STRATEGIC RESPONSES TO THE CHANGING ENVIRONMENTAL FORCES AFFECTING MANHUSSEIN AND ASSOCIATES IN KENYA

BY

ZAMZAM ADAN HUSSEIN

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINSTRATION SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI

SEPTEMBER, 2014

DECLARATION

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

Signed... Date..

ZAMZAM ADAN HUSSEIN

D61/72527/2012

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

Signed.. Date..

DR. JOHN YABS

Department of Business Administration

University of Nairobi

DEDICATION

To my family; friends and colleagues for their inspiration; moral support during the proposition, implementation; review and writing of this research project.

ACKNOWLEDGEMENT

I am grateful and indebted to many for their support throughout the publication of this research project. A special thanks in particular goes to my Supervisor, Dr. John Yabs for his guidance and encouragement to ensure the project writing is successful. Also to my parents, Mr. Adan Hussein and Mrs. Abdiya Yusuf for instilling the value of education in me.

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ABSTRACT

Small and Medium Enterprises continuously operate in an environment where goods and services are often produced and exchanged to meet the material and social needs and advancement of living standards in a rapidly changing technological society. Consequently, Small and Medium enterprises have to deliberately engage in strategic planning in order to ensure, sustain their survival, meander and grow to their next level in their life cycle of developments. Naturally, all businesses regardless of size begin with a plan and ends with a plan. This plan is what management expertise referred to as a strategy. A strategic plan whether reduced to a written form or unwritten helps to guide the direction of the business in its charted journey to success. The salient elements of strategic responses too must take into account and focus on related policies, programmes and activities which deal with in an informed manner, the emerging environmental and industry challenges accordingly. The objective of this study was to primarily determine and document how ManHussein and Associates Ltd – the subject of this study - have responded to the dynamics of changes in its own environment. It also endeavoured in a fairly comprehensive manner to explore, demonstrate and document the experiences of the Company in dealing with its business environment in order to succeed. Basically, this study also adopted content analysis in examining strategic responses to changing environmental forces impacting on ManHussein and Associates Ltd. Upon completion, the study provided useful information aimed at recognizing, understanding, and synethizing and intervening in those aspects of environmental forces affecting significantly the bottom line of Company to the Leadership and Management. The study adopted the PESTEL framework to analyze and rates all the environmental conditions surrounding the company and its responses. Specifically, the economic factors has been exemplary and given a higher value than the other factors. A case study was adopted with an interview guide as the study instruments. The findings show that the Company has been influenced by various factors which were identified as being either supportive; providing opportunities as well as enduring short and long term challenges. The company's product differentiation strategy has enabled it to better position itself to respond to the changing environmental forces. A significant element of the Company strategy adopted was the niche marketing strategy where the main focus of the Company continued to invest deliberately in acceptable Shariah compliant investments. ManHussein and Associates Ltd has also managed to be successful so far in managing environmental challenges due to its open-minded attitude of the management and its resourcefulness to aptly answer to these changes in a strategic mode. The future of the business will depend on how well the company is able to adjust their business operations to the prevailing volatile environment. However, the company according to the findings of this study needs to do more on the physical and political environment. Future research in my considered view should be conducted to find out how the firm alters its strategies to improve its bottom line and in what ways the strategic path chose has endeared the Company to its market place and offerings. From this study, it is however, clear that from the outset, ManHussein and Associates Ltd acknowledges and recognizes the fact that it is working in a dynamic environment and doing nothing about it, is not an option. It also realized that for it to maintain good performance and growth, it has to continually make changes so as to adapt to the environment. The firm sees the need to delight its customers and shareholders by satisfying their needs, creating market led shareholder value and exceeding their expectations at all times.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All organizations exist and operate in an open system and within communities and society settings. They affect and are equally affected by external conditions that are largely beyond their immediate control. For organization to provide quality service, they must streamline their policies to conform to changes in the environment in which they operate in. Changes in external environment necessitate adoption of efficient strategic responses that mitigate challenges faced in that sector of the economy. Organizations and enterprises consistently need to link and align their leadership, managerial and operating activities to the environment in which they are located and operate in. Strategic management helps organizations and enterprises to critically adopt, engage and administer through the process of formulating, implementing and evaluating cross - functional decisions that enable a firm to meet its objectives (Pearce and Robinson, 2000).

Investment climate obtaining in a country has both positive and negative effects on businesses and enterprises irrespective of size, financial muscle and age. Investment climate largely refers to the political, economic, legal, ecological and financial conditions in a country that affect whether individuals and businesses are willing to easily lend money, seek collateral and guarantees, allow commercial risk-taking and or acquire a stake in new and existing businesses operating there. Investment atmosphere is also affected by many factors, including and not obviously limited to: poverty, crime, infrastructure, workforce, national security, political instability, regime uncertainty, taxes, rule of law, property rights, government regulations, corruption, government transparency and government accountability (Dollar, Hallward – Driemeier and Mengistae, 2005).

1.1.1 The Concept of Strategy

According to Glueck (2007 P. 3), "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process". Ordinarily, the concept of strategy involves the analysis of issues of market dynamics, competition, product and service offerings, pricing, product and service mix; certain and uncertain situations, conditions, rapid societal development, environmental and technological changes, political risks, government policies, effects of economic shocks locally, regionally and internationally, all of which are outside the realm of their immediate operating environment.

The primary purpose of strategic management is to ensure a fit between an organization's external environment and its internal situation. To ensure compatibility and survival, organizations must be able to comprehend those significant environmental shifts taking place around them and to equip strategically their organizations to succeed in the new environment. Chapman (2010) noted, however, that although the notion of fit indicates "a match at a single point in time, understanding dynamic fit requires that any new perspective on strategic fit must come to grips with the question of strategic change.” Companies must be flexible to respond rapidly to competitive and market changes; they must benchmark to achieve best practices and must aggressively gain efficiencies.

The environment provides the organizations with inputs which they transform to outputs through internal processes and then the outputs are given back to the environment. Therefore, in order to survive in the ever changing environment and remain continuously relevant, organizations have to pay attention to the environment and match their activities to the environmental conditions in line with the changing global trends. Strategy involves creating "fit" among company's activities. Fit has to do with the ways a company's activities interact and reinforce one another. Fit drives both competitive advantage and sustainability; when activities mutually reinforce each other, competitors can't easily imitate them (Porter, 2000)

In this time of great uncertainty, many companies are wondering which environmental changes will have the greatest impact on their businesses in the years ahead. What are certain are, however, the threats and opportunities facing any businesses, which fall out of change and uncertainty in the environment, can impact directly upon the profitability and even the very survival of the business. It is useful to consider the notion that the business environment conforms to an eco-system, very similar to the natural world where if one element of the eco system dynamically changes, the effect cascades right throughout the whole environment (Porter, 2000)

The environment can be classified into the external and the internal environments. The external environment is made up of those factors that are beyond the firm's control but which affect its operations. This external environment is made of political, economic, socio-cultural, technological, ecological and legal variables. The internal environment on the other hand, consists of factors within the firm's control, which also influence the firm's activities. The internal environment is composed of factors like financial resources, technology, human resources, structures and processes. The environment is dynamic and keeps changing. Since the external environment is uncontrollable, the firm has to match its operations to the external environment in order to survive and succeed (Aguilar, 2007).

