering similar products with a higher concentration on equity funds. All fund managers reported regularly to clients though the reporting periods deferred. Majority of the firms had websites for clients to access information. Newspapers were the most applied promotional tool followed by magazines, door to door and radio with bill boards and posters, social networks, television and professional journals being the least applied.

The fees levied by fund managers were not significantly different hence none of the firms could be identified as a distinct cost leader in the industry. Fund managers were seen to focus on different market segments. The challenges faced by the industry were related. Low investor knowledge was identified as the major challenge. The industry also cited stiff competition as another main challenge.

The study concluded that none of the firms was a distinct market leader in application of the competitive strategies. Fund managers applied a mix of competitive strategies which were in line with the Porter's (1980) generic strategies.

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CIS	Collective Investment Schemes
CMA	Capital Markets Authority
CSR	Corporate Social Responsibility
Government	Government of Kenya
ICT	Information Communication Technology
IPOs	Initial Public Offerings
NASI	Nairobi All Share Index
NSE	Nairobi Stock Exchange
NSE 20 Share Index	Nairobi Stock Exchange 20 Share Index
PAYE	Pay As You Earn Tax
RBA	Retirement Benefits Authority
ROI	Return on Investment
VAT	Value Added Tax

CHAPTER ONE: INTRODUCTION

1.1 Background

Financial relations, all over the world, have been deeply transformed in the last two decades. New products, new markets and new regulatory systems have radically altered the environment in which financial sectors operate, opening new profit opportunities but also creating new and sometimes very great risks. The business environment is becoming more and more competitive and hence need to have the right strategies. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. Porter (2001) states that in any organization, strategy management is the key to its success and without a proper strategy and planning, it is difficult for any industry to survive irrespective of its size. All major corporate organizations have established themselves, thanks to superior strategic planning and implementation. Porter (2001) states that combination of operational effectiveness and strategy is essential for superior performance which is the primary goal of any organization. He also says that a company can outperform its rivals only if it can operate in different ways which are not in practice.

Pearce and Robinson (1991) argued that, "By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Thus, a strategy represents a firm's game plan. Although it does not precisely detail all future deployments like people, financial and material, it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete, against whom, when, where and for what." Strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals (Chandler 1962).

1.1.1 Competitive Strategies

Having a competitive advantage is necessary for a firm to compete in the market but what is more important is whether the strategy is sustainable. Firms must identify their position relative to the competition in the market. This is by knowing if it is a leader, challenger, follower or niche; and it can adopt appropriate strategies to compete. A good strategist seeks not only to "win the hill, but hold on to it." Subash Jain.

Henderson (1979) argued that competition has always existed long before strategy. However such competition involved no strategy at all. By chance and the laws of probability, competitors found the combination of resources that best matched their differences which he terms as Darwinian natural selection. This kind of competition found many businesses being overcrowded out of the marketplace with only the fittest surviving. This brought about the need to differentiate in order to survive leading to strategy as businesses sought different combinations of factors that would earn them a competitive advantage. The key difference with strategy was that the search for competitive advantage was a deliberate one, carefully considered and tightly reasoned. With strategy, the consequences could be radical changes while in the previous ideology, change was evolutionary. Therefore strategy came about as businesses discovered that by use of imagination and logic they can accelerate effects of competition and rate of change.

Competitive strategies can either be offensive or defensive strategies that aim at providing strategic competitive advantage and at increasing the competitiveness of an organization. These are strategies used by a firm to confront its competitive forces, such as cost leadership, product differentiation and business innovation. Competitive strategy is a plan for how a firm will compete, formulated after evaluating how its strengths and weaknesses compare to those of its competitors. A competitive strategy consists of moves to attract customers, withstand competitive pressures and strengthen the firm's market position. Competitive strategy is narrower in scope than business strategy as it focuses on how a firm will compete.

According to Richard Irwin (1995), successful companies invest aggressively in creating sustainable competitive advantage, for it is their single most dependable contributor to above average ROI. In order for a firm to be competitive, it has to become the low cost producer, make the best product, provide customer with more value for money, provide superior customer service, enhance performance buyer gets, provide more convenient locations and make a more reliable and durable product. He continues to say that the objective of competitive strategies is to earn a competitive advantage, cultivate clientele of loyal customers and knock the socks of rivals, ethically and honorably.

1.1.2 Fund Managers in Kenya

Fund management industry is a knowledge based industry, and therefore the provision of adequate and accurate information is critical. A fund manager is a market professional who promulgate analysis and research on capital markets securities, and advise investors on such securities at a commission. They also manage portfolios of securities on behalf of clients pursuant to a contract.

The period 2000 to 2009 witnessed significant growth in the fund management firms. There are 18 licensed fund managers in Kenya as per The Kenya Gazette (30^{th} April 2010). Fund management firms in Kenya are regulated by Capital Market Authority (CMA) which was set up in 1989 through an Act of Parliament (Cap. 485A Laws of Kenya). Fund managers are also partially regulated by Retirement Benefits Authority (RBA) in relation to pension related products. The fund management firms in Kenya are all incorporated in Kenya and ownership is both local and foreign with majority having foreign linkages. In Kenya majority of fund managers have either a direct or indirect relationship with an insurance firm.

The fund management industry is attractive due to several factors. First the industry has high potential in terms of returns especially on unit trust products. Costs and expenses are well known before hand and do not fluctuate significantly. Majority of risks are covered by insurance. Capital requirements are not as high as in banking. The other attractiveness is the fact that profit taking is not restricted and shareholders distribute all profits.

The industry is highly specialized requiring high expertise to set up business. This in turn means skilled man power is essential and given that we are in a third world country, this expertise is not easily available. Thus fund managers have to hire from developed countries and pay a premium to attract skilled labour. A few who get the skill end up job switching from one fund manager to another, hence leading to rise in cost of labour.

Fund managers deal in various products commonly referred to as investment vehicles. These are mutual funds, unit trusts, collective investment schemes and discretionary services. Fund managers also offer back office services which they outsource to peers in the industry.

1.2 Statement of the Problem

Competitive strategy refers to how a company competes in a particular business. Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. Having a competitive advantage is important for a firm to compete in the market. Ansoff (1998) defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market and comprise of both offensive and defensive actions. Competitive strategies are becoming increasingly important because of the underperformance of banks in relation to returns provided on deposits (Gallo, Apilado and Kolari, 1996). Increased deregulation of financial services provides opportunities for new players to enter into the industry hence increasing competition. Organizations have to choose between the options that are available to them, and in the simplest form, organizations make the choice between for example, taking an option and not taking it. Choice is at the heart of the strategy formulation process for if there were no choices, there will be little need to think about strategy. According to Macmillan et al (2000), "choice and strategic choice refer to the process of selecting one option for implementation." Organizations in their usual course exercise the option relating to which products or services they may offer in which markets (Macmillan et al, 2000). According to R.A. Burgelman, 2002 successful and unsuccessful strategies shape a company's destiny.

Fund Managers have gained popularity in the recent past and create an exciting opportunity for many Kenyans. The popularity of Fund Managers lies in the fact that individual investors can satisfy their investment needs through a value chain that has dynamic interdependences. This can be attributed to the fact that Fund Managers are highly qualified investment managers whose full time job is to make investment decisions. The years 2000 to 2009 witnessed significant growth in fund management firms with more firms being licensed in Kenya. Fund management industry is a knowledge based industry, and therefore the provision of adequate and accurate information is critical. Fund management firms in Kenya, are regulated by capital market authority (CMA) which was set up in 1989 through an Act of Parliament (Cap. 485A Laws of Kenya) with the prime responsibility of regulating the development of orderly, fair and efficient capital markets in Kenya.

A fund manager is a market professional who promulgate analysis and research on capital markets securities, and advise investors on such securities at a commission. They also manage portfolios of securities on behalf of clients pursuant to a contract. The management of portfolios can be as a discretionary fund or under a collective investment scheme. Discretionary funds are managed individually as per client mandate. Each discretionary fund is treated individually and consultations are often held with the client or his/her trustees to discuss the investment opportunities available before investment. Discretionary funds are normally tailored for pension funds and wealthy individuals. The fund manager earns a percentage fee of the funds under management. Collective investment schemes are pools of funds that are managed on behalf of investors by. They are arrangements made or offered under which the contributions made by the investors, are pooled and utilized with a view to receive profits, income, produce or property. The fund manager invests the pooled money in portfolio of securities such as shares, bonds, or other securities according to specific investment objectives that have been established for the scheme. In return for administering the fund and managing its investment portfolio, the fund manager charges a fee based on the value of the fund's assets.

There have been several studies on competitive strategies applied in various industries and firms. Murage (2001) carried out a research on competitive strategies adopted by members of the Kenya Independent Petroleum Dealers Association. Gathoga (2001), researched on competitive strategies employed by commercial banks. Lengewa (2003) conducted a survey of the competitive strategies used by NGO Micro Finance Institutions in Nairobi. Ndubai (2003) studied competitive strategies applied by retail sector of the Pharmaceutical industry in Nairobi. Theuri (2003) looked at competitive strategies adopted by branded fast food chains in Nairobi. Billow (2004) carried out a survey of competitive strategies adopted by supermarkets in Nairobi. Kitoto (2005) studied the competitive strategies adopted by universities in Kenya. Obado (2005) studied the competitive strategies employed by the sugar manufacturing firms in Kenya. Omondi (2006) studied competitive strategies adopted by airlines in Kenya. Jowi (2006) researched on competitive strategies applied by Mumias Sugar Company and Mungai (2006) choose to look at competitive strategies adopted by mainstream daily print media Firms in Kenya.

