

**CHALLENGES FACED BY AGRICULTURAL FINANCE CORPORATION-
KENYA IN THE IMPLEMENTATION OF STRATEGIC CHANGE**

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DECLARATION

This is my original work and has not been presented in any other university or college for examination purpose.

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The project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate this project to my family for their support and encouragement towards the completion of this study.

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Many thanks to the almighty God for his grace and energy to complete this research project in time.

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ABBREVIATIONS AND ACRONYMS

AFC	Agricultural Finance Corporation
ERC	Economic Recovery Strategy
DFI	Development Finance Institution
MSMEs	Micro, Small and Medium Enterprises
CSR	Corporate social responsibility
SMET	Senior Marketing Executive Team
HOD	Heads of Department
KSB	Kenya Sugar Board
NIB	National Irrigation Board
BSC	Balanced Scorecard

ABSTRACT

The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. The objective of this study therefore was to establish the challenges faced by Agricultural Finance Corporation in the implementation of strategic changes and how the corporation has responded to those challenges. This was done using a case study and data was collected from the managers of the corporation through an interview guide. The senior managers were the target since they are better placed to provide information the researcher was interested in. The data obtained from the interview guide was analyzed using content analysis. From the findings, all the managers are aware of the overall business strategy of the corporation and are involved in its implementation. This shows that the management is committed to the strategic direction itself and this is the most important thing when implementing a strategy. It was found out that the major challenge Agricultural Finance Corporation faces is the poor strategy implementation. Despite the well layout strategies, no team is charged with the implementation of the strategies. Formulated strategies may fail if implementation is not effectively and efficiently done. Without proper implementation, even the most superior strategy is useless. The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. Most managers had a feeling that there is need to involve the employees who are directly and critical to strategy implementation during formulation of the strategies. This is to ensure that implementation is done in accordance with the objectives of the strategy formulation. Failure to involve implementers at the formulation stage has been a major problem that cannot be ignored. In most cases where strategies fail, implementers did not have an input at the formulation stage. Another challenge Agricultural Finance Corporation faces is communication of their strategies to the staff. From the respondents, some members of the staff are not aware of the corporation strategies. Even though studies point out that communication is a key success factor within strategy implementation, communicating with employees concerning issues related to the strategy implementation is frequently delayed until the changes have already crystallized. It is important to institute a two-way-communication program that permits and solicits questions from employees about issues regarding the formulated strategy. The processing of loan in Agricultural Finance Corporation takes long of up to three months compared to other financial providers. This has led to many farmers seeking financial services from other lending institution thus reducing the customer base of the corporation. Agricultural credit delivered through AFC faces challenges like: policy environment, operational prudence and poor lending practices. The study concludes the since Agricultural Finance Corporation operates in a complex and a highly regulated environment, it must improve efficiency in loan processing, capacity building to handle the dynamic environment through training of the managers and seminars to share experience, employment of new technologies and staff motivation. The study recommends that formulation and implementation need the involvement of employee in all the stages from strategy formulation to implementation, evaluation and monitoring of strategy implementation and to link performance to a reward system.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Strategic change management is the use of systematic methods to ensure that an organization change can be guided in the planned direction, conducted in a cost effective manner and completed within the targeted time frame and with the desired results (Davis and Holland, 2002). Kotter (1995) argues that guiding strategic change may be the ultimate test of a leader. No business survives over the long time if it can't reinvent itself. However, fundamental change is often resisted mightily by the people it most affects: those in trenches of the business. Thus managing and leading strategic change is both absolutely essential and incredibly difficult. He further argues that over the past decade that he has watched more than 100 companies try to make themselves into significantly better competitors. Kotter says that a few of corporate strategic change efforts have been very successful; a few have been utter failures and that most falls somewhere in between, with a distinct tilt toward the lower end of the scale.

According to Cummings & Worley (2001) the paced global, economic and technological development makes change inevitable feature of organizational life. Burnes (2004) argues that change is a constant feature of organizational life and that the ability to manage it is seen as a core competency of successful organizations. Arthur D. Little and McKinsey & Co. have studied hundreds of organizations that have entered into change initiatives and have found that two thirds fail to produce the results expected.

The survival of organizations depends on their ability to change, and Agricultural Finance Corporation (AFC) is no exception. AFC has initiated a number of strategic changes at different levels within the Corporation which stemmed from government policy, globalization, technological advancement, government rules and regulations, customer preferences and competition. It is believed that AFC faces various challenges in implementing their strategic change and therefore the need to conduct this particular study on the challenges faced by AFC in implementing these strategic changes.

1.1.1 The Concept of Strategy

According to Johnson & Scholes (1999) strategy is the direction and scope of an organization over a long-term which achieves advantage for the organization through the configuration of resources within a changing environment to achieving the objective of meeting the needs of markets and to fulfill stakeholders' expectations. Quinn (1980) believes that the strategic process which allows for strategies to emerge, allows organizations to respond more effectively to the changes in the environment. Managers need to take into consideration the situation of change for the organization. As the environment and market conditions changes with time, organizations need to formulate new strategies for it to remain competitive.

Pearce & Robinson (1991) define a strategy as a set of decision and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. He states that a strategy is a game plan which result in future oriented plans interacting with the competitive environment to achieve the company's objectives. This means in order to formulate suitable strategies, top management must consider all aspects of dynamic environments and understand the needs to take the future into account and

establish capable strategy to deal with the change that are taking place in the environment to meet company's objective.

Mintzberg (1987) defines strategy with a variety of views; as a plan, ploy, pattern, position and finally as a perspective. Strategy as plan, it's some sort of consciously intended course of action, a guideline to deal with a situation. It deals with how leaders try to establish direction for organizations, while as ploy it takes us to the realm of direct competition; maneuver intended to outwit an opponent or competitor to gain competitive advantage. As a pattern strategy focuses on a stream action that is consistent in behavior and is a key to achieving organizational goals. Strategy as a position encourages organizations in their competitive environments in order to protect, avoid or subvert competition. Strategy as a perspective is an ingrained way of perceiving the world.

Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. From the foregoing, strategy is both a goal-setting process, and a process for planning for the actions and resources needed for the attainment of these goals. This way, strategy can be seen as a clear articulation of where a firm wants to be, its vision and what needs to be done, or the means to reach it.