1.1.2 Strategic Responses

Strategic responses refer to how the machinery of the resources and operations of an organization are carried out. According to Ansoff, Miller & Friesen (2000) it is through strategic response that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by first, positioning of the firm through strategy and capability planning in its rightful competitiveness. Secondly, use of real time response through issue management and thirdly, systematic management of resistance during strategic implementation.

The main concern of strategic response are choices to be made on what products or services will and will not be offered; what markets (customers, consumers, and geographies) will and will not be served; and what key capabilities are needed to take products to markets. Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness. In order to achieve a competitive advantage, strategy needs to focus on unique activities. Operational effectiveness is necessary but not sufficient for achieving a sustainable competitive advantage (Porter, 1985).

Changes in environmental conditions shape a firm's opportunities and challenges. Basically, a new environment necessitates the formulation of new strategy best suited to cope with change. According to Ansoff, (1988) turbulent environments are characterized by unfamiliar rapid and unpredictable events.

1.1.3 Small and Medium Enterprises in Kenya

The Small and Medium Enterprises are businesses in both formal and informal sector in Kenya; employing 1-50 workers (Republic of Kenya, 2009). These enterprises cut across all sectors of employment and provide one of the most prolific sources of employment creation, income generation and poverty reduction (Republic of Kenya, 2009). The SME sector accounts for 80% of the total persons engaged in employment in Kenya (Republic of Kenya, 2009). The sector's contribution to the Gross Domestic Product (GDP) in Kenya has increased from 13.8 per cent in 1993 to about 40 per cent in 2008 (Republic of Kenya, 2009).

According to the Kenya National Bureau of Statistics, the informal sector, another name for SMEs which constituted 80.8 percent and 89.7 percent of total employment created an additional 445.9 thousand jobs and 591.1 thousands, in 2012 and 2013 respectively. The importance of the SMEs subsector in Kenya was first recognized in the International Labour Organization report (ILO) in 1972 *on 'Employment, income and Equity in Kenya'* 11 *(ILO, 1972)* .The report underscored the sector's critical role in promoting growth in incomes and employment. The importance of the sector has also been affirmed in the African Economic Outlook, 2011 report. While the SMEs subsector constitute close to 80% of employment, it only contributes to about 20% of the GDP. This implies dismal subsector performance despite its potential contribution to employment, income and equity as was asserted in the ILO report in 1972. The paltry performance of the SMEs in Kenya is linked to several constraints among of which the regulatory and institutional framework is alleged to be one of the factors. (ILO, 1972)

The current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act, 2012) provides a window of opportunity through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy (Ong'olo and Odhiambo, 2013).However, as the concept of "too big to fail" continue to be challenged by the realities of life, businesses thinking may evolve into "small is beautiful" and "keep it small and simple" in order to arrest and mitigate the negative consequences of external environment. Given the role and magnitude of the small and medium companies in the country and their documented significant contributions to employment creation, coupled with the scale of their contribution annually and in a sustainable way to the Gross Domestic Product (GDP) it has yet to grow and impact on the growth of the economy as expected (Muli, 2010).

1.1.4. ManHussein and Associates Ltd.

ManHussein and Associates Ltd is a small business that is family owned and started in 1997 to improve the social economic status of the family to develop, nurture a business mind and culture among the young and future generations of the family through a mentoring process of entrepreneurship. The origin of the company is traced to the founder who initially had an investment idea and shared it with some family members, and decided to equally contribute Kenya Shilling One Thousand each monthly and consequently build a viable portfolio of investment both quoted and unquoted Companies. Those contribution agreed upon were not unfortunately forthcoming and the founder came up with an alternative business model of - building it himself - that has been adopted ever since.

The philosophical underpinning of the Company is to strive to bridge the existing gaps between investing in preferably Shariah compliant shares, mutual funds, social and environmental friendly' investment and Real Estate Investment Trusts (REIT) within Kenya and the region. The Vision of the Company is: To be the preferred Islamic finance, Social and Environmental friendly investment Company. The Values the Company continues to ascribe and cherish are: Ethical and trustworthy business; Shariah – compliant as much as practicable and feasible business that improves shareholder value through the attainment of superior returns on its investments and be a responsible corporate citizen.

The business model the company has adopted and continue to pursue is a three pronged approach of investing in quoted securities and once it unlocks this investment, the Company then invests on short term basis in the money market. And depending on the accumulation of funds in the money market, the Company then decides to purchase appropriate apartments and or REITs units available in the market to add and grow its portfolio of Real Estate. It is the plan of the Company that going forward from 2014 the company strives to formulate an updated and well thought out strategic plan and direction to spur and develop it to the next level of becoming a viable medium company.

In 2013, the company prepared an audited financial statement in order to take the company to the next level of a medium company and comply with all the regulations enacted by both the national and county governments. The Company is the subject matter of a case study for this research in that the environmental forces affecting business and enterprises once scanned and analyzed will be tested on the Company to document how it has strategically responded to the challenges of environmental forces obtaining in Kenya in the pursuit of its objectives, operations and management process.

1.2 Research Problem

The performances of SMEs have been documented to play a significant influence on the development of an economy and in particular Kenya. The continued higher failure rates of new enterprises coupled with their difficulty in attracting capital from Banks and the lack of growth of those that survive beyond a year continue to pose challenges to the Kenyan economy. Due to this situation, the Kenyan government has responded by encouraging the youth and women by giving them loans to boost their SME's. SMEs contribute extremely to eliminating poverty by creating employment opportunities.

Numerous studies have examined the strategic responses to changing environmental forces affecting firms (Oliver, 1991; Levy, and Kolk, 2002; Mwangi, 2007). However most of these studies focused on multinational companies or were done from international perspective. The majority of even local studies have not given adequate attention to how small and medium companies in Kenya responds strategically to the environment forces prevailing in their settings. Other local studies include, Mutuku (2010) who studied on the impact of microfinance institutions on SMEs in Kenya and found out that they had a great impact on employment creation and poverty alleviation. Mwangi (2009), on the other hand, examined the Strategic responses by Chase Bank Kenya Ltd. - a medium size company – to environmental changes in the Banking sector. Studies on small enterprises on environmental forces, however, are either non – existent and where they do scanty.

Therefore, this study seeks to fill in an existing gap left by previous studies which examines the strategic responses to changing environmental forces affecting SME and in particular, ManHussein and Associates Ltd. What are the strategic responses employed by ManHussein and Associates Ltd in dealing with the changes in environmental forces?

1.3 Research Objectives

To explore and document the strategic responses adopted by ManHussein and Associates Ltd in response to changes in environmental forces.

1.4 The Value of the Study

This study will be of benefit to all the stakeholders and specifically to the shareholders of ManHussein and Associates Ltd. It will also provide informed understanding of the environmental forces affecting the company to the Management. Other Small and Medium size enterprises will hopefully borrow the practices of better industry operation and management in mitigating the environmental forces. To the researchers, this study will be an added knowledge for secondary data material in understanding the environmental forces and responses to the forces by Small and Medium Enterprises. To the government, this study will provide information that is useful to formulate enabling policies and programmes to better realize environmental success for small and medium enterprises.

To the academic fraternity, this study will offer a base for further knowledge in environmental responses by small and medium enterprises. To the shareholders and customers, this study will enable them to better realize the growth and worth of their investments. This study will also provide an in depth knowledge and understanding of the environmental forces and attendant business strategies robust enough to address and mitigate those challenges. It will further help in reviewing the role of business environment of Small and Medium enterprises and their contribution to the economy and in particular employment creation.