There have been many studies on competitive analysis on various industries but the results obtained cannot be generalized to apply to fund management industry due to contextual differences. Even if the industries are in the same country, they would still have different competitive strategies due to the differences in industry and internal firm factors. In order to gain an understanding of which competitive strategies are applied in any given industry, a study has to be carried out on that industry. This study aims at gaining an understanding of competitive strategies applied in the fund management industry.

1.3 Research Objectives

This study aimed at addressing the strategies fund managers adopted in an increasingly competitive environment and the challenges they were experiencing. The study sought:

a) To establish competitive strategies fund managers operating in Kenya had adopted to cope with increasing competition in the fund management industry in Kenya

b) To determine the challenges fund managers' were experiencing

1.4 Importance of the Study

The study aimed at describing the competitive strategies applied by fund managers in Kenya. Fund managers in terms of Strategic Planning, will have more knowledge about the industry and will be able to develop intelligent strategies to be used to pursue set goals. This study will help fund managers identify and recognize forces that shape the industry. Fund managers can use the study to look at the dynamics of the industry and envision how the industry will look in future and look at the possibility that new competitors will surface. They need to recognize that suppliers may establish a collective strength. They need to look at customers and trends that might be developing.

To the investors, this study aims to provide information on the various players and products in the industry. This will help investors make informed decision when selecting the various investment vehicles and also compare product attributes of various players before settling on any of the products. The study will assist investors have information that is based on the industry unlike the media editorials and advertisements which have a marketing angle.

For academicians, this study will form a foundation upon which other related and replicated studies can be based on. The study will record competitive strategies as are currently in place and hence the study can be used as a foundation for a more in depth study of the industry.

For the government, this study will espouse the assets controlled by fund managers and hence can use the information in economic planning of the country. The government can also use the study to derive the investment habits of Kenyans.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

The function of strategy, which has a time horizon of years, is in general, to set the long-term direction of a firm. There are several different types of strategy, including competitive strategy which is the highest level of strategy in a firm. Strategy is intimately related to the mission and vision of the firm and also to setting the direction for all the other strategies in the firm.

There are several schools of strategy formation: design, planning, positioning (Mintzberg, 1998). The analytical approach to strategy started in the 1960s and culminated in the year 1980 when Michael Porter published "Competitive Strategy". Porter was influenced by the field of industrial organization, which focused on analyzing industries rather than individual firms. The positioning school of strategy which emerges from the competitive school is based on the following assumptions (Mintzberg, 1998): the marketplace is competitive; strategy is a generic position in the marketplace; strategy formation is the selection of a generic position based on analysis. The underlying assumption is that industry or market structure drives position which drives the organizational structure of the firm.

Various authors define strategy in different ways. According to Johnson and Scholes (1997), "Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations." Ansoff and McDonnell (1990) defined strategy basically as a set of decision-making rules for guidance of organizational behavior. They further added that there are four distinct types of such rules as follows. The first is yardsticks by which present and future performance of the firm is measured. The quality of yardsticks they say are called objectives and the desired quantity are goals. The second type is rules for developing the firm's relationship with its external environment which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called the operating policies.

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

Henderson (1979) defined strategy as a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. According to him, this search is an iterative process that begins with recognition of where the firm is currently and what it has. Ohmae (1979) argued that beating the competition is not really what strategy is about. This is because when strategy is focused on beating the competition, then the strategy is defined primarily in terms of the competition. This he said should not come first in making strategy, although it is important. He suggested that the first attention should be paid to customers and that competitive realities should be used to test possible strategies which should always be defined in terms of customers.

Abbot (2007) defined strategy as the unique and distinctive actions a company takes to achieve a competitive advantage that will contribute to greater net profitability. Strategy he said is all about creating a distinctive approach to a customer differentiated value proposition. He argued that sometimes what is so much referred to as strategy is usually an operational plan involving some wishful thinking and a projection of existing status quo into the future and adjusting by a given percentage. According to him hard analysis and ruthless questioning of fundamental assumptions is usually lacking in such plans which should be present in a strategic plan. He disputed the generic strategies by Porter (1980) arguing that there were many companies combining the strategies. He further suggested that strategy is all about creating a distinctive approach to a customer differentiated value proposition. He concurred that having a strategy is important and cited the case of Safaricom's entry in Kenya where it focused on the mass market as opposed to its competitors whose focus was on the high and middle income earners and made a record breaking pre-tax profit of 17.79 billion.

According to Pearce and Robinson (1991), "By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organization objectives. Thus, a strategy represents a firm's game-plan. Although strategy does not precisely detail all future deployments, (people, financial and material) it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how to compete, against whom, when, where and for what." Pearce and Robinson (1997) further argued that strategy can be viewed as building defenses against competitive forces or finding positions in the industry where forces are weakest.

Mintzberg et al (1998) viewed strategy from five interrelated definitions which are in terms of strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a deliberate, consciously intended course of action that is designed in advance of the actions it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception. This they termed as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. Mintzberg et al (1998) argued that no one definition should be preferred to the others. In some senses they can be considered as alternatives or complementary approaches to strategy.

According to Ansoff and McDonnell (1990), it is through strategic management that a firm will be able to relate itself to the environment. This will ensure its success as it secures itself from surprises brought about by the changing environment. They argued that this is done by positioning the firm through strategy and capability planning, real time strategic response through issue management and systematic management of resistance during strategy implementation.

Porter (1980) concurred that the essence of strategy formulation is to relate a company to its environment. He however argued that although the relevant environment to a company is very broad, the key aspect of the environment is the industry in which it operates. He said that an industry structure has a very strong influence on strategies made by industry players. He defined an industry as a group of firms producing products that are close substitutes of each other and argued that strategies are formulated in line with the competitive forces in a given industry.

2.2 Competitive Strategies

Competition is seen as a state which produces gains for the whole economy, through promoting consumer sovereignty. It may also lead to duplicated effort and to increased costs and prices in some circumstances. Three levels of economic competition have been classified where the narrowest form is direct competition where products that perform the same function compete against each other. The second form is substitute competition, where products that are close substitutes for one another compete. According to Adam Smith (1776), the broadest form of competition is typically called budget competition which includes anything that the consumer might want to spend their available money on (disposable income).

Competition does not necessarily have to be between companies. The idea of competition was first introduced by Alfred and Sloan at General Motors in the 1920s, Sloan & Alfred P. (1964). Sloan deliberately created areas of overlap between divisions of the company so that each division would be competing with the other divisions. In 1931, Procter & Gamble initiated a deliberate system of internal brand versus brand rivalry. The company was organized around different brands, with each brand allocated resources, including a dedicated group of employees willing to champion the brand. Each brand manager was given responsibility for the success or failure of the brand and was compensated accordingly. This form of competition thus pitted a brand against another brand.

Competition often is subject to legal restrictions. For example, competition may be legally prohibited in cases of a government monopoly. Tariffs, subsidies or other protectionist measures may also be instituted by government in order to prevent or reduce competition. Depending on the respective economic policy, the pure competition is to a greater or lesser extent regulated by competition policy and competition law. Competition between countries is quite subtle to detect, but is quite evident in the World economy, where countries like the US, Japan, the European Union, China and the East Asian Tigers each try to outdo the other in the quest for economic supremacy in the global market. Competition in financial sector has been heightened by performance of bank-managed funds which have been perceived as inferior to their non-bank counterparts, even in the most developed economy. In the United States, McTague (1994) claimed bank funds were non-aggressive and incapable of generating impressive returns.

Competitive strategies focus on ways in which a company can achieve the most advantageous position that it possibly can in its industry (Pearson, 1999). Competitive Strategy is the high-level strategy used by the firm to realize its business goals, and in particular, profitability, in the face of competition. Porter identified three generic competitive strategies: differentiation, cost-leadership, and focus (Porter, 1980). Competitive strategy conventionally refers to how the firm competes at the industry-market level (Porter, 1980). However, in the rapidly evolving industry and market landscape of high-technology, competitive strategy, in turn, depends on three levels of "strategy-making" as follows (Burgelman, 2002): At industry-company level where the firm must determine its strategic position, its core competencies, and its strategic action, at company level where strategy-making involves induced strategy and autonomous strategy and at intra-company level where internal autonomous strategy is created.

Porter analyzes competitive strategy at the industry-market level using the five forces approach to examine the structure of the industry (Porter, 1980) and the resulting dynamics between functional groups of players (e.g., competitors, suppliers) in the industry. According to Mintzberg, Quinn and Ghoshal (1998), there are five main and interrelated definitions of strategy which are in terms of strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a consciously intended course of action that is designed in advance of the actions it governs. As a ploy it is a specific maneuver intended to outwit competitors. As a pattern it emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception. As a position it is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world.