1.1.2 Strategic Change

Strategic change involves fundamental changes in the business of the organization and its future direction; it is long term in nature, affects the entire organization and aims at achieving effectiveness. Operational change on the other hand is short term in nature, affects sections of the organization and focuses on efficiency. Purpose of strategic change is to ensure that organization is heading in the right direction. Strategic change is

necessary for the transformation of the organization so as to align with the execution or implementation of a chosen corporate business strategy. The value of any strategy and its potential contributions include increasing productivity, reducing costs, growing profits, increasing the market share and improving service or product quality.

Managing strategic change is about managing the unfolding non-linear dynamic processes during strategy implementation (Hardy, 1994). Management of strategic change therefore, is how to create conditions that make proactive change a natural way of life. As the environment change organizations need to also change their strategies in order to achieve a strategic fit. A strategic fit developed by identifying opportunities in the environment and adapting resources and competencies so as to take advantage of them is essential and must be maintained at all times for organizational success (Johnson and Scholes,1999).

Strategy enables organizations to cope with environmental challenges as it matches resources and activities of the organization to the environment in which it operates. Strategic change therefore is seen as a process of moving an organization away from its present state towards some desired future state to increase its competitive advantage (Hill and Jones, 2001). Strategic Change has gained tremendous attention in recent years. During the 2000's there have been extreme changes in the competitive forces in the global and domestic markets. These changes have greatly affected the management of businesses in Kenya. Therefore, effective strategic change management has become essential for the survival of any organization in Kenya (Omari, Ateka, and Nyaboga, 2013).

1.1.3 Challenges in the Implementation of Strategic Change

The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. The key challenge for today's organizations are many and the factors that influence the success of strategy implementation, range from the people who communicate or implement the strategy to the systems to the mechanisms in place for co-ordination and control (Yang et al, 2008). Among the challenges are: strategy formulation, organization structure, organization culture, changing environment, operation planning, poor communication, resource allocation, and poor execution.

Another issue influencing the study of strategy implementation is the perspective one has on strategy (Mintzberg, 1978). Wessel (1993) stated clearly that most of the individual barriers to strategy implementation that have been encountered fit into one of the following interrelated categories: too many and conflicting priorities, the top team does not function well; a top down management style; inter functional conflicts; poor vertical communication, and inadequate management development. These categories can be translated into the following problems: competing activities distracted attention from implementing this decision, changes in responsibilities of key employees were not clearly defined, key formulators of the strategic decision did not play an active role in implementation and problems requiring top management involvement were not communicated early enough.

1.1.4 Agricultural Finance Corporation

Agricultural Finance Corporation (AFC), is a wholly owned Government Development Finance Institution (DFI), that was established in 1963 initially as a subsidiary of the Land and Agricultural Bank (<http://www.agrifinance.org>). In 1969, it was incorporated as a full-fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya. It was then tasked with assisting in the effective and peaceful transfer of land to indigenous farmers, as well as injecting new capital to farm owners to spur development. After successful implementation of this task, AFC was further reconstituted in 1969 to assume a wider mandate by taking over the functions of the Land and Agricultural Bank of Kenya. Today the institution remains the leading Government Credit institution mandated to provide credit for the sole purpose of developing agriculture. This role is crucial given that agriculture is the mainstay of the Kenyan economy where 80% of the Kenyan population which is rural based relies on agriculture as their main support system.

The AFC Act gives it a broad mandate covering the entire depth and breadth of the agriculture sector. In line of achieving its vision, and mission, AFC has provided cheap and affordable agricultural credit through an expanded branch network of forty three branches and development of quality, affordable and accessible financial products and services tailored to meet diverse and exclusive needs of Kenyan farmers in line with mission and achievement of Kenya's Vision 2030 (<http://www.agrifinance.org>).

1.2 Research Problem

Business organizations depend on the environment that is becoming increasingly becoming uncertain and complex for their survival. Organizations are therefore required

to take proactive measures by planning in advance so as to incorporate changes as they evolve in the ever changing environment (Bryson, 1995). To do this, they need to convert their strategies into actions (Porter, 1985). Implementing strategies successfully is very important in any organization. The way in which the strategy is implemented can have a significant impact on whether it will be successful (Thomson, 2007). The process of strategy implementation is challenging and most organizations fail not because they had a bad strategy but how the strategy was executed. The challenges in strategy implementation must be anticipated, assessed and incorporated into the management's decision-making process (Pearce & Robinson, 2003, Sababu, 2007; Ansoff, 1988).

AFC is one of the most successful government parastatal operating since 1969 (<http://www.agrifinance.org>). However, the corporation has had to contend with numerous challenges. Recently, the strategic partnership of nine years between AFC and Kenya Sugar Board, KSB ended. This move followed reports of inefficiencies and strict guidelines by AFC. "AFC's guidelines and rules are rigid and as a result, many farmers who do not have title-deeds as collateral end up missing on loans," said KSB executive officer Rosemary Mkok. "We need a lender who will come on board with innovative ways that will attract farmers to take loans from their entities rather than scaring them away," she said. The State agricultural lender has been insisting on title deeds as collateral for loans and strict timelines on loan repayment. Since farming has become a business adventure, many farmers belong to third or fourth generation and may not be able to possess a title-deed. The above concerns highlighted shows that AFC faces many challenges in implementing their strategies and that is not responsive to the environment in which it operates.

Several studies have been done on the challenges of strategy implementation. Al-Ghamdi (1998) carried out a research on the extent to which strategy implementation problems recurred at Saudi Arabian Petrochemical Industry. He found out that the challenges are caused by poor strategy implementation. According to a study by Michael Beer and Russell A. Eisenstat (2000), challenges of strategy implementation are top-down or complacent upper management, unclear strategy and conflicting priorities, ineffective senior management team, poor vertical communication, poor coordination across the enterprise and inadequate middle-manager and supervisor management skills. Ayuma (2010) carried out research on challenges of strategy implementation at Ecobank Kenya Limited. She found out that the challenges are caused by the inadequacy of information systems used to monitor strategy implementation.