The study will also help investigate the business strategies and mechanism and tactical measures to moderate the adverse effects of environmental forces to the operation, management and success of small and medium enterprises. Finally, the result of study will contribute to the existing body of experiential knowledge and best practices on how and or how not to respond and interact to the reality of practical environmental forces prevailing in Kenya by small and medium enterprises in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Strategy is the sustained pattern of resource allocation by which companies align themselves effectively to their external environment. In the previous chapter, the study has discussed the background to the study. However, in this chapter, the researcher will discuss the theoretical foundation of the study, past literature, summary of the chapter and finally the conceptual framework used to explain the study.

2.2 Theoretical Foundation of the Study

In the examination of the strategic responses to changing environmental forces affecting ManHussein and Associates Ltd, this study combines Institutional Theory and Resource dependence theory. The two theoretical perspectives are relevant to this research. Both theories assume that organizations as open systems become interdependent with those elements of the environment which they transact (Pfeffer 1982: 192).Organizations work within such interdependencies to reduce uncertainty and ensure survival (DiMaggio 1988: 3)

2.2.1 Institutional Theory

Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately, these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency (DiMaggio, 1988).

Meyer and Rowan (1991), on the hand, argue that often these "institutional myths" are merely accepted ceremoniously in order for the organization to gain or maintain legitimacy in the institutional environment. Organizations adopt the "vocabularies of structure" prevalent in their environment such as specific job titles, procedures, and organizational roles. The adoption and prominent display of these institutionally-acceptable "trappings of legitimacy" help preserve an aura of organizational action based on "good faith". Legitimacy in the institutional environment helps ensure organizational survival. Rowan, further examined the growth of three administrative services in California public schools (school health, psychology, and curriculum) from the standpoint of institutional theory. He found that when there is a high level of consensus and cooperation within the institutional environment, diffusion of innovative structures is steady and long-lasting. However, when the institutional environment is contentious and unfocused, adoption of innovative structures is slow and tentative (Campbell, 2007).

2.2.2 Resource Dependency Theory

This theory studies how an organization’s behavior is affected by external resources (Pfeffer, and Salancik, 2003). It also studies how organizations reduce environments interdependence and uncertainty. It explains how the external environment impacts optimal divisional structure of an organization, recruitment of board members and employees, production strategies and external organizations links (Hillman, Withers, and Collins, 2009).

The theory, further assumes that organizations are dependent on resources for their survival and these resources which are scare are available from the environment. The environment also contains other organization and who also need this resources. More often than not, the resources needed by one organization are in the hands of other organization. Resources then became basis of power as organizations to have control over the resource so that their dependency on others reduces or others become more dependent on them. An organization success is on maximizing its power. In other words, the resource dependency theory states how organizations seek to manage their environment and shows importance of exchange and power relations in and around the organization (Sherer and Lee, 2002).

2.3 Environment and the Organization

Environment is the sum total of several external and internal forces that affect the functioning of business. According to Barry M. Richman and Melvyn Copen, "Environment factors or constraint are largely if not to tally, external and beyond the control of individual industrial enterprises and their managements. These are essentially, the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country." A strategist looks on the environment as posing threats to a firm or offering immense opportunities for exploitation. Stressing this aspect, Glueck and Jauch wrote: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although, there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government”. Every action that an organization takes, such as raising its prices or launching an advertising campaign, creates some degree of changes in the world around it. Most organizations are limited to influencing their industry only. While most organizations simply react to major technological trends, for example, the actions of firms such as Intel, Microsoft, and Apple help create these trends. Some aspects of the general environment,' such as demographics, simply must be taken as a given by all organizations. Overall, the environment has a far greater influence on most organizations than most organizations have on the environment (Glueck, 2007).

According to Black, Twigg and Latta (2012) understanding the environment that surrounds an organization is important to the executive in charge of the organizations. There are several reasons for this. First, the environment provides resources that an organization needs in order to create goods and services. In the seventeenth century, British poet John Donne famously noted that "no man is an island." Similarly, it is accurate to say that no organization is self-sufficient. As the human body must consume oxygen, food, and water, an organization needs to take in resources such as labour, money, and raw materials from outside its boundaries. An organization cannot survive without the support of its environment. The environment shapes the various strategic decisions that executives make as they attempt to lead their organizations to success. The environment often places important constraints on an organization's goals, for example. A firm that sets a goal of increasing annual sales by 50 percent might struggle to achieve this goal during an economic recession or if several new competitors enter its business. Environmental conditions also need to be taken into account when examining whether to start doing business in a new country, whether to acquire another company, and whether to launch an innovative product (Pearce and Robinson, 2004).

Global trends have had adverse effect on many sectors, the small and medium enterprise (SME) sector included. Every organization has to develop strategies that will enable it fit within the environment it operates in. This is necessary because the environment is dynamic, multi-faceted and complex; as a result of which organizations have to plan how to respond to the challenges posed by it. An organization can either plan on how to cope with the many changes brought about by the environment or handle them as they emerge (Sundaram, and Black, 1992).

According to Hillary (2000) the adequacy of scholarly work done specifically on the identification, investigation and characterization of small businesses and enterprises strategies in terms of whether or not they are based and contain a competitive advantage based on the incorporation of external environment is negligible, and hard to find. Little research has been conducted on family owned businesses strategies, even though a significant portion of the largest companies are family controlled.

The business environment being volatile and complex limits family businesses from success. Family owned and small enterprises are forced to ask themselves where to concentrate their little resources and why, thereby creating a need for a new way of thinking about strategy. Family owned and small enterprises survival rate is invariably low due to the lack of adequate knowledge on how to strategically respond to changes in the business environment lack formal support systems within the economic environment (Jaffee, 2001).

Given the limited research and interest in the development of knowledge on the Small and Medium enterprises in Kenya, this research will go a long way in contributing to the knowledge base, the best practices and demonstrate the application of proven and suitable models, tools and systems of help to the Small and Medium enterprises in the country in their assessment of business environment. The study, will also seek to answer the following question; what are the strategic responses to changing environmental forces that are affecting ManHussein and Associates Ltd in Kenya?

2.4 Factors that Influence a Firm's Response to Business Environment

Several factors influences a firms strategic response to the external environment, these factors are discussed in the following sections. Originally known as PEST Analysis, this is a macro environmental framework used to understand the impact of the external factors on the organization and is used as a strategic analytical technique. PEST stands for "Political, Economic, Social, and Technological" factors. Francis Aguilar is referred to as the originator of this tool. He talked about ETPS - Economic, Technological, Political, and Social- as the four important factors for Scanning the Business Environment (Aguilar 2007)

Later, Legal and Environmental factors were also added by some analysts and thus evolved the term PESTLE Analysis (Kotler, 2006). The political factor affects the organizations in terms of government regulations and legal issues. In addition, it defines both formal and informal rules under which the firm must operate. Examples are: Political stability, Tax policy, Employment and labour law, Environmental regulations, Trade restrictions and Tariffs etc (Aguilar, 2007). The economic factor affects the business operations and decision making of the organization. For example, the predicted recession is preventing the organizations from increasing their workforce. Other examples are: Economic growth, Interest rates, Inflation rate etc (Aguilar, 2007).