For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. Consequently they need strategies to focus on their customers and deal with the emerging environmental challenges. Organizations therefore 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, 1998). Aosa (1992) argued that a mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem.

Porter (1980) identified five competitive forces in an industry namely threat of new entrants, threat of substitution, bargaining power of suppliers, bargaining power of buyers and rivalry among existing industry players which he explains as follows. New entrants he said bring in new capacity, desire to gain market share and often substantial resources. Rivalry among existing industry players occurs as each of the players tries to improve their positions and profitability using tactics like price competitions, advertisements, product innovations and better customer service. Substitutes on the other hand limit the potential returns to the industry by placing a ceiling on the prices that players can charge. Buyers force down prices and bargain for higher quality and services thus limiting profits and also playing competing firms against each other. Suppliers can squeeze profits out of an industry by threatening to raise prices or reduce quality of purchased inputs.

Johnson and Scholes (1997) were of the view that strategies come up in organizations as a result of deliberate managerial intent. However this can be in different ways. In the planning view, strategies are arrived at through a highly systemized form of planning sometimes even with a corporate planning department and prescribed tools and techniques. In the command view, strategies are formulated by an influential leader or a small group of influential leaders. At the extreme of this view strategies are formulated by an autocratic leader and the other manager's work is to implement them. The logical incremental view argues that strategy building takes place through successive limited comparisons where options are compared against each in a step by step manner. This view argues that it is unrealistic to say that strategies can be managed through a neat and logical sequential planning.

Organizations have to choose between the options that are available to them, and in the simplest form, organizations make the choice between for example, taking an option and not taking it. Choice is at the heart of the strategy formulation process for if there were no choices, there will be little need to think about strategy. According to Macmillan et al (2000), "choice and strategic choice refer to the process of selecting one option for implementation." Organizations in their usual course exercise the option relating to which products or services they may offer in which markets (Macmillan et al, 2000).

According to Mintzberg (1979), the planning image distorts the strategy making process and misguides organizations that embrace it totally. This is because strategies that are planned are not always realized; some of them become unrealized strategies. In addition some strategies emerge as the firm interacts with the environment and some other strategies are imposed upon the firm by the environment. Therefore realized strategies usually have a mix of planned strategies, emergent strategies and imposed strategies. Figure 2.1 depicts this mix.

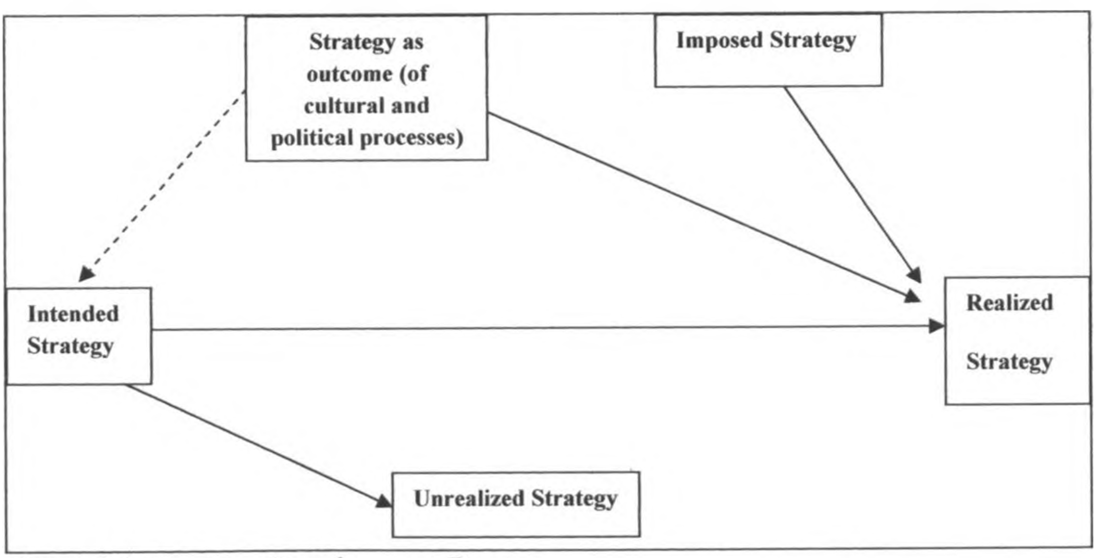

Figure 2.1: Strategy Development Routes
Source: Adapted from Johnson and Scholes (1997), Exploring Corporate Strategy, pg.44.

2.3 Competitive Strategy models

Competitive strategy in an industry is composed of all the specific moves and approaches a firm has taken to compete successfully. Ideas that form the basis of competition in an industry are traced to early literature. Hoffman (2000) quotes Adelson (1965) as the first to recognize that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of consumers. Hamel and Prahalad (1989) discussed the need for firms to learn how to create new advantages that will keep them one step ahead of competitors. Several models have been developed over time as discussed in this section. Competitive strategy needs to keep evolving, especially in a challenging environment coupled with high-technology where markets, industries, and technologies, are changing relatively rapidly. Ansoff (1998) defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market and comprise of both offensive and defensive actions.

2.3.1 BCG Growth Share Matrix

Bruce Henderson (1970) of the Boston Consulting Group (BCG) introduced two techniques: the growth-share matrix, and the experience curve. The growth-share matrix for a firm, developed in the early 1970s, is a 2x2 matrix with "growth" along one dimension, and "market share" along the other dimension. Each of these variables can take two values, "high" or "low" resulting in a 2x2 matrix. Therefore, the product portfolio of a firm can be decomposed into four combinations of growth and market share, each with a well-defined meaning: (High growth, high market share) or "stars", (high growth, low share) or "question marks", (slow growth, high share) or "cash cows", and (slow growth, low share) or "dogs". The approach to strategy using this matrix would be to have a portfolio balanced mainly between cash cows (the stable business of the firm and stars.

2.3.2 Industry Attractiveness-Business Strength Matrix

In 1971, the consulting firm McKinsey came up with the GE/McKinsey nine-block matrix called the Industry Attractiveness-Business Strength matrix (Ghemawat, 1999), which plotted business strength [High, Medium, Low] along one axis, and industry attractiveness [High, Medium, Low] along the other axis. The basic idea was to divide the company into "strategic business units (SBUs)", and then make the appropriate strategic recommendations for each SBU depending on its "location" in the matrix.

2.3.3 Ansoff's Growth Strategies - Product/Market Matrix

The Ansoff Product-Market Growth Matrix is a marketing tool created by Igor Ansoff and first published in his article "Strategies for Diversification" in the Harvard Business Review (1957). Sometimes it's called the Product/Market Expansion Grid. The matrix allows marketers to consider ways to grow the business via existing and/or new products, in existing and/or new markets. This matrix helps companies decide what course of action should be taken given current performance. The matrix consists of four strategies (see table 2.2 below) which shows four ways that businesses can grow, and the risks associated with each option. Each time a firm moves into a new quadrant (horizontally or vertically) the risk increases. The low risk option is to stay with your existing product in your existing market. The matrix illustrates, in particular, that the element of risk increases the further the strategy moves away from known quantities - the existing product and the existing market. Thus, product development (requiring, in effect, a new product) and market extension (a new market) typically involve a greater risk than 'penetration' (existing product and existing market); and diversification (new product and new market) generally carries the greatest risk of all.

Markets	**Existing product**	**New Product**
Existing Markets	Market penetration	Product Development
New Markets	Market Development	Diversification

Figure 2.2: Ansoff's Product Market Matrix
Adapted from: Harper, Stephen (1995). Guide to Managing Growth in your Emerging Business pg. 75

2.3.4 Porter's Five Forces Model

Porter (2001) came up with the five forces model which is the assessment of the attractiveness of the industry in which a given company is embedded based on a structural analysis of the industry. The five forces that influence industry attractiveness are identified, as well as the factors (e.g., number of competitors, size of competitors, capital requirements) that determine the intensity of each force and therefore the cumulative intensity of the five forces.