King'ola (2011) carried out research on challenges of strategy implementation at Geomax Consulting Engineers (GCE). He found out that the challenges are caused by conflicting priorities in the implementation, political influence, legislation and corruption. Mbindyo (2011) carried out research on challenges of strategy implementation at Kenya National Audit Office (KENAO). He found that the challenges ranged from: resistance to change, finance, communication of strategies and lack of training. Essajee (2011) carried out research on challenges of strategy implementation at First Community Bank. He found out that the challenges ranged from: lack of awareness of the products in the market, customer perception, shortage of trained staff about Islamic banking, Insufficient legal protection governed by the Companies Act in Kenya banking industry.

Researchers have carried out studies on AFC. Nyanumba (2012) carried out a research on determinants of performance of loans of agro-based financial institution with a focus on

AFC and found that new clients are less likely to default. The age of the borrower showed a positive influence on the probability of default. Older borrowers would experience higher default rate. Echoka (2011) carried out a research on determinants of agricultural credit performance at AFC and found out that agricultural credit delivered through AFC faces challenges like; policy environment, climate, market, socio-economic risks, interest rates charged, operational prudence and poor lending practices. Shitakha (2008) carried out a research on the relationship between performance contracting and performance of state owned enterprises with a focus on AFC and found that performance contracting has not worked for the Corporation. AFC does not totally conform to the conventions of a business concern. The performance of the corporation is affected by factors including political influence and government imposed policies which the Corporation cannot easily negotiate. However, no study has been carried out on challenges faced by AFC in implementing strategic change.

The above studies were carried out in privately owned banks whose mode of governance is different from government owned agencies. This study is different in that it focused on AFC which is a government owned entity. The researchers studied challenges faced by banks in implementing the strategy and not challenges faced in implementing strategic change. Therefore, in this study was meant to fill the research gap that existed by carrying out a case study on the challenges faced by AFC in implementing a strategic change. The study sought to answer the question: What are the challenges faced by AFC in implementing strategic change?

1.3 Research Objective

To establish the challenges that AFC faces in the implementation of strategic change.

1.4 Value of the Study

The study is important to AFC and was aimed at helping the managers and decision makers understand the challenges they face in implementation of the strategic change and how to overcome them. The study findings was to enable AFC re-evaluate the success of their strategic change implementation and if not, which phase to improve upon. It will help the corporation in developing policies, realigning their strategies to meet the emerging challenges and expectations brought about by the need to achieving vision 2030. The study was to help managers in other organizations to understand the subject of strategic change and challenges in the implementation of the strategic change thus making it easier for them to manage their organizations efficiently.

The study was also to add to the body of knowledge and provide reference material for future researchers on related topics. The results of this study will also be valuable to researchers and scholars, as it will form a basis for further research. The study was to highlight other important relationships that require further research. The study was to be useful to the academicians and researchers in the field of strategy implementation in guiding on any future related studies and as a resource for reference.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In an ever-changing global economy, Johnson and Scholes (2003) notes that organizations must find ways for operating owing to environmental changes. Rose and Lawton (1999) observes that changes in the service institutions arise out of the need for efficiency, economy, effectiveness, performance evaluation ethics and market concerns. Rising demand for services and expectations of quality of those services have placed extreme pressure on managers and their organizations, depicting change as a continuous episode in the life of corporations.

There has been pervasive change in the Kenyan economy, as business organizations operate in a dynamic, turbulent and constantly increasing competitive environment. Due to this turbulence organizations need to adapt and respond appropriately (Pearce and Robinson, 2003). This also implies that future survival of organizations is not guaranteed unless they can adapt to the changes presented in the environment. The biggest challenge for managers is how they can cope with the dynamism in the environment given the constraints, challenges and threats they face. Change has become an enduring feature of organization life (Burnes, 2000, Rose and Lawton, 1999).

2.2 Theoretical Foundation

The theories or models in which the research was anchored include; Lewin's change model, Action Research change Model and the Kotter's eight stage change process model.

2.2.1 Lewin's Change Model

Lewin (1951) introduced one of the earliest models of planned change known as the three step-change model. According to Lewin, change is as a result of modification of those forces keeping a system's behavior stable. Specifically, a particular set of behaviors at any moment in time is the result of two groups of forces: those striving to maintain the status quo and those pushing for change. When both sets of forces are equal, current behaviors are maintained in what Lewin termed as a state of "quasi-stationary equilibrium." To change that state, one can increase those forces pushing for change, decrease those forces maintaining current state, or apply some combination of both (Cumming and Worley, 2005).

A successful change project, Lewin (1947) argued that it involves three steps as shown in Figure 2.1 below.



Source: (Researcher,2013)

Figure 2.1: Lewin Change Model

Unfreezing: This step usually involves reducing those forces maintaining the organization's behavior at its present level. Unfreezing is sometimes accomplished through a process of "psychological disconfirmation". By introducing information that shows discrepancies between behaviors desired by organization members and those currently exhibited, members can be motivated to engage in change activities.

Changing: This step shifts the behavior of the organization, department, or individual to a new level. It involves intervening in the system to develop new behaviors, values and

attitudes through changes in organization structures and processes (Cummings and Worley, 2005).

Refreezing: This step stabilizes the organization at a new state of equilibrium. It is frequently accomplished through the use of supporting mechanisms organizational culture, rewards and structures.

Lewin's model provides a general framework for understanding organization change and can therefore be used to explain how different types of change can be implemented in an organization.

2.2.2 Action Research Change Model

The classic action research model focuses on planned change as a cyclical process in which initial research about the organization provides information to guide subsequent action. Then the results of the action are assessed to provide further information to guide further action, and so on. The interactive cycle of research and action involves considerable collaboration among organization members and practitioners. It places heavy emphasis on data gathering and diagnosis prior to action planning and implementation, as well as careful evaluation of results after action is taken (Cummings and Worley, 2005). According to Cummings and Worley (2005), action research was traditionally aimed both at helping specific organizations implement planned change and at developing more general knowledge that can be applied to other settings.

There are eight main steps in the action research model namely, Problem identification; Consultation with a behavioral science expert; Data gathering and preliminary diagnosis.; Feedback to a Key Client or Group; Joint Diagnosis of the problem; Joint Action Planning; Action and Data Gathering After Action(Cummings and Worley, 2005).