The social factor refers to the cultural and demographic aspects of the environment. For example: segmenting a population into demographics allows companies to assess the size of a potential market. Other parameters include; Age distribution, Population growth rate, emphasis on safety, Career attitudes, religious practice etc. Technological factors affect the cost and quality of the outputs. These also determine the barriers to entry and minimum efficient production level. Factors include: Automation, Technology incentives, Rate of technological change and Research and Development (R&D) activity (Battese, and Coelli, 1992).

Legal factors influence the company's operation, its costs, and the demand for its products. Factors include: Consumer law, Anti-trust law, Employment law, Discrimination law and consumer protection law and safety law. The environmental factors referring to ecological and environmental aspects such as weather, climate, and climate change. Climate change is a hot topic these days and organizations are restructuring their operations thus giving space to innovation and concept of Green Business (Chen, 2008).

PESTLE Analysis, which comprises of the; Political, Economical, Social, Technological, Legal and Environmental factors is used to examine the current and future state of the industry an organization belongs to. This helps in the strategic planning and gaining the competitive edge over the other firms in that industry. This analysis can not only be used for an organization as a whole but various departments can also be inspected under this framework. For example, it makes more sense for a company with diversified product range to analyze its departments separately than the organization as a whole. Importance of the factors varies depending on the nature of the industry and company. For example environmental factors are more important to the tourism sector whereas economic and political factors are more important for the Banking sector (McIntosh, Goeldner, and Ritchie, 1995).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the research design, the population, the data collection instruments, and the data collection methods and procedures. Data analysis, tabulation, analysis and presentation methods are also discussed.

3.2 Research Design

The proposed research adopted a case study approach. Case study research method is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984, p. 23).

According to Thomas (2011) a case study is an analysis of persons, events, decisions, periods, projects, policies, institutions or other systems that are studied holistically by one or more methods. It provides a systematic way of looking at events, collecting data, analyzing information and reporting the results. This helped the researcher to gain a sharpened understanding of why the instance happened as it did and what might become important to look at more extensively in future research. It also helped the researcher to critically analyze the case in question with a view of drawing more detailed and specific information about the subject that can be useful to the management.

3.3 Data Collection

Data collection is defined as the process of gathering or obtaining specific information about an activity or area of interest. There are five principles of data collection, they include; relevance, simplicity, accuracy, clarity and practicability. Different methods can be used to collect data but the main data collection methods are: questionnaires, interviews and observations (Bogdan, and Biklen, 1998).

In this study, interview guide was adopted as the data collection instrument. In this study key directors (a total of 3 persons) of ManHussein and Associates Ltd participated in providing information and data needed. Interview guide was used because it helped the researcher to collect large amount of data in large areas within a short time thus saving time for the study (Orodho, 2003). Specifically, a group of third party Data Collectors were utilized to minimize biases and errors of margins in the case study of ManHussein and Associates Ltd.

The study used a structured interview guide to collect data. The interview guide contained both open-ended and closed-ended questions which were based on the objectives of the study. The interview guide facilitated the data collectors to engage the respondent in a relevant discussion (Turner, D. W. (2010).

3.4 Data Analysis

Both primary and secondary data were mostly qualitative in nature. Given this fact, content analysis was used to analyze the data. Content analysis is defined as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends (Nachmias 1996).

Content analysis is a readily-understood and inexpensive research method. It provides valuable historical insights over time through analysis of texts and is an unobtrusive means of analyzing interactions. For this study, the data obtained were compared with existing literature in order to establish areas of agreement and disagreement.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSIONS

4.1 Introduction

This chapter presents the result of the analysis of data obtained from ManHussein and Associates Ltd through interviews with the three (3) respondents who included one CEO/ Founder, one Director and one Investment Manager. This data was then analyzed using content analysis based on the meanings and implications emanating from respondents' information in relation and comparison with other available documented data for the Company. Specifically, it started with the analysis of the general information of the respondent and their organization. It then proceeded to collate and interpret the results on the strategic responses to changing environmental forces affecting ManHussein and Associates Ltd. After the tabulation, analysis, synthesizes of the data, a discussion of the Investment business model the Company uses is presented. It further, looked at the practical mitigation measures and solution to the impediments and challenges faced by the Company.

4.2 Case study of Manhussein and Associates Ltd

This section illustrates the general information about ManHussein and Associates Ltd in Kenya, which includes among other things - the names of the respondents; the ages of the respondents; the position the respondents hold in the Company; the number of employees working in the Company; the products and services the company offers; the total annual revenue of the company. Additionally, whether or not the Company, by and large, is in compliance with the guidance and regulations' governing similar businesses like ManHussein and Associates Ltd. Lastly, not by any means the least whether or not the Company's financial statements are audited by an external auditor.

The researcher also found out that the respondents were aged 35 years and above. The researcher also found out that the Directors of the Company were also the founders of the business. The company dealt in investment and real estate services. The company was also found to be audited regularly according to the respondents. Lastly, the researcher found out that the company had eight employees. According to the audited Financial Statements for the Company, it had a total annual turnover of two million shillings in 2013 and an asset base of Kenya Shillings Eleven Million.

4.2.1 Strategic Planning and Vision of the Company

ManHussein and Associates Ltd had all along since its inception had strategic plans which it religiously reviewed and approved every six months by the Directors and Investment Manager. The Company since its establishment over the last 18 years has by the combined efforts of sheer design and some luck muddled through into its natural stage of Growth in 2012. The interview guide sought responses on the vision of the business for the future. From the responses received from the interviewees, it was clear that ManHussein and Associates limited in Kenya had concrete, feasible and cost – effective plans for the future growth and sustainability of the Company. From the respondents' answers, however, the Company attempts to selectively focus on Islamic finance, Social and Environmental friendly investment Company.

The company wants to grow its asset base to well over Twenty Million Kenya Shillings by end of 2014 and this growth can be achieved through superior returns and prudent management of its investment portfolio. The Values and mission of the company is cascaded down to each employee and implemented on a daily basis. When formulating the strategic plan, the company evaluates both the macro-environment and micro-environment to identify the threats and opportunities posed to the Company and its investment mix. Based on the analysis of opportunities and or threats, the Company would then determine the appropriate strategies to adopt in response to these changes.