The figure below depicts Porter's five forces:

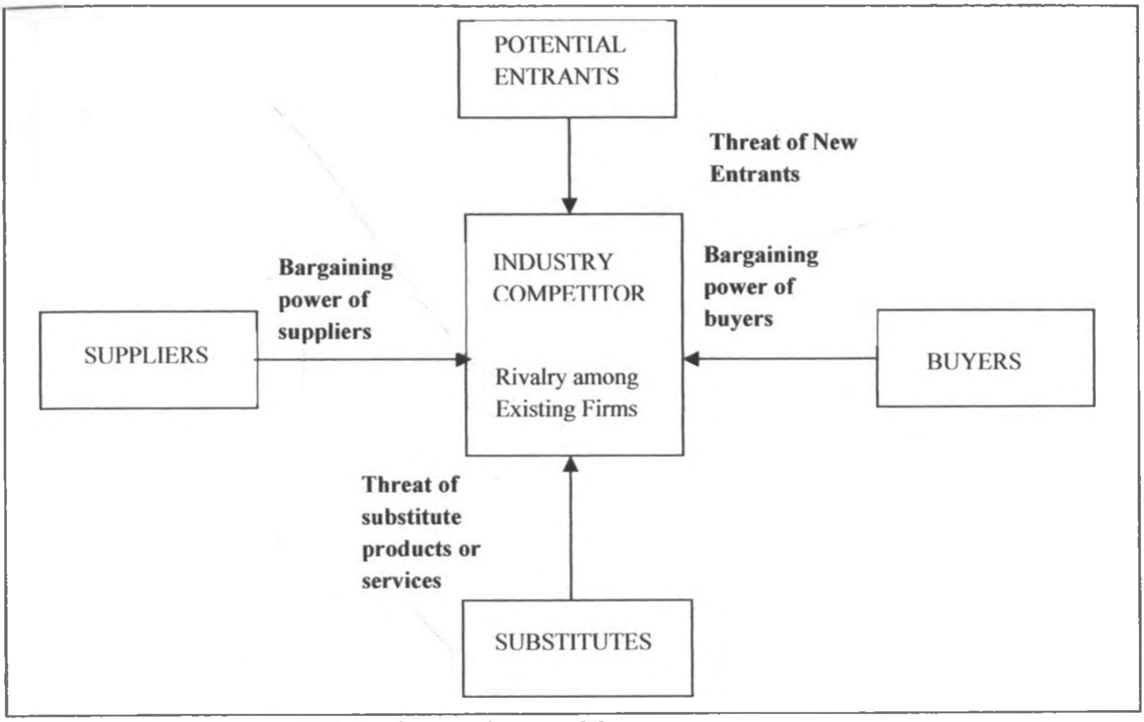

Figure 2.3: Forces Driving Industry Competition
Source: Adapted from Porter (1980), Competitive Strategy: Technique for Analyzing Industries and Competitors, pg. 4.

The purpose of the five forces framework is to relate the degree (or intensity) of competition in a given industry, as qualitatively measured by the combined strength (or intensity) of five forces, to the attractiveness of the industry, defined as its ability to sustain profitability. Based on the structural analysis, a particular company may be in a very attractive industry or in an unattractive industry. However, though a firm exists in an unattractive industry, it can still be highly profitable by choosing the proper competitive position within the industry. The figure below illustrates the five forces and how to measure their degree of intensity:

Force	Key Determinants	Strength of the force
Rivalry between competitors	Concentration (number) and size of competitors	Medium to high
	Fixed costs/value added	
	Brand identity	
Barrier to entry	Economies of scale	Medium to high
	Brand identity	
	Capital requirements	
Threat of substitutes	Price/Performance of substitutes	Low to medium
	Switching costs	
Buyer Power	Buyer concentration	
	Buyer size (volume)	Medium to high
	Switching costs	
Supplier Power	Supplier concentration	Low to medium
	Supplier size (volume)	
	Switching costs	

Figure 2.4: Degree of intensity of the five forces

Source: Adapted from Porter (1980), Competitive Strategy: Technique for Analyzing Industries and Competitors, pg. 4.

After identifying the industry forces, the second stage of strategy addresses the competitive strategies available to the firm in order to achieve a strong competitive position. Ideally, a firm would want to be in a very attractive industry and have a strong competitive position within the industry. Porter hence proposed the three generic competitive strategies.

2.3.5 Porter's Generic Strategies

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. The figure below shows the basic strategies to achieve competitive advantage as supported with the argument that every activity in the value chain is a potential source of pursuing either cost leadership or differentiation at the same time not all have the same significance (Hax and Nicholas, 1996).

Competitive Scope	**Competitive Advantage**		
		Cost	**Differentiation**
	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

Figure 2.5: Strategies to achieve Competitive Advantage
Source: Hax, A.C and Nicholas, S.M (1996) The Strategy Concept and Process, New Jersey, Prentice Hall, pg 124

In cost leadership, a firm sets out to become the low cost producer in its industry for a given level of quality (Thomson and Strickland 1998). The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. The companies that attempt to become the lowest-cost producers in an industry can be referred to as those following a cost leadership strategy. The company with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. It is important to note that a company might be a cost leader but that does not necessarily imply that the company's products would have a low price. In certain instances, the company can for instance charge an average price while following the low cost leadership strategy and reinvest the extra profits into the business (Lynch, 2003). There is however a risk to this model in that other firms' may be able to lower their costs as well, as technology improves.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions themselves to meet those needs. It is rewarded for its uniqueness with a premium price. When a company differentiates its products, it is often able to charge a premium price for its products or services in the market. Grant (1998) argues that differentiation is not about pursuing uniqueness for the sake of being different, but it is about understanding the product or service and the customer. Product differentiation is always a matter of perception, but firms can take a variety of actions to influence these perceptions (Barney 1997). Some general examples of differentiation include better service levels to customers, better product performance etc. in comparison with the existing competitors. Porter (1980) has argued that for a company employing a differentiation strategy, there would be extra costs that the company would have to incur. Such extra costs may include high advertising spending to promote a differentiated brand image for the product, which in fact can be considered as a cost and an investment. Kitoto (2005) observes that for a company to be successful in using differentiation, it has to study buyer's needs and behavior carefully to learn what they consider important, with value and what they are willing to pay for it. Differentiation has many advantages for the firm which makes use of the strategy.

Some problematic areas include the difficulty on part of the firm to estimate if the extra costs entailed in differentiation can actually be recovered from the customer through premium pricing. Moreover, successful differentiation strategy of a firm may attract competitors to enter the company's market segment and copy the differentiated product (Lynch, 2003).

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants; (a) In cost focus a firm seeks a cost advantage in its target segment, while in (b) differentiation focus, a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry (Porter 1985). The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Companies employ this strategy by focusing on the areas in a market where there is the least amount of competition. Organizations can make use of the focus strategy by focusing on a specific niche in the market and offering specialized products for that niche. This is why the focus strategy is also sometimes referred to as the niche strategy (Lynch, 2003). Therefore, competitive advantage can be achieved only in the company's target segments by employing the focus strategy. The company can make use of the cost leadership or differentiation approach with regard to the focus strategy. In that, a company using the cost focus approach would aim for a cost advantage in its target segment only. If a company is using the differentiation focus approach, it would aim for differentiation in its target segment only, and not the overall market. This strategy provides the company the possibility to charge a premium price for superior quality (differentiation focus) or by offering a low price product to a small and specialized group of buyers (cost focus).

Porter's claim is that for a company to be successful in the industry in which it operates it must choose between one of the three generic strategies: cost leadership, differentiation, and focus (Porter 1980). A firm has to be able to link competitive strategy to strategic planning (Ghemawat 1999). In order for a company to derive competitive advantage (or position) within its industry, the company needs to maximize, relative to its competitors, the difference between the buyer's willingness to pay and the costs incurred in delivering the product to the buyer. Therefore, the next natural step in the competitive analysis is for the company to link competitive strategy to strategic planning by analyzing all the activities involved in differentiation and cost, and, to this end, a value chain (Porter, 1985) is an extremely important tool. According to Porter, "the value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation." A three step process for using these activities, first to analyze costs, then to analyze buyer's willingness to pay, and finally to explore different strategic planning options to maximize the difference between willingness to pay and cost, is developed (Ghemawat, 1999).

Porter's generic strategies shall be used in analysis of competitive strategies applied by fund managers.

2.4 Competitive Challenges

These methods of portfolio analysis had the following problems. First, the recommendations for each SBU were very sensitive to the method of portfolio analysis employed. Second, the mechanical process of using historic industry and company data to determine recommendations usually led to adjusting and modifying current initiatives rather than addressing how to deal with existing and new forms of competition. However, portfolio analysis brought out two important high-level determinants (or dimensions) of the profit potential or profitability of firms: industry attractiveness, which is the profit potential of an industry relative to other industries; and the competitive position of the specific company within a given industry. These two determinants play an important role in Porter's analytical approach to competitive strategy that emerged in 1980.

According to Porter (1980), a company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance (Porter, 1980). However, there is disagreement between scholars on this aspect of the analysis. Kay (1993) cited empirical examples of successful companies like Toyota and Benetton, which have adopted more than one generic strategy. Both these companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of the companies.

Competitive challenges as highlighted by Theuri (2003) in his study on competitive challenges adopted by Branded fast food Chains in Nairobi were; huge financial requirements, changing consumer targets and preferences, enhancement of the abilities and skills of the staff, huge marketing costs and competition from unbranded outlets. Kitoto (2005) also found out that adequate finance was one of the challenges facing investors.

Thompson and Strickland (2001) argue that fitting the organizations internal practices to what is needed for strategic success is the most complicated and time consuming part of strategic management. The ability and values on company executives are important in putting strategy into action. Executives turn potential opportunities into actual opportunities, keep costs in line and face anticipated challenges. Executives maybe entrenched to the current strategy such that they are unable to change and measure up with environmental changes; this reduces business opportunity for firms.

Phatak (1989) argues that some other competitive challenges include community and government relations. Organizations differ in their ability to work with governments. While it is important to be regarded as a good corporate citizen, good community and government relations may lead to a permissive situation, but in crisis situations the very right to continue operations maybe at stake.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

In this study, the researcher has used descriptive survey research design. The survey research method was selected due to the number of fund managers being analyzed. The main goal was to describe the state of affairs as it exists at present. The study attempted to describe and document current competitive strategies and challenges faced by the fund managers.