2.2.3 Kotter's Eight Stage Change Process

This change model was developed by John Kotter in the year 1996. Kotter (1996) argues that successful change of any magnitude goes through eight stages, usually in the sequence.

Although one normally operates in multiple phases at once, skipping even a single step or getting too far ahead without a solid base almost always creates problems. The steps are: establishing a sense of urgency, creating the guiding coalition, developing a vision and strategy, communicating the change vision, empowering a broad base of people to take action, generating short term wins, consolidating gains and producing even more change, and institutionalizing new approaches in the culture.

The first four steps in the transformation process help defrost a hardened status quo. If change were easy, you wouldn't need all that effort. Phases five to seven then introduce many new practices. The last stage grounds the changes in the corporate culture and helps make them stick (Kotter, 1996).

2.3 Strategic Change

Senge et al., (1999) refer to change as the way an organization adapts internally to the changes in the environment. In these senses, change is not something that just happens, but must be planned in a proactive and purposeful way to keep an organization current and viable (Robbins, 1990). Strategic change is the transition that results from the implementation of organization strategy. Strategic change is long term in nature, affects the entire organization and aims at achieving effectiveness. Strategic change involves not only deciding what to change but how and when to change specific elements of one's strategic orientation (Worley, Hitchin, and Ross, 1996). This change may be driven by

dramatic changes within the environment, declining organizational performance, or perhaps even both.

According to Worley (1996), the strategic change process encompasses four basic steps as follows: Step one: Strategic analysis - analysis of an organization's external environment, its current strategic orientation, and the degree of its effectiveness at meeting its objectives and mission; Step two: Strategy making - begins with the decision to change its vision and orientation in the future and includes defining the products and services to be offered, specifying the markets to be served, developing a position to be competitive in those markets, and assessing the underlying organizational processes and culture that will either enable or inhibit the change; Step three: Strategic plan design - defines how the change process will be logistically accomplished through sequencing and pacing in light of the prevailing culture as well as anticipated resistance; Step four: Implementation of the plan – transition to the new orientation which includes developing budgets and timetables. A desirable first step, which is preliminary to strategy planning and implementation, is to prepare the ground through a series of measures aimed at minimizing the start up resistance, marshalling a power base sufficient to give the change momentum and continuity, preparing a detailed plan for the change process which assigns responsibilities, resources, steps and interactions through which the change will be carried out and designing into the plan behavioral features which optimize the acceptance and support for the new strategies and capabilities (Ansoff and McDonnell, 1990).

Change can be classified by the extent of the change required, and the speed with which the change is to be achieved. These are summarized in table 2.1 below.

Table 2.1: Types of Change

		Extent of Change	
		Transformation	Realignment
Speed of Change	Incremental	Evolution: Transformational change implemented gradually through inter-related initiatives; likely to be proactive change undertaken in participation of the need for future change.	Adaptation: Change undertaken to realign the way in which the organization operates; implemented in a series of steps.
	Big Bang	Revolution: Transformational change that occurs via simultaneous initiatives on many fronts; More likely to be forced and reactive because of the changing competitive conditions that the organization is facing	Reconstruction: Change undertaken to realign the way in which the organization operates with many initiatives implemented simultaneously; Often forced and reactive because of a changing competitive context.

Source: <http://kfknowledgebank.kaplan.co.uk/Managingstrategicchange.aspx>

Table 2.1 above presents types of changes different organization undertake or undergo as shown above. The types are; transformational, realignment, incremental change and big bang. Transformation entails changing an organization’s culture. It is a fundamental change that cannot be handled within the existing organizational paradigm; realignment does not involve a fundamental reappraisal of the central assumptions and beliefs; incremental change can take a long period of time, but results in a fundamentally different organization once completed; and Big Bang change is likely to be a forced, reactive transformation using simultaneous initiatives on many fronts, and often in a relatively short space of time.

2.4 Challenges of Implementing Strategic Change

According to Galpin, (1998), organizations seem to have difficulties in implementing their strategies. The key challenge for today's organizations are many and the factors that influence the success of strategy implementation, range from the people who communicate or implement the strategy to the systems to the mechanisms in place for co-ordination and control (Yang et al, 2008).

Strategy formulation is an integral part of the overall strategic management process. According to Tan (2004) strategy implementation stage is the realization process of the strategy that has been developed in the formulation stage. Therefore, if the formulation stage is not done well, it will have a direct impact on the implementation stage, potentially becoming a challenge to implementation. Tan identified themes that can potentially be a challenge; poor understanding of the strategy, strategies being too complex, unrealistic expectation place on the implementation team and lack of commitment or buy in to strategy. There is also a tendency of having two groups' people for formulation and implementation. Hence, most of the people in the organization who are crucial to successful strategy implementation probably have little knowledge, if any, to do with the development of the strategy. Therefore, there is possibility that they are completely unaware of the effort and information that went into the formulation process (Al-Ghamdi 2005).

According to Raps (2004) strategy implementation processes frequently results in problems if the assignments of responsibilities are unclear. To add to this problem, responsibilities are diffused through numerous organizational units that tend to think in

only their own department structures. That is why cross-functional relations are critical to an implementation effort. Bureaucracy makes this situation even more challenging and can make the whole implementation a disaster.

Raps (2004) suggests that the top management's principal challenge in the cultural context is to set the culture's tone, pace, and character to see that it's conducive to the strategic changes that the executives are charged with implementing. When implementing strategy, the most important facet is top management's lack of commitment to the strategic direction itself. In fact, this commitment is a prerequisite for strategy implementation, so top managers have to show their dedication to the effort. Another challenge is the assumption made by top management. Senior executives must not assume that lower-level managers have the same perceptions of the strategic plan and its implementation, its underlying rationale, and its urgency. Instead, they must assume they don't, so the executives must persuade employees of the validity of their ideas.

Thompson (1993) observes that many organizations compete in uncertain, dynamic and turbulent environment where change pressures are continuous and changing. The biggest challenge to managers is the issue of how to cope with the dynamism in the environment given the constraints, challenges and threats organizations face. New opportunities and threats appear at short notice and require speedy response. This dynamism is a real challenge to strategy implementation. Hence, if there are significant changes in the environment, an organization needs to react to these changes or may find that the strategies that they want to implement may no longer be viable for the organization. This in itself makes environment uncertainty a possible barrier to strategy implementation.