4.2.2 Environmental Changes

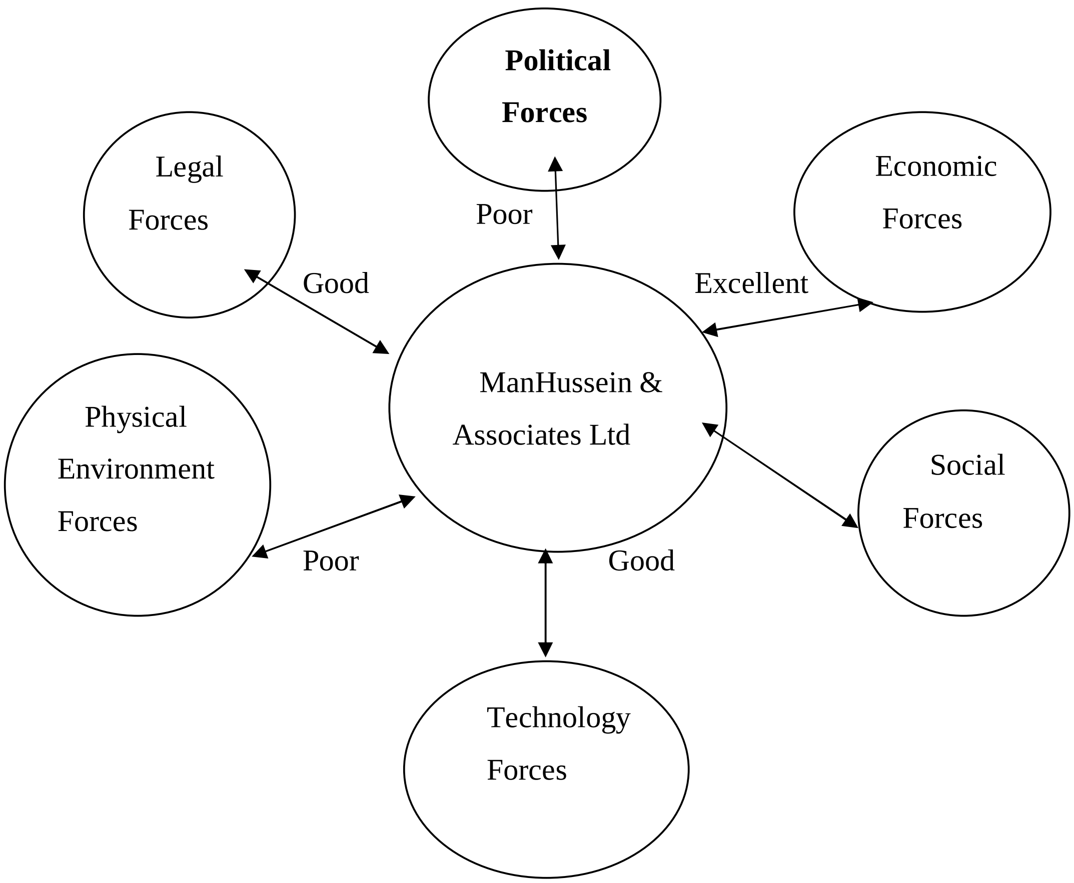
The study established that there had been many environmental changes slowing down the work and growth of the SMEs sector at large and in particular the Company. However, not all these changes have impacted ManHussein and Associates Ltd to a large extent. The following variables have impacted the company to a medium extent leading to the Company drafting strategic responses to address the changes. In the economic front, for example the high interest and inflation rates has discouraged the Company to borrow and reduced the company's profit margins respectively. In the legal framework, bureaucracies and corruption had and continue to pose its share of challenges to the Company.

In the fiscal environment the direct effect of fiscal environment on the work of the company are largely limited on the company and the companys response were to ignore it. The high unemployment or under-employment prevailing in the country continue to get in the way of the purchasing power; creating a low-income generation which leads to less involvement in investment and less consumption thus posing a risk and revenue losses to the Company in particular and the country at large. The company's responses to the 5 year economic cycle were viewed as exemplary and well above exceptions. The Investment Portfolio of ManHussein and Associates ltd were varied and realigned during the economic booms and busts. For example the Company divested from investments that were most affected by the deficits in the balance of payments and weaker Kenya Shillings and vice versa. It avoided the domestic companies when the Shilling weakens and invested in exported oriented companies and whenever, the Shillings strengthen, the Company looked at and invested in the domestic – oriented Companies. In the technological environment, the Company was operating with technologies that were obsolete due to improvements of technology, necessitating it to acquire new systems. In addition, the Nairobi Securities Exchange (NSE) has already automated its systems and linked it to the East African market. This automation has created opportunity but also posed a challenge. The Company is, as a consequence, forced to upgrade its systems.

In the social environment, Kenya is a youthful nation. Unfortunately, the majority of them are in the category of unemployment or under-employment. This causes a great challenge to the country as the reduced purchasing power, causes undesirable changes to lifestyles and preferences of the population. More and more people tend not to save and instead consume rather than invest. The crime rate and incidences of social upheavals are becoming high, interfering with the social order and the economy adversely.

In the political front, the new constitution enacted in 2010 has created a more stable and predictable environment where Companies can now comfortably take commercial risk rather than seek local and international guarantees. In the past, in Kenya, foreign investors, in particular, invested in the country on the basis of guarantees underwritten by the arms of Bretton Woods's institutions such as World Bank and IMF. However, due to increased and polarized political climate, holding of continuous political campaign rallies and party election skirmishes, businesses like ManHussein and Associates Ltd continue to experience a lot of challenges during such periods. The response of the company has been latent and in other instances allowed those forces just to fizzle out. However, in reality, they don't so the company needs to put in place measures to take into account in making decisions.

Figure 1. Assessment of ManHussein and Associates Ltd responses to environmental forces in Kenya.



Source: Based on analyzed data obtained from ManHussein and Associates Ltd

Of the six PESTLE elements assessed in figure 1 above, ManHussein and Associates Ltd scored highly in the economic factor; reasonably in the technological and legal factors; fair in social and poorly in the areas of political and physical environmental forces.

4.3 Strategic Responses

The following were the specific strategies the Company put in place in response to changes in the environment.

4.3.1 The Investment Business Model

In the small and medium business, the 5 stages of life cycle namely: Establishment; Growth; Expansion; Maturity and Decline which all including ManHussein and Associates Ltd might have not gone through sets the stage for reviewing a business model.. Not all small and medium businesses will succeed as a result of these stages. However, they are proven stages for small and medium business that are an important part of running a small business, whether from home or from a formal office.

Table 1: The History of Asset Allocation For ManHussein And Associates Ltd For The Period 2013 – 2014 28

ASSET CLASS	VALUATION AMOUNT 2013	%	VALUATION AMOUNT 2014	%
Quoted Equities	1,020,922.00	9%	779,440.00	4%
Unquoted Securities	734,250.00	7%	1,134,750.00	6%
Money Market Securities	6,000,000.00	53%	3,275,000.00	18%
Real Estate	3,500,000.00	31%	13,000,000.00	72%
TOTAL	**11,255,172.00**	**100%**	**18,189,190.00**	**100%**

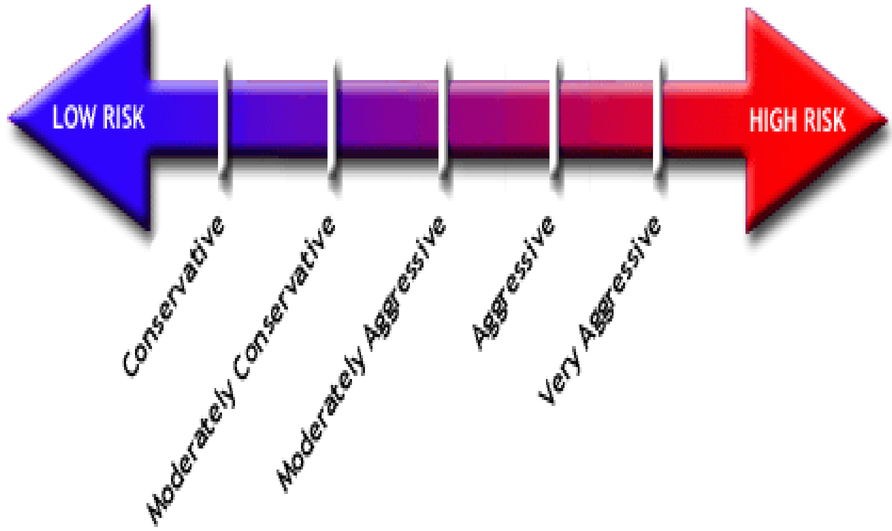
Source: ManHussein and Associates Ltd Annual Reports for 2013 -2014.