3.2 Population of study

The population of study was all 18 fund managers in Kenya as licensed by Capital Markets Authority as at 30 April 2010 (See Appendix A). This study was a census.

3.3 Data Collection Method

The study used both primary and secondary data. Primary data was collected through a structured questionnaire. The study utilized both quantitative and qualitative methods of data gathering. A structured questionnaire was administered to the fund managers. The questionnaires used both open and closed ended questions to obtain data for analysis. The questionnaire was subdivided into three sections, section A, B and C. Section A included background information on the fund managers in abide to understand the industry and gather general information. Section B was on competitive strategies currently being employed in order to put competitors at bay. Section C sought to understand the challenges being faced by fund managers in applying competitive strategies in the market and the coping mechanisms. The questionnaire was administered to managing directors or heads of operations and administration or marketing managers or legal and compliance officers as is relevant to each fund manager. The rationale to this selection was based on the fact that these are the people who tend to have detailed information concerning the company.

Secondary data was obtained from various company records such as financial statements, in-house magazines, company websites, firm profiles and publications.

3.4 Data Analysis

Data collected from the study was quantitative in nature. Quantitative research attempts the precise measurement of something. It answers the questions of how much, how often, how many when and who, while qualitative research aims to achieve an in-depth understanding of a situation (Schindler & Cooper, 2006).

Quantitative data collected will be analyzed using mean scores, percentages, frequencies and cross tabulation. The percentages will be important in determining the popularity in terms of strategies used by fund managers. Frequencies will be useful in analyzing information on size, and years of experience. Cross tabulation will be used in relating whether certain data relates to certain competitive strategies and challenges. Qualitative data will be used to validate and qualify the quantitative results.

Analysis of quantitative data will be presented in graphical and tabular form.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

Data collected from the respondents was edited, coded, classified and tabulated then analyzed using both qualitative and quantitative methods.

Secondary data was used to compliment primary data collected using questionnaires.

4.1 Response Rate

The method used by the researcher to collect data was self-administered questionnaires. A total of 17 questionnaires were administered to 17 firms. Two of the registered firms operate as one hence the total questionnaires administered was 17. Out of the 17 questionnaires administered, 11 questionnaires were returned. This represents a return rate of 64.7%. Babbie, (2007) states that a 50% response rate is adequate and a 60% is good for data analysis and reporting hence the 64.7% was good. The total questionnaires administered and the response rate is as shown in Figure 4.1.

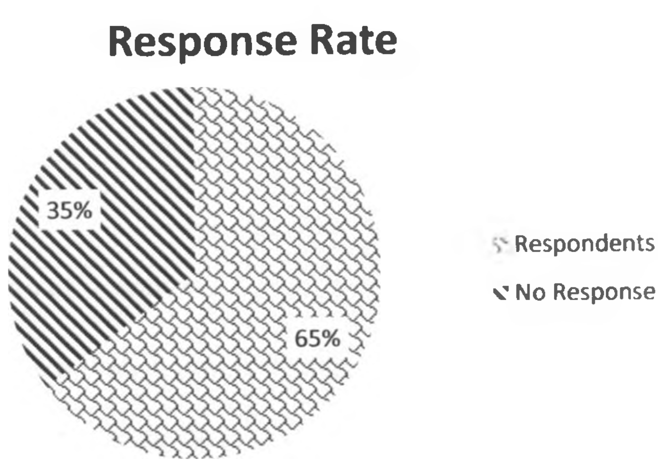

Figure 4.1 Response Rate

4.2 General Information

4.2.1 Licensing

The analysis of this question has been done with the years being computed up to year 2010 and the results are as shown in Table 4.1

Period	Number of firms
Before 1970	2
1970 – 1979	1
1980 - 1989	0
1990 – 1999	4
2000 – 2009	4
Total	**11**

Table 4.1: Year of licensing

Table 4.2.1 shows that 2 firms were licensed before 1970, 1 between 1970 and 1979, none in the period between 1980 and 1989 while 4 were licensed in the periods between 1990 to 1999 and 4 between 2000 and 2009. This indicates there were more firms licensed in the recent past as compared to earlier periods which means there has been a significant increase in competition from the year 1990 onwards.

4.2.2 Respondents' Years of Operations

Years	Number of Firms
0 – 10	4
11 – 20	4
21 – 30	0
31 – 40	2
40 and above	1
Total	**11**

Table 4.2: Years of operation

Table 4.2 indicates that, 1 firm has been in operation for over 40 years, 2 between for 31 to 40 years, 4 between 11 to 20 years and another 4 firms between 0 to 10 years. This indicates that majority of firms began operations within the years of licensing.

This information was important to the researcher as it's an indication of increased competition within the fund management industry.

4.2.3 Respondents head office location

On the question on the respondents' head office location, the researcher sort to find out where firm's head offices were located, the results are as shown in figure 4.2

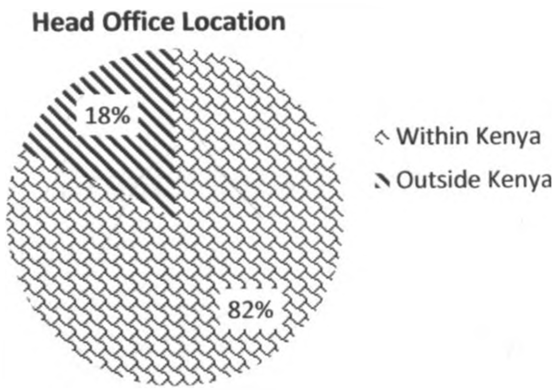

Figure 4.2: Respondents' head office location

Figure 4.2 indicates that, 82% of the respondents had their head offices located within Kenya; whereas 18% had them outside Kenya. This implies that majority of the firms operating in Kenya have their head offices in Kenya which indicates majority of firms are Kenyan.

4.2.4 Branch network

The researcher sought to find out the respondents' branch network and the results are as shown in Table 4.3

Number of Branches	Number of firms
0 – 1	6
2 – 4	1
5 – 7	1
>=8	3
Total	**11**

Table 4.3: Respondent's number of branches

Table 4.3 shows that 6 of the firms had branches ranging from none to 1, 1 firm had branches in the range of 2 to 4, another 1 firm had branches in the range of 5 to 7 whereas 3 firms had more than 8 branches. This shows that majority of the firms had fewer branches.

4.2.5 Branch Location

The question sort to find out the location of the respondents branches, the results are as shown in figure 4.3

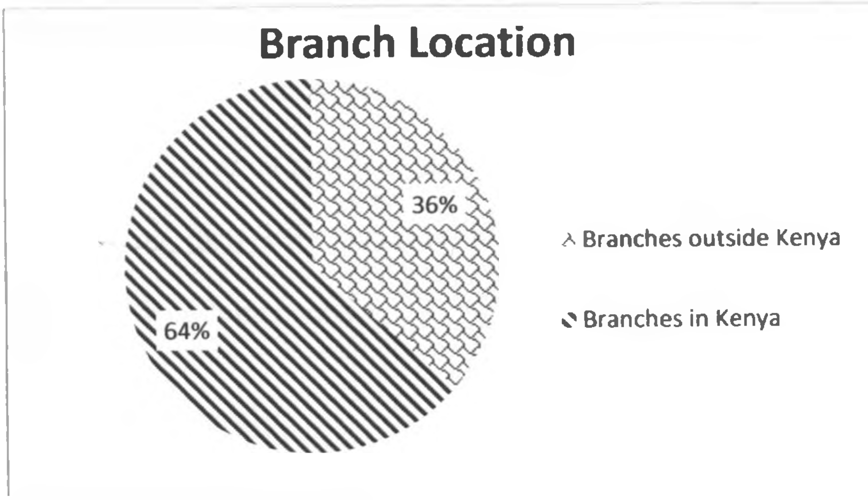

Figure 4.3: Branch location

Figure 4.3 show that only 36% of the respondents had branches outside Kenya compared to 64% who had branches within Kenya. This indicates that though majority of firms had branches located in Kenya, some sort to have a presence outside the country.

4.2.6 Departments in the Firm

On the question concerning departments in the organization, the results are as shown in Table 4.4

Departments	Number of Firms
Finance	2
Marketing	2
Business/Product Development	3
Information Technology	3
Compliance	4
Operations	6
Customer service	8
Fund/ Portfolio Management	9

Table 4.4: Respondent's Departments in the Firm

Table 4.4 indicates that 2 firms had finance and marketing departments, 3 had business/product development and Information Technology departments, 4 had compliance department, 6 had operations department, 8 had customer service and 9 firms had fund/ portfolio management department. This is an indication that majority of the firms focus on portfolio management and customer service. This implies firms compete on their core mandate which is portfolio management while offering competitive customer service.