Operational planning are set of actions usually concerned with addressing sequence of activities, allocation of resources and scheduling of work required for the implementation process. Johnson and Scholes (1999) point out the assumption that top management can plan strategy implementation at the top then cascade down through the organization is not tenable. It should be argued on how top management conceives strategies as not the same as how those lower down in the organization conceive them. Top managers often complain that their middle or operating managers lack the ability to implement strategies successfully. More often than not it is not the abilities of the managers; it is more likely to be a problem of poor middle management understanding and commitment to the strategy (Tan, 2004).

According to Raps (2004) Communication is a key success factor within strategy implementation. A common source of communication problems in implementation is that divergent functional perspectives may not be aligned with the overall strategy. Unless these issues are addressed, each area may interpret the plan with a lens of "How does my area win?" rather than "How does the organization win?". According to Noble (1999) the consensus about a company's strategy may differ across levels: If members of the organization are not aware of the same information, or if information passes through different layers in an organization, a lower level of consensus may result. This lack of shared understanding may create obstacles to successful strategy implementation. The availability of resources, in terms of staff, skills, knowledge, finance and time, is thought to be a crucial part of strategy implementation. Many executives underestimate the amount of time needed and don't have a clearly focused view of the complexities

involved when implementing strategies. Basically, it's difficult enough to identify the necessary implementation steps and even more difficult to estimate an appropriate time frame, so you have to determine the time-intense activities and harmonize them with the time capacity. Hussey (1988) argues that, it is imperative to ensure that the people who carry out the action have the skills and knowledge. Lack of adequate skills, knowledge and capabilities to implement the strategy can be an issue if the employees have incomplete understanding of the concepts they are trying to implement.

Human resource management plays an important role in strategy implementation and sometime strategy formulation. Major reasons why strategy implementation efforts failed is that people were conspicuously absent from strategic planning. Lack of understanding on how the strategy should be implemented is also one of critical challenge faced by organization. Although managers may assume that their implementation has been successful, frontline staff may encounter various issues which have been taken into consideration before the implementation phase. Furthermore, the problems that arise from unsuccessful implementation may only appear in the long run. This would cause undesirable consequences to the organization, whether they are of little or great impact (Sterling, 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research design, data collection and data analysis of the research.

3.2 Research Design

The research was conducted through a case study. Yin (2003b) defined case study as an “empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (pp13). Babbie (2004, cited in Vergert, 2010) defines a case study as an in-depth examination of a single instance of some social phenomenon. In this case the phenomenon that was studied is AFC.

The case study provides a good understanding of a certain phenomenon. It serves as a useful means of revealing an in-depth and extensive description of the topic under investigation. It puts more emphasis on a full contextual analysis of fewer events or conditions and their interrelation and the researcher has control over actual behavioral events. The case study aims at getting detailed information and understanding the challenges faced by AFC implementing strategic change and how they overcome or minimize them.

3.2 Data Collection

The study used primary data. An interview guide was used to collect data. This allowed interaction between the researcher and the respondent. The interview guide was a

preferred method of collecting data for this study because of its capability to extract information from the respondents as well as giving the researcher a better understanding and more insightful interpretation of the results from the study. The interview guide enabled the researcher to seek for clarification where answers were not clear and ask other questions not asked before based on answers from the respondents. This allowed respondents to ask for clarifications where questions were not clear. The use of interview guide offered more details and more information in areas that had not been foreseen by the researcher. Five respondents were selected; Chief Executive Officer (CEO) and four Heads of Departments (HODs). The HODs are; head of finance, head of business development, head of human resource and head of operation since the topic under consideration relates to management. The reason for choosing HODs was that they are better placed to provide information the study is interested in. This made it easier to get adequate and accurate information necessary for the research.

3.3 Data Analysis

Content analysis was used to analyze the data obtained through interviews. Before processing the responses, data was evaluated and edited for completeness, consistency, usefulness, credibility and adequacy (Kothari, 1990). Content analysis offers several advantages to researchers: looks directly at communication via texts or transcripts, and hence gets at the central aspect of social interaction, can provide valuable historical and cultural insights over time through analysis of texts, allows a closeness to text which can alternate between specific categories and relationships and also statistically analyzes the coded form of the text, can be used to interpret texts, a means of analyzing interactions and provides insight into complex models of human thought and language use. The

information from various interviewees were evaluated and documented as findings for this study. Each question elicited different responses from the interviewees; this enabled the researcher to get a clear idea about the total responses of subjects to certain issues. The method helped the researcher understand and classify running themes in the verbal messages obtained through interviews.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study as set out in the research objective and methodology. The results presented are on the challenges of implementing strategic change at Agricultural Finance Corporation (AFC).

4.2 General Information

The interview guide constituted two parts. The first section was about the respondents profile and the second section was about strategy implementation and related challenges of implementing strategic change at Agricultural Finance Corporation. Out of the five targeted respondents, three were interviewed giving a response rate of 60%.

The respondents experience was varied. All the three respondents have been in the corporation for between seven and twenty years and are employed on permanent terms. The managers of the corporation are alive to the fact that change is a continuous process and that the corporation need to strategies so as to be able to survive and thrive in the industry that is challenging and competitive.

4.3 AFC Roles and obligation

This section was to find out the roles and obligations of AFC in meeting the demand of financial products. The response was that, AFC has played its role as a farmers' financial institution. However, it has not adequately fulfill its role due to high demand for financial services.

4.4 Strategy Awareness Implementation

From the findings, all the managers are aware of the overall business strategy of the corporation and are involved in its implementation. From the response, it emerged that despite the corporation having good strategies, they are poorly implemented. It also emerged that there is no link between strategy implementation and reward system.

4.5. Partnership

The corporation has entered into partnership with other stakeholders in the agricultural sector. They include: Ministry of Agriculture, Department of Livestock and Development, Coffee Development Fund and National Irrigation board. With the devolved government now in place, the corporation is seeking partnership with county government so ensure the farmers in all the forty seven counties access the loans. From the respondents, the objectives of entering into partnership have been achieved.