ManHussein and Associates Ltd has had a business model that is diverse and it constitutes of three (4) main elements. They are: investing in quoted securities and once it unlocks this investment, the Company then invests on short term basis in the money market. And depending on the accumulation of sufficient funds in the money market, the Company then decides to purchase appropriate apartments and or REITs units available in the market to add and grow its portfolio of Real Estate. It follows a well defined asset allocation strategy.

4.3.2 An Analysis of ManHussein and Associates Ltd Asset Allocation Strategies

Asset allocation is the strategy of dividing your investment portfolio across various asset classes like stocks, money market securities and REITS – Real Investment Trusts. Essentially, asset allocation is a deliberate, organized and effective method of diversification to address systemic market risks. Diversification is a strategy that can be neatly summed up by the timeless adage "Don't put all your eggs in one basket." The strategy involves spreading your money among various investments in the hope that if one investment loses money, the other investments will more than make up for those losses. Options typically fall within four classes - stocks, bonds and cash and REITS. Within these four classes are also subclasses (the variations within each category). Asset allocation as a fundamental investing principle is critical for the business of ManHussein and Associates Ltd because it helps it maximize profits while minimizing risk. The different asset allocations strategies shown below cover a wide range of investment styles, accommodating varying risk tolerance, time frames and goals commensurate with the nature and profile of risk appetite pursued by the Company.

Figure 2: Schematic Appetites for Risk



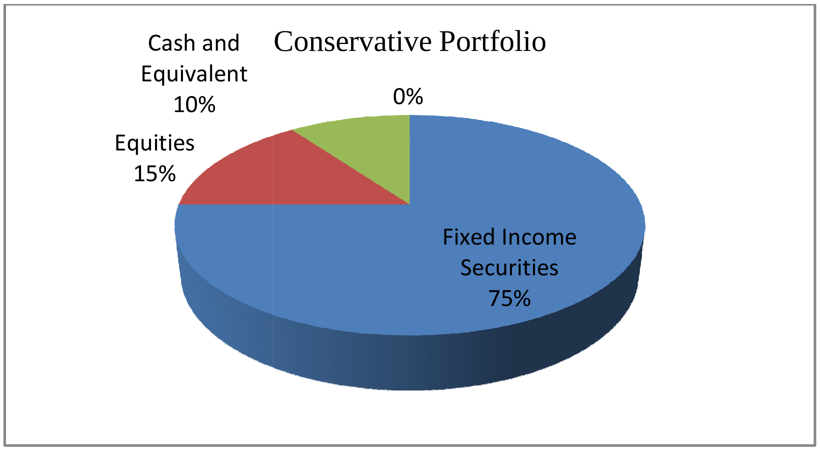
Source: Adapted from Shauna Carther – Achieving Optimal Asset Allocation www.investopedia.com

4.3.3. Conservative Portfolios Construction.

Conservative model portfolios generally allocate a large percent of the total portfolio to lower-risk securities such as fixed-income and money market securities. The main goal of a conservative portfolio is to protect the principal value of your portfolio (the money you originally invested). As such, this model is often referred to as "capital preservation portfolios".

Even if the Company is very conservative and prefer to avoid the stock market entirely, some exposure can help offset inflation. The Company could invest the equity portion in high-quality blue chip companies, or an index - fund, since the goal is not to beat the market. ManHussein and Associates Ltd Investment Portfolio do not strictly fall under this category for it shows significant exposures in both Quoted and Unquoted securities.

Figure 3: The Structure of a Conservative Portfolio

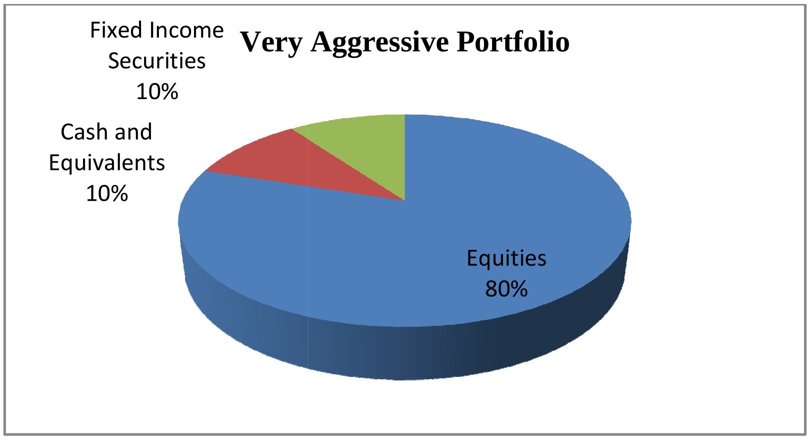


Source: Adapted and modified from Shauna Carther - Achieving Optimal Asset Allocation – www.investopedia.com

4.3.4. Very Aggressive Portfolio Construction.

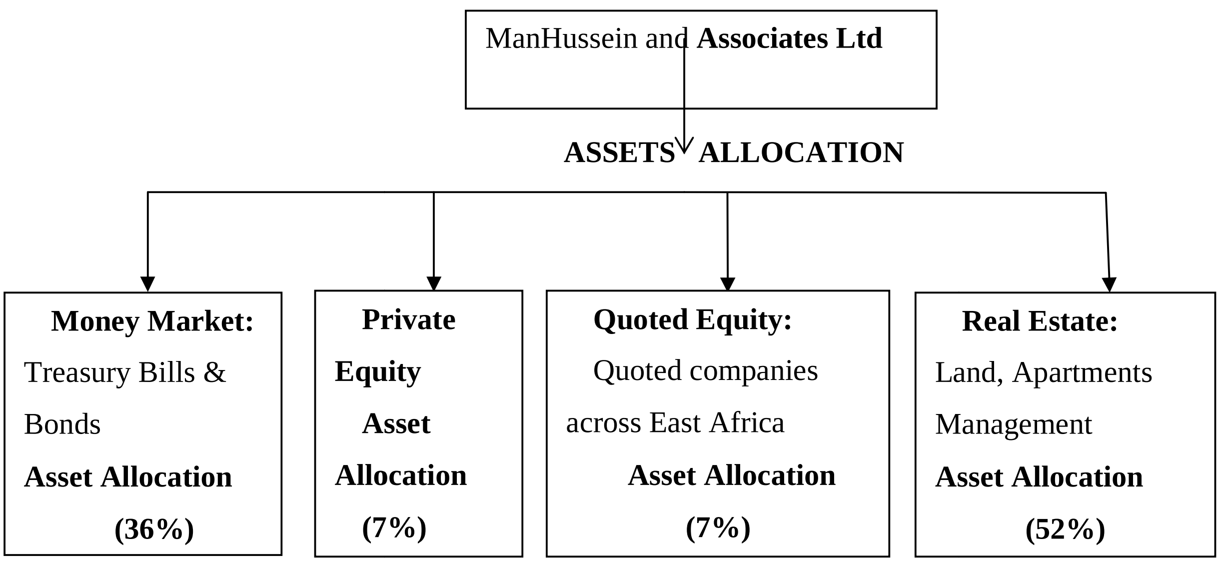
Very aggressive portfolios consist almost entirely of equities. As such, with a very aggressive portfolio, the Company's goal is aggressive capital growth over a long time horizon. Since these portfolios carry a considerable amount of risk, the value of the portfolio will vary widely in the short term. This cyclic representation above illustrates a very aggressive model of Portfolio construction and management. For all purposes Man Hussein and Associates Ltd model of investments seems to be very shy as shown below.