4.2.7 Ownership

This question sort to know who owns the various firms and the results are as tabulated in Figure 4.4

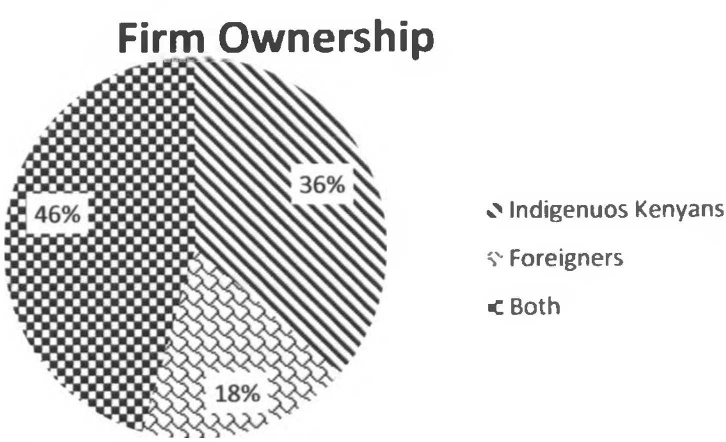

Figure 4.4: Firm Ownership

Figure 4.4 indicates that 36% of the firms are owned by indigenous Kenyans, whereas 18% of the firms are owned by foreigners and majority of the firms are owned by a combination of indigenous Kenyans and foreigners at 46%. This indicates that majority of the fund management firms are jointly owned by Kenyans and foreigners.

4.2.8 Public Listing

This question intended to check whether any of the respondents was a company listed in the stock exchange, the results indicated that none of the firms was listed in any stock exchange either in Kenya or outside Kenya. This indicates that the firms do not use public listing as a competitive edge.

4.3 Competitive Strategies

One of the objectives of this study was to establish competitive strategies fund managers operating in Kenya have adopted to cope with increasing competition in the fund management industry in Kenya. Section B of the questionnaire was structured to achieve this objective.

4.3.1 Differentiation Strategy

4.3.1.1 Product Differentiation

The table below indicates the range of products offered by the various fund managers.

Product Range	Number of Firms
<= 2l	4
3 – 5	2
6 – 8	5

Table 4.5: Number of products offered

From the table above 4 of the firms have a product range of 2 or less. 2 of the firms had a product of 3 to 5 products whereas 5 of the firms had products in the ranger of 6 to 8. The concentration seems to be firms offering products in the range of 6 to 8. This implies firms actively compete in product offerings by ensuing they have a wide range of products for customers to select from.

The table below shows an analysis of the type of products offered by the various fund management firms.

Product Offered	Number of Firms
Other - Pension Products	3
Managed funds	5
Bond funds	6
Money market funds	7
Balanced funds	7
Discretionary management services	8
Equity funds	9

Table 4.6: Type of products

From the above table, 9 firms offered equity funds, 8 offered discretionary management services, 7 offered money market funds and balanced funds, 6 of the firms offered bond funds whereas 5 of the firms offer managed funds. 3 of the firms indicated they do offer other products, which was identified as pension. From the table, majority of the firms offer similar products with a higher concentration on equity funds. This implies this is a competitive industry where firms tend to offer similar or near similar products with none of the firms being a distinct market leader..

4.3.1.2 Service level to clients

Reporting Period	Number of Firms
Monthly	3
Monthly; Quarterly	2
Quarterly	6

Table 4.7: Periodic reporting to clients

Six of the firms report to their clients quarterly whereas 3 of the firms report monthly. 2 of the firms reported both monthly and quarterly. The above table indicates firms are differentiating themselves on quality and timely service delivery. Fund managers mentioned they had websites where clients could easily access information on their investments.

4.3.1.3 Promotional tools

Promotional tool	Most Applied (5)	4	3	2	Least Applied (1)	Average scores	Standard Deviation
Television	2	1	1	1	5	2.4	1.7
Radio	2	2	1	1	4	2.7	1.7
Newspaper	1	5	3	1	0	3.6	0.8
Magazines	1	2	3	2	2	2.8	1.3
Professional Journals	1	2	1	2	4	2.4	1.5
Door to door	4	0	2	0	5	2.8	1.9
Bill boards and Posters	1	0	0	3	6	1.7	1.3
Social networks (e.g. face book)	1	0	2	1	6	1.9	1.4

Table 4.8: Application of promotional tools

From the above table the average score indicates newspapers were the most applied promotional tool followed by magazines, door to door and radio. The least applied promotional tools were bill boards and posters followed by social networks, television and professional journals. Using standard deviation, the industry is in agreement that the preferred choice of promotion is newspaper, while bill boards and posters were the least preferred with deviations of 0.8 and 1.3 respectively. This could be attributed to the nature of products which require detailed understanding before commitments are made by the clients hence need for clarity. Newspapers allow for input of more details than other sources hence ensuring clarity in communication. Another reason could be due to its wide circulation. Firms may thus select it as a competitive tool to ensure wide reach and avoid legal consequences arising from miscommunication.

4.3.2 Cost Leadership Strategy

4.3.2.1 Fees Charged

Fees	Money market funds	Bond funds	Balanced funds	Equity funds	Managed funds	Discretionary management services	Pension Products
0 - 1%	5	2	0	0	2	2	3
1.1 - 2%	2	3	2	1	1	6	0
2.1 - 3%	0	1	0	0	0	0	0
3.1 - 4%	0	0	1	0	0	0	0
4.1 - 5%	0	0	4	8	2	0	0

Table 4.9: Initial fees charged

From the above table, 5 of the firms charge 0 to 1% fees on money market funds and 2 of the firms charge 1.1 to 2%. For bond funds 2 of the firms charge 0 to 1%, 3 firms' charge 1.1 to 2% and 1 firm charges 2.1 to 3%. For balanced funds, 2 of the firms charge 1.1 to 2%, 1 firm charges 3.1 to 4% and 4 firms charge 4.1 to 5%. Equity funds have 1 firm charging 1.1 to 2% and 8 firms' charge 4.1 to 5%. For managed funds 2 firms charge 0 to 1%, 1 firm charge 1.1 to 2% and 2 other firms' charge 4.1 to 5%. For discretionary management services, the fees charged by 2 firms range from 0% to 1% and that charged by 6 firms is in the range of 1.1 to 2%. Pension products have 3 firms charging in the range of 0 to 1%.

From the above table the fee concentration for money market funds is charging 0 to 1%, bond funds is 1% to 2%, balanced and equity funds have concentration on charging 4.1 to 5%, managed funds are charged on two ranges; 0 to 1% and 4.1 to 5%; discretionary management services are at 1.1 to 2% whereas pension products concentrated between 0 to 1%. It is evident from the analysis that firms operate within the same fee range. The fees difference by the firms is either 1% or less. This implies the industry is quite competitive making it difficult for any of the firms to charge a premium.

Point of payment	Number of firms
Paid once at inception of investment	11
Paid once at exit of investment	0
Percentage based on amount invested	11
Performance based(discretionary services)	5
Step based	0

Table 4.10: Fee structure

From the above table, 11 of firms base the percentage of fees on amount invested and the fee is paid once at inception of investment. 5 of the firms indicated that the fee charged on their discretionary services is a percentage based on performance of the investment. None of the firms charged fees at exit nor step based fees. From the table firms are competing on having fees paid only at inception and as a percentage of invested amounts.

4.3.3 Focus

4.3.3.1 Target investment amount per fund

Investment Amounts	Money Market Funds	Bond Funds	Balanced Funds	Equity Funds	Managed Funds	Discretionary Management Services
<1000	1	0	1	0	0	0
1,000-10,000	1	0	1	1	1	0
10,001-100,000	2	2	2	2	1	0
100,001-	2	2	2	2	2	0
250,001-	0	0	0	0	0	0
500,001-	1	1	1	1	1	1
>1m	0	0	0	0	0	5

Table 4.11: Minimum investment amount

The table above indicates wide spread range in the minimum investment amounts. 1 firm each targets investment of ksh.1000 and below for money market and balanced funds. 1 firm each targets investment amounts of between ksh.1,001 and 10,000 for money market, balanced, equity and managed funds. 2 firms each target between ksh.10,001 to 100,000 for all funds except discretionary services and 1 firm in managed funds. 2 firms each target between ksh.100,001 to 250,000 for all funds except discretionary services. Each firm targeted investment amounts of ksh.500, 001 to 1 million for all products. 5 firms in discretionary management services targeted investment amounts of above 1 million.

The table indicates majority of firms had investment amounts targeted within the range of 10,000 to 250,000 for all products except discretionary services which majority of firms target was above 1 million. This implies a very competitive industry in which firms operate within the same range of minimum investment amounts.

4.4 INDUSTRY CHALLENGES

Another objective of this study was to determine the challenges faced by fund managers'. Section C was structured to achieve this objective.

4.4.1 Key Challenges

The table below tabulates a cluster of challenges faced in the industry.

Challenges	**No. of firms**
Being a new industry, a lot of investor education is required	6
Competition	5
Price/ fees undercutting	5
Size of the industry – small industry leads to high marketing costs	3
Inadequate regulation and Unethical practices	2
High taxation that reduces investor returns	1
Past existence of pyramid schemes	1

Table 4.12: Industry challenges

From the table, 6 of the firms indicated the main challenge being investor education. They indicated that a lot of investor education was required as this was a new industry. 5 of the firms indicated competition and price under cutting as other main challenges. 3 firms indicated that the small size of the industry leads to high marketing costs. 2 firms indicated the main challenge as inadequate regulation and unethical practices. 1 firm felt the challenge to be high taxation which reduced investor returns and another identified existence of pyramid schemes which erode trust in the industry. From the table the main challenges can be said to be low investor knowledge, competition and price/fees undercutting.