4.6 Challenges faced in the implementation of Strategic Change

This study sought to find out the challenges AFC faces in the implementation of strategic change. They comprise poor strategy implementation, collateral, unsupportive organizational culture, employee behavior and attitude, inflexible organization structure, poor communication, climatic changes, poor human resource development, political influence, loan defaulters and inefficiencies in loan approval process.

4.6.1 Strategy Implementation

The major challenge AFC faces is the poor strategy implementation. Despite the well layout strategies, not much is achieved on the implementation of the same. The responsibilities and roles are assigned well to various departments but no follow up is

done by management on the progress of the responsibilities assigned. Despite a well layout structure of the corporation, there seems to be no inter-department effort by managers on the strategy implementation. There is no team charged with the implementation of the strategies and therefore is implementation is left to the units. Most managers had a feeling that there is need to involve the lower level employees who are directly and critical to strategy implementation during formulation. This is to ensure that implementation is done in accordance with the objectives of the strategy formulation.

The corporation uses balanced scorecard (BSC) as a tool to strategic objectives into a coherent set of performance measures. The BSC helps to organized performance into four perspectives which are financial, customer, internal business process and learning and growth. With the use of BSC, employees sign performance contracts every financial year with negotiated targets between the staff and their supervisors. Performance appraisals are done on quarterly and yearly basis.

4.6.2 Collateral

Since the Agricultural Finance Corporation loans are agri-based, the title-deeds have always been used as collateral. The title-deed in this case must be for the land where the proposed project will be done. Many farmers' especially young farmers who do not have title-deeds as collateral end up missing on loans. This is a challenge for the corporation since they cannot fund these farmers without title-deeds. Although other products that do not require title deeds have been developed for example group loan, many farmers especially the youth are not aware of.

4.6.3 Organizational Culture, Employee behavior and attitude

AFC is among the oldest organizations in Kenya since independence; its culture has not changed much with the changes in the environment in which it is operating. Their way of doing things is still those old days where change was made an event and that the changes then were operational, meaning that the changes were short term. The assumption by the top management on the perception of change is another challenge. Managers need to explain to other staff the need to change and the steps that are being undertaken to bring about the said change.

4.6.4 Organizational Structure

Despite the clear responsibilities assigned to departments in AFC, each department tends to think on their own. The departments work on their own without realizing that they need to pull together for a common goal. That is why cross-functional relations are critical to an implementation effort. Schaap (2006) suggests that adjusting organizational structure according to perfect strategy can ensure successful strategy implementation.

4.6.5 Communication

AFC has a good communication structure mainly through the email system, Zimbra. The email system has provided an interactive platform between the Managing Director, the management and the AFC staff. It has also provided a forum in which important decisions that touch on staff are discussed. However, this mode of communication has not assisted much in the strategy implementation. It has not been used to communicate the strategies the corporation is implementing so as to meet its objective.

The study was to find out how business objectives and strategies are communicated to the staffs in AFC. Business objectives are communicated through a performance contracting tool, no follow up is done on the implementation of the strategies. From the respondents, some members of the staff are not aware of the strategic changes being undertaken and their expectations in the corporation despite the open and well-structured communication channels in corporation. Even if they are aware, the interpretation and understanding of the same strategies differs.

4.6.6 Human Resource Development

The study showed that nothing much has been done in terms of training the staff on necessary skills to enable the employees implement the strategies of the organization. As much as the employees sign performance contract every financial year, they have no skills of how to measure and monitor performance.

4.6.7 Political Influence and Governance

AFC being a government entity and the fact that the government is run by politicians, those who are appointed to the board of directors are the ones perceived to be politically correct and this has an influence in the operations of the corporation in that they are politically driven instead of customer driven. Periodic elections, that lead to change of government has led to change of the strategic plan merge or conform to the manifesto of day's government.

4.6.8 Climate Changes

Farming in Kenya depends on rain. This has had an effect in AFC because farmers who are given the loans depend on the rain for their agriculture. Failure of rainfall leads to drought that affects farming and hence the repayment of the loan advanced to them. This has led to the government to write off loans because the farmers are not able to repay their loans because of crop failure.

4.6.9 Long Loan Processing System

The major challenge that AFC faces is the long loan process. When a client who is a farmer visits a branch, he or she is advised on the requirements for a loan. Once the client has come with all the documents including documents, verification of the same is done and the client is advised by a credit officer to write a proposal of the project he or she intends to do. It can be completion of an existing project or a new project. The client has to clearly show a financial gap in the proposal that is to be filled by AFC. The credit officer interviews the client to find more information about the project. An application form is given to the client on payment of application and processing fee. This is followed by capturing customer's details in the system. Once this is done, a credit officer must visit the farm where the project will be undertaken to look at the viability of the project that is to be undertaken. The credit officer then begins appraisal of the loan being applied and then forwarded to the loan committee.

On approval, a letter is prepared and the client is contacted to sign the approval. Once this is done, the client pays commitment and conveyance fee and the charged documents are executed. The client is again contacted to sign the request for disbursement and provide

banking details. The loan documents, loan approval letter, loan offer and copies of witness Identity Card, charged document; notification of charge and notification of charge on chattels, search or second search for new clients, spouse contentment are then taken to Legal department for verification. The disbursement request is sent to Finance Department. Once the verification is done, the loan is disbursed to the client. This process takes up to a month or more before the farmer gets a loan. This has led to many farmers seeking financial services from other lending institution thus reducing the customer base of the corporation.

4.6.10 Loan Defaulters

AFC being a state corporation that provides financial services, it was found that sometimes the government writes off loan advanced to farmers due to drought or a calamity that affects the whole country. This initiative has made farmers have a mentality that the all the loans advanced to them will be written off. So they take a loan and fail to pay hoping that the government will write off the loan.

This has affected the operations of the corporations in that it denies other farmer the chance to get the loan since the fund is a revolving fund. Attitude that has also been blamed for loan defaulting. Many client think that the money being given out is government money hence their refusal to pay the loan.

4.7 AFC's Response to Challenge

Apart from finding out the challenges that AFC face in strategy implementation from the managers, the study also wanted to get their opinion on how these challenges can be overcome.