Figure 4: The Structure of a Very Aggressive Portfolio



Source: Adapted and modified from Shauna Carther – Achieving Optimal Asset Allocation By www.investopedia .com

Figure 5: The Diversification Investment Portfolio and Model Of ManHussein And Associates Ltd



Source: ManHussein and Associates Ltd Annual Reports for 2013 – 2014.

Given the Company's products differentiation strategy, it is able to better position itself to respond to the changing environmental forces that affects it. The researcher found that the Company adopts a “niche marketing” strategy, where according to the respondents the main focus of is to invest in acceptable Shariah compliant investments. The respondents lamented that though difficult, the Company does screening of the securities in order to better advise clients on the appropriate investment.

As illustrated in Figure 5 above the Investment Portfolio of ManHussein and Associates Ltd considered for the period 2013 and 2014 is heavily skewed and weighted in Real Estate and Money Market securities. Even then, it has pursued a moderately conservative model of investment not avoiding the Equities market at all. Both the Money Market securities and Real Estate Investments classes taking the lion’s share of 52% and 36% respectively. The other remaining two classes for which records for the period existed together taking a paltry 14 percent only.

4.3.5 Information System Change

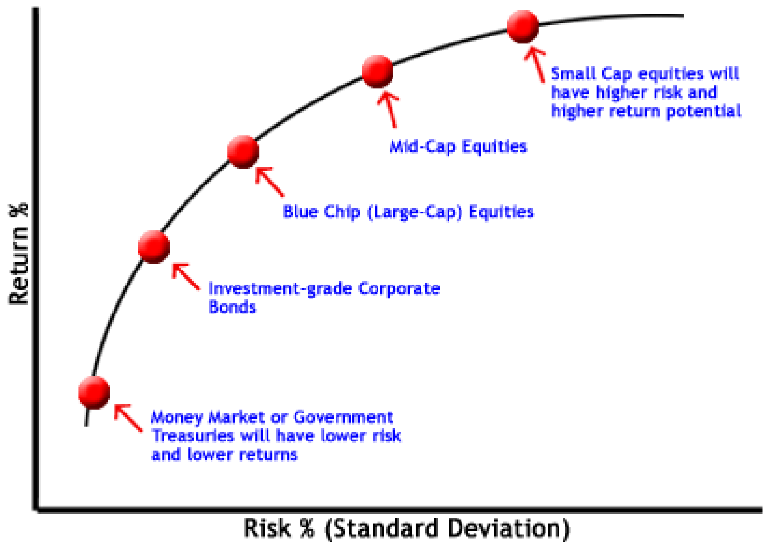
With a lot of technological shifts and a recent introduction of a paradigm shift where the Nairobi Securities Exchange automated its operation, the Company has to continuously adapt and adjust to undertake its business. This affects ManHussein and associates limited in several ways: as it has to adapt to the improving technologies to be relevant in the market place and keep up with its competitors in the advantage industry. Technology has also helped ManHussein and associates limited in its communication endeavours through the introduction of intranets and extranets in addition to the bulk of message applications.

It was found out that ManHussein and associates limited finds these technologies helpful. Internet has brought in speed in the encoding section; calculation of portfolio returns, timely profits and loss knowledge has also been enhanced. However, the technology also poses a threat to the Company, as the respondents pointed out that with the advancement of technology and e-commerce, businesses have to fear the threatening technological environment of hacking, cyber-crimes and theft of identity. The Company has counteracted and continues to mitigate by investing in security systems that safeguard the information, processes and systems of the business. The cost of the security systems has eaten into the revenue of the business.

4.3.6 Risk Management

In the business world the gem is to take risks but manage it prudently. It is about maximizing return, minimizing and managing Risk. The risks comprise of systemic and unsystematic risks. The first is to do with the market and the offerings of the products and services of enterprises. This is managed through a diversification process. The latter, which has nothing to do with the market operation and product and service offers, is considered as constraints that the Company had to contend with as unavoidable constraints affecting the business. The main goal of allocating your assets is to minimize risk given a certain expected level of return. Of course, to maximize return and minimize risk, you need to know the risk - return characteristics of the various asset classes. Figure 6 compares the risk and potential return of some popular choices:

Figure 6: Risk Profiles Of Various Assets Classes



Source: Adapted from Shauna Carther – Achieving Optimal Asset Allocation By www.investopedia.com

Equities have the highest potential return, but also the highest risk. On the other hand, Treasury bills have the lowest risk since they are backed by the government, but they also provide the lowest potential return. This is what is often referred to as the risk – return tradeoff. It should be kept in mind that high risk choices are better suited for investors who have a high risk - tolerance (can stomach wide fluctuations in value), and who have a longer time horizon to recover from losses.

It is because of the risk-return tradeoff - which says that potential return rises with an increase in risk - that diversification through asset allocation is important. Since different assets have different risks and market fluctuations, proper asset allocation insulates the entire Company portfolio from the ups and downs of one single class of securities. So, while part of the Company's portfolio may contain more volatile securities - which you've chosen for their potential of higher returns - the other part of the Company's portfolio devoted to other assets remains stable. Because of the protection it offers, asset allocation is the key to maximizing returns while minimizing risk. In this context ManHussein and Associates Ltd risk and return appetite and management lies somewhere in the middle of risk – return tradeoff. In other words, the Company gives adequate priority to the preservation of Capital while at the sometime seeking market rate returns for its portfolio of Investments.

The researcher also realized that the company's investment operations are financed by a mix of internally generated funds and debt. The respondents also stated that their risk management strategies, where their main strategy and tact is to manage rigorous investment portfolios; diversification of investments and managing internal controls. According to the three Managers interviewed, the Company has well established risk management system in place and continues to position itself in the market to a large extent. This is evidenced in the manner and quality of investment advice and services it has been able to procure and implement. It was found out that the Company continues to position itself as need arises. To a small extent, however, the mobilization of financial resources, given its reliance on non interest funds continue to pose challenges for rapid growth.

4.3.7 Responsive structure change

The brisk nature of the external environment endlessly forces the Company to adapt. The researcher found out that ManHussein and Associates Ltd have adopted a structure that responds rapidly. This is done through learning and responding speedily by optimizing the open flow of information; encouraging experimentation and learning on rapid cycles; and organizing a network of employees, customers, and partners motivated by shared purpose. ManHussein and Associates Ltd have adopted a flexible and sometimes fluid organizational structure to support its analysis and decision making functions.

This responsive structural change has enabled the Company to quickly respond to the changes in the environment and better utilise its internal resources for the attainment of its overall business objective. The flexibility of the organization has enabled the company to better respond, empower and create efficiency in the Company. The Company needs to network with licensed investment bankers and stock broking enterprises in order to share notes and lessons of the best and viable companies to invest in for short, medium and long term investments.

As a small Company, ManHussein and Associates Ltd, has the advantages of a faster and flexible response to the environmental forces impeding its businesses than its counter big Companies whose decision – making processes goes through various layers of analysis and review prior to its implementation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1: Introduction

The study set out to identify changes in the external environment that had affected ManHussein and Associates Ltd and the strategic responses that the Company had put in place to deal with these changes. The study made use of both primary and secondary data. Primary data were sought from the Directors and Management of the Company. Secondary data, on the hand, were collected from the Annual Reports of ManHussein and Associates Ltd for the period 2013 – 2014; Relevant Journals, newspapers, websites and in house publications. Primary data was collected through personal interviews with the Management of the Company.