4.4.2 Other Industry Challenges

4.4.2.1 Industry Entry

Challenge	**Firms**
High Start Up Capital	4
Regulatory requirements	7
Knowledge, People skills are scarce and expensive	5
Stiff Competition	2
Poor saving culture	1
Size of the industry	1
Target market	1

Table 4.13: Barriers to industry entry

From the table above 7 of the firms indicated regulatory requirements were a barrier to entry into the industry, 5 indicated knowledge and people skills scarcity. 4 of the firms indicated high startup capital as a barrier, 2 firms indicated stiff competition in the industry, poor saving culture, size of the industry and target market were each identified as barriers to industry entry by 1 firm. From the table the main barrier to entry can be identified as regulatory requirements, scarcity of people skills and high startup capital. This would then imply that barriers to entry are a significant challenge in the industry.

4.4.2.4 Suppliers Influence

Suppliers Influence in the industry	**No. of Firms**
Yes	4
No	7

Table 4.14: Suppliers influence in the industry

Four of the firms indicated suppliers have influence in the industry whereas 7 firms were of the opinion that suppliers do not have influence in the industry. From the analysis suppliers have little or no influence in the industry; hence this isn't a significant challenge in the industry to majority of the firms.

4.4.2.3 Government Interference

Government Interference in the industry	No. of Firms
Yes	4
No	7

Table 4.15: Government interference in the industry

Four firms indicated the government does interfere in the industry whereas 7 were of the opinion that government does not interfere. From the table government interferes in the industry but not to a large extent; hence not being a challenge to most of the firms.

4.4.2.4 Customer bargaining power

Customer bargaining power in the industry	No. of Firms
Yes	8
No	3

Table 4.16: Customer bargaining power in the industry

8 of the firms indicated that customers have strong collective bargaining power whereas 3 of the firms indicated customers have no bargaining power. This indicates that customers are influential in the industry and can pose a challenge if not handled correctly.

4.4.2.5 Barriers to exit

1	Client obligations
2	Capital requirement
3	Other regulatory issues

Table 4.17: Barriers to exit in the industry

9 of the firms indicated there are no barriers to exit in the industry whereas 2 indicated there were barriers to exit. 3 barriers to exit were identified as indicated in the table above. Barrier to exit was not a challenge to most of the firms.

4.4.3 Firms' perception on other related issues

The researcher also sort to gauge the perception of fund management firms on various other issues related to challenges. These were meant to validate the answers regarding challenges faced in the industry. The responses are tabulated and analyzed below.

Statements	Strongly disagree (1)	Disagree	Neither	Agree	Strongly Agree (5)	Average scores
Regulatory requirements in the industry are stringent	0	2	1	7	1	8.0
The government is key to industry growth	0	2	1	8	0	7.8
Taxation decreases investor returns	0	1	0	5	4	8.4
Taxation requirements are not clear in the industry	1	6	0	2	1	5.2
Withholding tax should not be levied on dividends and interest	1	3	1	2	4	7.6
Government should remove requirements for trustees (trustees have no role in the industry)	3	5	0	1	2	5.4
Banks are the largest competitors to fund managers	1	3	2	4	0	5.8
Custodians' play an important role in the industry	1	0	0	9	1	8.4

Table 4.18: Perception on other related issues

Majority of the responses corresponded to the answers given on the question regarding challenges in the industry. From the table, firms were of the opinion that taxation decreased investor's returns and custodians played an important role in the industry. Regulatory requirements in the industry are stringent, the government is key to industry growth and withholding tax should not be levied on dividends and interest ranked highly. The firms were not of the opinion that taxation requirements are not clear in the industry and government should remove requirements for trustees (trustees have no role in the industry) as these statements ranked lowly. Firms did not seem to be of the opinion banks are the largest competitors to fund managers contrary to popular perception as it ranked lowly.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

The research findings discussed in Chapter four clearly shows that the firms under study use competitive strategies. The companies are adopting more than one generic competitive strategy and are faced by various challenges. Based on the objectives of this study the researcher drew the findings as discussed below.

SUMMARY OF FINDINGS

5.1 Competitive Strategies

From the research findings fund managers have adopted various competitive strategies to cope with competition in the industry. Firms had differentiation in terms of the products offered by having a wide range with most fund managers offering all the products. Firms offered within the range of 6 to 8 products. Majority of the firms offered similar products with a higher concentration on equity funds. Fund managers were also differentiating themselves by offering quality and timely service delivery. All fund managers reported regularly to clients though the reporting periods deferred. Majority of the fund managers mentioned they had websites where clients could easily access information on their investments; these are generally referred to as client portal. There were various promotional tools available for use in the market place but fund management firms seemed not keen on use of most of the tools. Among the promotional tools, newspapers were the most applied tools.

Fund managers had competitive scales for levying fees on their products. There was no much deviation from each other. The difference in fees charged by the various fund managers was no more than two percent. Fund management firms competed on having fees paid only at inception and as a percentage of amounts invested. The fees were not significantly different hence none of the firms could be identified as a distinct cost leader in the industry. The firms also indicated they made use of online statements and email to cut on postage costs.

Fund managers were seen to focus on different market segments. There were fund managers targeting the low end market, those targeting middle level and those pursuing the high end segment of the market. Majority of firms had investment amounts targeted within the range of ten thousand to two hundred and fifty thousand for all products except discretionary services which majority of firms target was above one million.

5.2 Industry Challenges

From the research findings, the industry is not immune to challenges. The challenges identified seemed to be related, in that one challenge would trigger development of another challenge. Low investor knowledge was identified as the major challenge. Majority of firms identified investors with little or no knowledge on the investment market to be a main challenge. Low investor knowledge was a key challenge.

The industry also cited stiff competition as another challenge. Fund management is a young industry that is yet to curve its mark. Being a young industry coupled with low investor knowledge implies the industry is prone to serious competition. Stiff competition was another key challenge.

As was evident from the fee structures, the firms tended to have similar fee structures and levied fees within the same range. This was related to the small size of the industry and stiff competition. This created another challenge identified as price/fees undercutting.

Another challenge identified was barrier to industry entry where majority of firms identified the main barriers to entry as regulatory requirements, scarcity of people skills and high startup capital. Most of the firms identified customers as having strong bargaining power in the industry.

To verify the accuracy of answers specified as challenges, several statements were asked of which fund managers were of the opinion that taxation decreased investor's returns and custodians played an important role in the industry. Ranking highly were also statements concerning regulatory requirements in the industry being stringent, the government as a key to industry growth and withholding tax should not be levied on dividends and interest. These findings were consistent with the challenges identified.

CONCLUSION

In conclusion none of the firms applied any of the competitive strategies in isolation. None of the firms was singled out as being a market leader in application of any of the competitive strategies researched on in this project. The firms employed a great mix of competitive strategies which were in line with Porter's (1980) generic strategies namely differentiation, cost leadership and focus (cost focus and differentiation focus). These strategies were used in coping with increasing competition in the fund management industry.

The firms seemed keen not to be left behind by competition by firms offering almost all products available, similar fee structures and minimum investment amounts. This could be seen as a bid to ensure customers had a one stop shop and hence not lose clients to competitors. The firms were also differentiating based on service delivery which was seemed to be a strategy to attract clients on the basis of information accessibility and quality customer service. It can be concluded that firms will continue applying differentiation strategies mostly by offering superior customer service and returns. Firms can also differentiate by introducing new products but this may not last long enough as it is easily copied. This is because any new products have to be supported by a legal framework established by the regulator which makes it is easy for any firm to launch the product.

The data analyzed did not identify a single cost leader but the firms are heavily involved in automating their processes in order to cut down on operational costs. Majority of the firms have acquired sophisticated systems and ICT gurus to spearhead automation, all in a bid to cut costs. Stiff competition leads to price undercutting as was evident from the fee structure. This over time reduces the profit margins in the industry making it less attractive which is not desirable for a young industry. It can be concluded that fund managers are looking at cost leadership as a competitive strategy in the long run in terms of lowering operating costs, rather than increasing fees levied or changing fee structure used due to stiff competition.

The distinct aspect was the market segmentation, where firms tried to focus on different market segments. Over time the minimum investment amounts required to invest have been reducing which has been due to the realization that the mass market provides enormous opportunities for profit making. This however did not seem to be the case with discretionary services as all firms targeted the high end segment. This can be attributed to the fact that, as the name suggests, is a service offered to manage funds incorporating the input of the investor (at client discretion). It can be concluded that fund managers engage in client segmentation. This distinct focusing for some firms might not last for long as all firms seek to maximum profits from all possible client bases and firms will keep exploring new markets (client type).