4.7.1 Seek Government Support

The corporation has asked the government to initiate irrigation programmes to help farmers not to depend on the rain for their production. Already, the corporation has partnered with National Irrigation Board to help farmers in Bura and Hola in Tana River County.

4.7.2 Training and Sensitization

The corporation started training new employees which was not done before. This helps the corporation train them on the systems used in AFC for example Equinox Banking System, Zimbra mail system and Perpay Human Resource System, inspire the new employees to develop the right attitude towards the corporation, sensitize them on the roles of AFC and their expectation as they join AFC.

4.7.3 Communication

The respondents were required to suggest ways in which communication can be improved to enhance strategic management in AFC. The respondents cited; creating an effective feedback mechanism, creating interactive forums involving staffs in various departments, embracement of technology, and conducting regular meetings to create awareness on change and flow of information.

4.7.4 Partnership

The corporation has entered into partnership to ensure that its objectives are met. The partners include Ministry of Agriculture, Department of Livestock and Development, Coffee Development Fund and National Irrigation board. With the devolved government

now in place, the corporation is seeking partnership with county government so ensure the farmers in all the forty seven counties access the loans.

4.7.5 Redesigning Loan Application and Approval Process

The corporation is in the process of redesigning loan application process to improve on the efficiency of the process. The system will be automated to reduce paper work and help in monitoring of the loan process.

4.7.6 Credit Referencing

Agricultural Finance Corporation (AFC) has turned to credit reference bureaus to speed up recovery of money lost to loan defaulters and strengthen appraisal of borrowers. The corporation hired Metropol Credit Reference Bureau (CRB) to rate its borrowers. This has helped farmers with good profile to access affordable credit. The corporation also uses the credit reference bureau to rate an individual's character and credit worthiness which it will use to determine loan pricing.

4.7.7 Insurance to farmers

Agricultural Finance Corporation (AFC) has partnered with APA insurance company to insure loans given to farmers, hedging against defaults that have seen it write off billions of shillings in bad debt in the past. This will help farmers who have taken the loans not to lose their property due to default as a result of bad weather. Although it is expected that the insurance cover would make credit slightly more expensive, it will cushion the financier and enhance output.

4.8 Discussion of the Findings

From the response, it is clear that all the managers are aware of the overall business strategy of the corporation and are involved in its implementation. This shows that the management is committed and as Andreas and Diplom-Kaufmann (2005) puts it, the top management's commitment to the strategic direction itself is the most important thing when implementing a strategy.

The major challenge AFC faces is the poor strategy implementation. Despite the well layout strategies, no team is charged with the implementation of the strategies and therefore is implementation is left to the unit managers. As Steiner (1979) observes, formulated strategies may fail if implementation is not effectively and efficiently done. Without proper implementation, even the most superior strategy is useless. The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. Implementation is one of the more difficult business challenges facing today's managers (Pfeffer, 1996). Most organizations fail not because they had a bad strategy but how the strategy was executed.

Most managers had a feeling that there is need to involve the employees who are directly involved in and critical to strategy implementation during formulation of the strategies. This is to ensure that implementation is done in accordance with the objectives of the strategy. Failure to involve implementers at the formulation stage has been a major problem that cannot be ignored. In most cases where strategies fail, implementers did not have an input at the formulation stage. They drag their feet at the implementation stage because they think the strategic plan belongs to the architects of the document and in this case the formulators, the managers. The implementers do not own the strategic plan, and

therefore they shun it (Dandira, 2011). From the response, it was found out that responsibilities are clearly assigned to departments in the corporation. However, each department tend to work on their own without realizing that they need to pull together for a common goal. That is why cross-functional relations are critical to an implementation effort (Raps, 2004).

The balanced scorecard (BSC) is a popular and prevalent management system that considers financial as well as nonfinancial measures. It provides a functionality to translate a company's strategic objectives into a coherent set of performance measures (Kaplan and Norton, 1993). The corporation uses BSC as a tool to translate objectives into a set of performance measures. The BSC helps to organized performance into four perspectives which are financial, customer, internal business process and learning and growth. The corporation uses BSC to sign performance contract every financial year with negotiated targets between the staff and their supervisors. Performance appraisal is done on quarterly and yearly basis. Despite the appraisal, no monitoring and evaluation is done on the achievement of those targets. No measures have been put in place to ensure that the targets that were not met in the previous appraisal period are met in the current period. This confirms that performance contracting has not worked for the corporation since the corporation does not totally conform to the conventions of a business concern (Shitakha, 2008).

Communication is a very important aspect of strategy implementation. AFC has a good communication structure, the email system, Zimbra. However, this mode of communication has not assisted much in the strategy implementation. From the

respondents, some members of the staff are not aware of the corporation strategies. Even though studies point out that communication is a key success factor within strategy implementation (Miniace and Falter, 1996), communicating with employees concerning issues related to the strategy implementation is frequently delayed until the changes have already crystallized. In this context, it is recommendable an organization institute a two-way-communication program that permits and solicits questions from employees about issues regarding the formulated strategy (Andreas and Diplom-Kaufmann 2005). In addition to soliciting questions and feedback, the communications should tell employees about the new requirements, tasks and activities to be performed by the affected employees, and furthermore, cover the reason (“the why”) behind changed circumstances (Alexander, 1985).

The study showed that nothing much has been done in terms of training the staff on necessary skills to enable the employees implement the strategies of the organization. According to Raps (2004) human resources represent a valuable intangible asset and human resources are progressively becoming the key success factors within strategy implementation. The knowledge, skill and experience of people can be the key factors enabling the successful implementation of strategies.

The processing of loan in AFC takes long of up to three months compared to other financial providers. This has led to many farmers seeking financial services from other lending institution thus reducing the customer base of the corporation. Agricultural credit delivered through AFC faces challenges like: policy environment, operational prudence and poor lending practices (Echoka, 2011).