5.2 Summary of the findings

The study recognized that in coming up with strategic plans; ManHussein's executives would consider the external environmental changes and the nature and scope of competitive pressures posed to the investing business. The study further established that the following variables had impacted ManHussein to a large extent and thus influenced the Company's strategic responses. In the political and legal environment the key variable had been the excessive political noises in both the Central and Counties government on resource allocation; increasing corruption incidences among the elected Leaders; ethnic exclusion in government and development and the Referenda debates to change the newly promulgated Constitution.

In the technological environment the rates of obsolescence and new technological developments had played a major role. In the economic environment key variables had been in the Fiscal, Macro and Micro polices and Plans of the Kenya Government. In particular, the reintroduction of Capital Gains Tax; the deteriorating position of the balance of payments; dwindling exports earnings; excessive imports of consumer goods and service available locally and the concomitant weakening of the Kenya Shillings. In the social environment, the key variables had been gender issues, lifestyle changes, and income distribution. In the physical environment key challenges had been the growing changes in climate patterns and expanding droughts. While in the competitive environment the key challenges had been the limit availability of opportunities to increase market demand and purchasing power of the population, In addition the study established that ManHussein and Associates Ltd had put in place strategies to address the environmental changes. Key strategies that the Company had employed include: product differentiation, risk management, information systems change and structural changes.

5.3 Conclusion

ManHussein and Associates Ltd had to endeavour to employ a wide range and appropriate mix of strategic responses in various facets of the business in order to cope with environmental changes. Distinct among them are the concepts of asset allocation strategies; determining the risk – reward tradeoff for the Company; deliberately applying moderately aggressive diversification models for the construction and management of its Investment Portfolio; innovation; Integration; Divesture and Liquidation of Investments in non – performing businesses and or unlocking Investments where the optimal growth is reached. They are all clearly complaint to the strategic responses suggested by Pearce and Robinsons (1991) where the defined strategic responses as the set of decisions and actions that results in the formulation and implementation of plans designed to achieve the firm's objectives.

In addition, the Company primarily and strategically relies on other strategies such as outsourcing and sharing services with its Bankers and Investment Brokers. ManHussein and Associates Ltd are well poised now, given its stage of development to moderately and aggressively rebalance and pursue a strategic growth path for its Investment Portfolio.

The Company still needs to engage in strategic planning in order to mobilize both Equity based and borrowed funds to realize its growth journey. It also requires continuously monitoring changes in the environment and putting in place sound strategic responses to address and mitigate the changes. This answered one of the key questions posed by the study, which was whether strategy was important for a Company that had managed to grow. From the findings of the study therefore, strategy was still important for a Company that had reached a landmark stage for robust growth. This was because environmental changes could still drive the Company out of the market and force it to wind up. Hence, environmental vigilance, monitoring and strategic responses to environmental changes are a life threatening issues for the company.

5.4 Recommendations

Barely a small Company only 18 years old, ManHussein and Associates Ltd has managed to weather the toddler stage associated with small Companies at their infancy stage one - establishment and product and service offerings to the market place. The Company is now in the enviable stage of growth. During this stage lots of resources in the form of both human and financial has to be mobilized to fund and support the energetic and robust growth opportunity fate has laid before ManHussein and Associates Ltd.

The Company has to take on more Employees and strategically source for appropriate financing of its growth opportunities. The environmental forces are optimistically in favour of the Investments it had continued to pursue. There are great resources in the East Africa region such as oil and gas and infrastructural and infostructural development required to support the potential leapfrog economic growth of the region.

A robust rebalancing of the Investment Portfolio of the Company is in order to strength the diversification and optimization of returns for the Company. The Company also needs to do more to hunt and package islamically complaint vehicles of Investments.

The company needs to adopt a too prone investment policy. The first policy is to anlayse the fundamental macro-economy and identifies the driving sector of the economy and invests in those sectors. Analyse the micro-sectorial performance and invest in the companies that are involved in those sectors, for example, where the government is heavily investing n infrastructure then the company should invest in companies that support provided goods and services in the infrastructure areas such as, Kenya power, cement factories etc. where balance of trade is negative, and the shilling is weak, the company should identify and invest in export oriented companies such as tea and coffee, horticulture and tourism.

5.5 Limitation of the study

The findings of this research were limited due to some factors arising in the course of the study. The biggest challenge was in a massing adequate data as the Company was relatively small and had only 3 Directors. The time available for this study was also limited and especially in data collection considering the interview method of data collection. The other challenge was on accessing comprehensive and elaborate data for better analysis, tabulation and interpretation. Lastly, but not the least this study focused on the directorate of the Company only while the views and opinions of the other Company's stakeholders such as Employees, Shareholders, Customers, Suppliers etc were not sought. In part deliberate but it would have been proper, however, to gauge the implementation of strategic responses to the environment from the other perspectives other than only from the leaders of the Company. The findings of this study are therefore limited to the views, opinions and persuasions of the three Directors of the Company.

5.6 Suggestions for further research

The study focused entirely on ManHussein and Associates Ltd responses to environmental forces affecting it. These environmental changes, invariably, affects all Small and Medium companies in the industry and sometimes without exception all Companies within a given location. In order to comprehend and understand, the nature and scope of suitable strategic responses possible for these changes, further studies could be carried out in the other similar companies like ManHussein and Associates Ltd are affected by the same environmental changes.

Different Small and Medium Companies are heterogeneous and are known to apply run of the mill survival tactics and responses to environmental changes in dissimilar ways. ManHussein and Associates Ltd had particularly applied the strategic responses identified in this study. Nonetheless, it is helpful to undertake a rather more detailed research into the financial and managerial aspects of the Company and their relationship and linkage with the manner of existing documented knowledge. This would focus on the strategic responses available and how they impede and or facilitate the other strategic responses of maximizing return and minimizing Risk. On the other hand, further studies could be carried out on ManHussein and Associates Ltd to identify whether or not the Company would alter its strategies in what ways and in relation to other changes in the environment in future.

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APPENDIX I: INTERVIEW GUIDE

SECTION A: GENERAL INFORMATION

1. What is your name?
2. How old are you?
3. Which position do you hold in the company?
4. How many employees work in the company?
5. Which type of products does the company manufacture or which services does your company offer?
6. How long has the Company been in operation?
7. How much is the total annual revenue of the company?
8. Do you have audited accounts?

Section B: Strategic Responses to Environmental Forces

1. Does your business have a vision for the future?
2. Do you regularly review your strategies? Please explain briefly.
3. Please describe how the following factors have affected your company and how you responded to the factors:

a) Economic

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b) Political

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c) Social

----

d) Technological

----

e) Physical environment

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f) Legal

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4. How do you rate your responses to the following factors:

   a) Political Forces:

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

   b) Economic Forces:

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

   c) Social Forces:

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

   d) Technology Forces:

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

   e) Physical Environment:

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

   f) Legal Forces

      Poor ( )   Fair ( )   Good ( )   Excellent ( )

5. How does the company strategically manage its risk and return tradeoffs?

   …………………………………………………………………………………

   …………………………………………………………………………………

   ………………………………………………………………………………….

6. What is your policy and strategy on asset allocations?

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