With increasing competition in the industry individual firms have responded with the main focus being on low investor knowledge. Firms have responded by investing in promotional activities which have led to high marketing costs aimed at creating awareness. Any advertisement by a single firm towards this front leads to benefits to the whole industry yet the costs aren't shared. Fighting low investor knowledge has had its downhill due to existence of pyramid schemes which in the earlier days eroded investor confidence creating confusion on legitimate fund management and illegal dealings. Low investor knowledge has led to self-imposed restrictions on the promotional tools that maybe used. This is because use of any promotional tool has to be done with a lot of caution to avoid mis-selling and legal costs to the firms, further eroding investor confidence.

Investor education in the recent past has received a boost due to the Initial Public Offerings (IPOs) by firms in other industries leading to advertisements being placed by such firms and the regulator (CMA) on what is to be expected, this has created awareness among Kenyans to some extent. The fund managers have also formed an industry association which should find ways to continuously conduct investor education as part of its mandate rather than leave the task to an individual firm. This is because the benefits accrue to all players in the industry.

The fund management industry is definitely attractive and a high growth industry. As the Kenyan economy continues to flourish, the industry will ride on this wave. With continued investor education and the citizens having more disposable income, the industry will continue to gain momentum.

RECOMMENDATIONS

There is need for further research to be carried out on fund managers' role and impact on the Kenyan economy as this would be crucial in government planning and budgeting. The government should also carry out a study on the impact of taxation on dividends and interest as regards effect on citizens' appetite to invest.

In order to have an in depth understanding of the fund management industry, a research should be carried out to analyze Collective Investment Schemes (CIS) identifying their structure, regulation, operation and role in the economy. This is because CIS form majority of the products offered by fund management firms.

It would be important to analysis client retention rate by individual fund managers and compare with the rate in other related industries like the banking. Fund managers can use this study to identify competitive strategies available to the individual firm in order to achieve a strong competitive position.

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APPENDICES

APPENDIX A: LIST OF FUND MANAGERS

APPENDIX B: QUESTIONNAIRE

Appendix A: List of Licensed Fund Managers

No.	Firm's Name	Address	License No.
1	African Alliance Kenya Management Company Limited	P.O. Box 27639-00506, Nairobi	47/10
2	PineBridge Investment East Africa Limited	P.O. Box 67262-00200, Nairobi	48/10
3	Amana Capital Limited	P.O. Box 9480-00100, Nairobi	49/10
4	Apollo Asset Management Company Limited	P.O. Box 30389-00100, Nairobi	01/10
5	Aureos Kenya Managers Limited	P.O. Box 43231-00100, Nairobi	50/10
6	British American Asset Management Limited	P.O. Box 30375-00100, Nairobi	51/10
7	CIC Asset Management Company Limited	P.O. Box 59485-00200, Nairobi	52/10
8	Co-op Trust Investment Services Limited	P.O. Box 48231-00200, Nairobi	53/10
9	Genesis (K) Investment Management Limited	P.O. Box 79217-00200, Nairobi	54/10
10	ICEA Asset Management Limited	P.O. Box 46143-00100, Nairobi	55/10
11	InvesteQ Capital Limited	P.O. Box 56977-00200, Nairobi	56/10
12	Madison Asset Management Services Limited	P.O. Box 20092-00200, Nairobi	57/10
13	Old Mutual Investment Services (K) Limited	P.O. Box 30059-00100, Nairobi	58/10
14	Old Mutual Asset Managers (K) Limited	P.O. Box 11589-00400, Nairobi	59/10
15	Sanlam Investment Management (K) Limited	P.O. Box 7848-00100, Nairobi	60/10
16	Standard Chartered Investment Services Limited	P.O. Box 30003-00100, Nairobi	61/10
17	Stanbic Investment Management Services Limited	P.O. Box 30550-00100, Nairobi	62/10
18	Zimele Asset Management Company Limited	P.O. Box 76528-00508, Nairobi	63/10

Adopted from: The Kenya Gazette, Vol. CXII No. 45, Nairobi, 30th April 2010

Appendix B: Questionnaire

A. General Information

1. In which year was the firm licensed to begin operations? ______________

2. When did the firm begin actual operations? ______________________

3. Where is the head office of the firm? __________________________

4. How many branches does the firm operate? ______________________

5. Does the firm have branches outside the country? Yes ☐ No ☐

6. How many departments/ divisions are there? ______________________

a. Kindly list the departments
   -
   -
   -
   -

7. Is the firm owned by

   Indigenous Kenyans ☐ Foreigners ☐ Both ☐

8. Is the firm listed in any stock exchange? Yes ☐ No ☐

   a. If yes, kindly indicate the name of the stock exchange?

   ____

9. Is your firm incorporated in Kenya? Yes ☐ No ☐

   a. If no, kindly indicate country of incorporation?

   ____

10. How many permanent staff members are employed by the firm? (Tick as appropriate)

    Below 10 ☐ 11-20 ☐ 21-30 ☐ 25-30 ☐ Above 31 ☐

B. Competitive Strategies

12. How many products/ services does the company offer? ______________

13. Does your firm offer any of the following products/services?

a. Money market funds Yes ☐ No ☐

b. Bond funds Yes ☐ No ☐

c. Balanced funds Yes ☐ No ☐

d. Equity funds Yes ☐ No ☐

e. Managed funds Yes ☐ No ☐

f. Discretionary management services Yes ☐ No ☐

g. Other Yes ☐ (specify) _________

14. If offering any of the above products, what is their minimum investment amount?

a. Money market funds Ksh. ____________________

b. Bond funds Ksh. ____________________

c. Balanced funds Ksh. ____________________

d. Equity funds Ksh. ____________________

e. Managed funds Ksh. ____________________

f. Discretionary management services Ksh. ______________

g. Other (specified above) Ksh. ____________________

15. What are the initial fees charged for the products/services?

a. Money market funds _________%

b. Bond funds _________%

c. Balanced funds _________%

d. Equity funds _________%

e. Managed funds _________%

f. Discretionary management services __________%

g. Other (specified above) __________%

16. In terms of fees charged for the services offered, is the fee

a. Paid once at inception of investment

b. Paid once at exit of investment

c. Percentage based on amount invested

d. Performance based

e. Step based

17. How many times does your organization report to clients?

Monthly ☐ Quarterly ☐ Yearly ☐ None ☐

18. Is your firm involved in any form of community work (CSR)? Yes ☐ No ☐

19. Please indicate your level of agreement to the following statements:

Statements	Strongly disagree (1)	Disagree	Neither	Agree	Strongly Agree (5)
a. Most fund managers target wealthy individuals					
b. Institutional investors hold the future for fund managers					
c. Pension schemes have a lot of influence on fund managers					
d. Cost of operation per individual investor is higher than that of institutional					
e. Majority of investors into unit trusts are Kenyan citizens					
f. Majority of investors into discretionary services are pension schemes					
g. Majority of products offered are open ended as opposed to closed ended					

20. To what extent do you apply the following promotional tools? (where 5 is the most applied and 1 is the least applied)

Promotional tool	**5**	**4**	**3**	**2**	**1**
a. Television					
b. Radio					
c. Newspaper					
d. Magazines					
e. Professional Journals					
f. Door to door					
g. Bill boards and Posters					
h. Social networks (e.g. face book)					
i. Other (specify) ______________					

21. Does your firm have a sales team? Yes ☐ No ☐

    a. What is the number of the sales team? ____________

22. Please indicate your level of agreement to the following:

Statement	**Strongly disagree**	**Disagree**	**Neither**	**Agree**	**Strongly Agree**
a. It is easy to sell products/services through a sales force (face to face)?					
b. It is easy to sell products/services through placement of telephone calls?					

23. Does your firm subscribe to any industry association? Yes ☐ No ☐

    a. If yes, kindly indicate whether local or foreign? Local ☐ Foreign ☐

24. How would you classify the fund management industry in terms of returns?

    Unattractive ☐ Attractive ☐ Very attractive ☐

25. How would you classify the fund management industry in terms of competition? Non-competitive ☐ Competitive ☐

26. How would you rate your firm in terms of growth and market share?

High growth, high market share ☐

High growth, low market share ☐

Low growth, high market share ☐

Low growth, low market share ☐

C. Challenges faced in the industry

27. What are the main challenges faced by the firm?

-
-
-

Please indicate level of agreement to the following statements:

Statement	Strongly disagree	Disagree	Neither	Agree	Strongly Agree
a. Regulatory requirements in the industry are stringent?					
b. The government is key to industry growth?					
c. Taxation decreases investor returns?					
d. Taxation requirements are not clear in the industry?					
e. Withholding tax should not be levied on dividends and interest?					
f. Government should remove requirements for trustees (Trustees have no role in the industry)?					
g. Banks are the largest competitors to fund managers?					
h. Custodians' play an important role?					

28. What are the barriers of entry to the fund management industry?

a.

b.

c.

d.

29. Do suppliers have strong bargaining power? Yes ☐ No ☐

30. Does the government interfere in the industry? Yes ☐ No ☐

31. Do customers have strong collective bargaining power in the industry?

Yes ☐ No ☐

32. Are there any barriers to exit in the industry? Yes ☐ No ☐

33. If yes, specify the barriers to exit:

a.

b.

c.

d.