AFC being a state corporation that provides financial services, it was found that sometimes the government writes off loan advanced to farmers due to drought or a calamity that affects the whole country. This initiative has made farmers have a mentality that the all the loans advanced to them will be written off. So they take a loan and fail to pay hoping that the government will write off the loan. This has affected the operations of the corporations in that it denies other farmer the chance to get the loan since the fund is a revolving fund. Attitude that has also been blamed for loan defaulting. Many client think that the money being given out is government money hence their refusal to pay the loan. Researchers have carried out studies on AFC. Loan default is to blame for the performance of loans of agro-based financial institution (Nyambura, 2012).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter explains the summary, conclusions, limitations of the study, suggestions for further studies and recommendations.

5.2 Summary of the Findings

In summary, the study revealed that the respondents were aware of the various business strategies that AFC is implementing to enhance its service delivery capacity and the challenges the company is facing in the process of achieving its objectives. The respondents expressed thorough knowledge of operations of the company because all the respondents have worked in the company for long and although some of them have not in management position for long, they have been involved in the day to day running of the corporation. It is because of this that the findings of the study are a true reflection of the corporation.

Agricultural Finance Corporation has faced many strategy implementation challenges that include: poor strategy implementation, inflexible organization structure, poor communication, climatic changes, political influence, behavior and attitude, unsupportive organizational culture, and inefficiencies in loan approval process. Poor strategy implementation has been a great challenge. The corporation strategy is clear and well laid down. However, no team is charged with the implementation of those strategies.

5.3 Conclusion

Agricultural Finance Corporation operates in a complex and a highly regulated environment while at the same time expected to deliver quality service to customers and meet the expectations of its employees, government, partners and other stakeholders. Towards attainment of its mandate, the corporation must improve efficiency in loan processing, capacity building to handle the dynamic environment through training of the managers and seminars to share experience, employment of new technologies and staff motivation.

Formulation and implementation need the involvement of employee in all the stages and that the performance should be linked to a reward system. Effective monitoring, evaluation and adjustment of the implementation activities against target objectives to ensure they are in line with the corporate plan will help overcome the challenges of strategy implementation.

5.4 Recommendations

AFC operates in a dynamic environment and strategy formulation and implementation is key. The recommendation include: involvement in strategy formulation to enable employees understand their expectations during implementation, strategy monitoring and evaluation of strategy implementation to ensure that the targets not achieved are actually achieved and linking performance to reward system.

5.5 Suggestions for further Research

AFC is a state corporation that gives financial services for agricultural development in Kenya and it is unique in that it provides financial services only to farmers and agriculture related businesses. The suggestion to other researchers is to find out how AFC

as a farmers' bank can achieve competitive advantage over other banks that offer agribusiness financial services.

5.6 Limitations of the Study

This study was carried out within a limited time frame. It took long before the researcher was given an authority to collect data from the corporation. Most managers gave the researcher few minutes during the interviews and the findings therefore might not have exhaustively captured the challenges in the implementation of strategic change at Agricultural Finance Corporation-Kenya.

5.7 Implications of the study

It is obvious that many strategic plans fail to realize the anticipated benefits due to problems and difficulties faced during implementation. Planners should place more emphasis on implementation issues while they are drafting their plans. Most of these obstacles are avoidable if they have been accounted for during the formulation stage. Specifically, some of the implications for managers aiming to successfully implement strategies are, the management must ensure that the supportive structure is in place to provide staff employees with the needed training on strategy implementation, link employee performance during implementation phase with the overall reward and compensation system in the organization, develop a good information system where employees are updated on implementation tasks and monitoring and evaluation of implementation processes.

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APPENDICES

Introduction Letter

Isaac C. Ruttoh,
Department of Business Administration,
School of business,
University of Nairobi.

To

The Managing Director,
Agricultural Finance Corporation,
P.O Box 30367-00100.
Nairobi.
Dear Sir,

RE: RESEARCH PROJECT

I am a Postgraduate Student at the University of Nairobi and in order to fulfill the Masters Degree requirement, I am undertaking a management research project on the *Challenges faced by (Agricultural Finance Corporation) AFC in the implementation of the strategic Change.*

This is to kindly request your authority to collect data from the corporation's senior managers through an interview on issues relating to the subject.

I wish to confirm to you that the information that will be provided will be used exclusively for academic purposes and will be treated with strict confidence.

Your assistance will be highly appreciated and thank you in advance.

Yours faithfully,

Isaac C. Ruttoh

Interview Guide

A. Respondent's Profile

1. What is your position in Agricultural Finance Corporation?
2. How long have you been in AFC?
3. What are your employment terms? (Permanent/Contract)

B. Strategy Implementation and Related challenges

4. Give you your opinion on the obligations/roles of AFC in meeting demand of financial services in line with its mandate.
5. Are you aware of AFC overall business strategy?
6. How are you involved in the strategy implementation process?
7. Are there any major occurrences that you would say were a major setback and contributed to a lot of delays in the strategy implementation process? If yes please describe.
8. Does organizational culture, employee behavior and attitudes fully support the new organization strategies being implemented?
9. Does the company have documented framework of monitoring strategic change implementation process?
10. How are the strategic business objectives communicated from the top management and within the respective business functions? And what mechanisms were put in place to enable participants buy into the strategy implementation?
11. Is there any link between strategy implementation and employees' reward system in your organization? How are they related if so?
12. What are strategic changes towards addressing the issue of delays in loan processing?

13. At what stage of implementation are those changes?
14. Are the changes within the anticipated time schedule?
15. What are some of the anticipated/unanticipated challenges faced by AFC in implementing those strategic changes?
16. Has AFC embrace technology?
17. Are there introduction of new systems in ICT? If any, what prompted the introduction of the new system?
18. At what stage of implementation are those changes?
19. Are the changes within the anticipated time schedule?
20. How do other staff members perceive the new system?
21. What are some of the anticipated/unanticipated challenges faced by AFC in implementing those strategic changes referred above in connection with ICT?
22. Has AFC considered strategic partnership? Who are the partners and are the objective of seeking partnership achieved?
23. What would you say has been the role and / or impact of national politics on AFC strategic change implementation?
24. What would you say has been the role and / or impact of the government on AFC strategic change implementation?
25. In your opinion, what do you feel are the main constraints / challenges AFC is facing in implementing strategic change?
26. What strategic responses have been put in place by AFC apart from those you have mentioned so far to address these challenges?

Thank you for dedicating your time to this interview.