STRATEGIC RESPONSE BY PROPERTY AGENCY FIRMS ON THE RE-INTRODUCTION OF CAPITAL GAINS TAX IN KENYA

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DECLARATION

I hereby declare that this research project is my original work and has not been presented for examination in any other university.

Signature………………………………………… Date ………………………………..

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D61/68037/2013

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

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DEDICATION

To all my collegues

" Do not love sleep or you will grow poor; stay awake and you will have food to spare.."

– Proverbs 20:13

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May God reward you richly.

ABSTRACT

The research project defines capital gains tax and how it relates to the real estate market in Kenya. The project's objective is to determine the strategic response of estate agency firms due to the re-introduction of the capital gains tax in Kenya. To achieve this objective, the research delves into the theoretical foundation, history, suspension and re-introduction of Capital Gains Tax under the literature review. The research project spells out the methodology and particularly defines the target population for this project which consists of registered real estate agents. Random sampling is used to identify the respondents. Data is collected through a questionnaire instrument which is self-administered. The research project goes further to conduct data analysis with the various findings being discussed. The collected data is thereafter analysed and reflected on graphs, pie-charts and tables to present the findings. The research project concludes by outlining the summary with a discussion on the conclusion and recommendations on the strategic response of estate agency firms due to how the re-introduction of Capital Gains in Kenya.

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ACRONYMS AND ABBREVIATIONS

CBD – Central Business District

CGT - Capital Gains Tax

EAA – Estate Agents Act

GDP – Gross Domestic Product

GGN – Government Gazette Notice

ITA – Income Tax Act

WB – World Bank

DEFINITIONS OF TERMS

Capital Gains Tax – is a tax chargeable on the whole of a gain which accrues to a company or an individual on or after 1st January 2015 on the transfer of property situated in Kenya, whether or not the property was acquired before 1st January, 2015. It is not a new tax. It was suspended in 1985 and has now been re-introduced effective 1st January, 2015 (KRA, 2014).

Estate Agents Act – is a piece of legislation also referred to as Chapter 533, enacted by Parliament to regulate the property agency market.

Real Estate – is defined as land, permanent fixtures to land like buildings and natural resources such as crops, plants, minerals or water; that is land and immovable property of this nature.

Registered and Licensed Estate Agent - a person published in the Kenya Gazette to represent a buyer or a seller in a real estate transaction in exchange for a commission (Estate Agents Act, Cap 533).

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

In the global competitive business scenario, organizations have been facing many challenges caused by globalization, liberalization, technological advancements and changing customers' technological-driven expectations (Moreno *et al.*, 2005). The environment in which organizations operate is constantly changing with different factors influencing the organizations (Welch and Welch, 2005). Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on the firms to rethink their marketing strategies (Pearce and Robinson, 2001). To create and maintain a sustainable competitive advantage, the firm must adapt its strategy in accordance with changes in the industry (Barney, 2002; Collins and Porras, 1996; & Porter, 1980). This is well illustrated by the Dynamic Model of the Strategy Response Theory which explains that strategy is actually a dynamic and interactive process. This is informed by the fact that planned strategy is faced with numerous challenges due to emergent factors that were previously unforeseen during the planning stage. This is also supported by the Rational Lens Theory whose perspective of strategic response is a sequential, planned search for optimal solutions for well-defined problems based on previously defined firm objectives. The theory goes on to argue that rational managers optimize performance by establishing a fit between the firm and its environment through the creation and implementation of a strategic vision

Ansoff and McDonnell (1990) state that increased competition has created a fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses. They go on to note that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming the future environment. The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Welch and Welch, 2005). Industries are therefore responding to customer's demand by becoming more innovative in their new ways of approaching the changed environment. Firms are adopting strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy (Scholes and Johnson, 2008).

The change in environment caused by the recent reintroduction of capital gains tax in Kenya is amplified by the argument that legal forces also drive change (Klepic *et al.*, 2011). He argues that organizations do not operate in legal vacuums but they exist and operate within clearly set legal frameworks. This he goes on to state that changes in law may necessitate organizations to undertake necessary changes in order to conform to the new legal regulations. In extreme cases, firms may have to come up with changes that allow them to circumvent tough and unfriendly regulations.

1.1.1 The Concept of Strategy

The origin of the concept of strategy is said to be from the Greek word 'stratego' meaning to plan the destruction of one's enemies through effective use of resources (Bracker, 1980). Strategy can be defined as an overall plan of action or policy designed to achieve a certain aim. Strategy acts as the means to achieve the firm's objectives. Management of a firm is concerned with selection of a course of action among different available alternatives to meet the firm's objectives. According to Glueck (2000) 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 in an effort to enhance firm performance. Ansoff (1999) on the other hand views strategy in terms of market and product choices. According to him, strategy is the common thread among an organization's activities and the market.

Hofer & Schendel (1979) define strategy as the basic characteristic of the match an organization achieves with its environment. Through strategy a firm creates the best possible fit between the firm and its mission on one hand and the firm's external environment on the other hand. Professional management of any firm requires a strategic mindset which calls for proper preparation and execution of developed strategic plans. According to Pearce and Robinson (2007) strategy is the company's "game plan" which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. Hill and Jones (2004) posit that the term strategy refers to the determination of the basic long term goals and objectives of an enterprise and the adoption of relevant courses of action and the allocation of resources to carry out these goals. Delaney (2008) opines that strategy is the weapon fashioned against competitive attacks from competitors in the corporate world.

According to Johnson and Scholes (1999) strategy is the direction and scope of an organization over the long term. Max McKeown (2011) argues that strategy is about shaping the future and is the human attempt to get to desirable ends with available means. Strategy is therefore a framework within which the choices about the nature and direction of a firm are made. A strategy is by nature future oriented and hence marked with uncertainty and risk. The impact of a strategy is normally felt throughout a firm's operations and determines the firm's competitiveness in the market. Therefore, managers should be highly competent in developing and adjusting the company's competitive strategy especially in companies in an emerging market with limited transferable assets that have to compete with global companies (Dawar and Forst, 1999).

Porter (1980) states that a firm must formulate a business strategy that incorporates cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long term success in its chosen areas. Hofer & Schendel (1979) define strategy as the basic characteristic of the match an organization achieves with its environment. According to Porter (1998), the purpose of competitive strategy is to achieve a sustainable competitive advantage and thereby enhance business performance.

1.1.2 Strategic Response

According to Pearce and Robinson (2002) strategic response is a set of decisions and actions taken that result in the formalization and implementation of plans designed to achieve a firm's objectives. It requires a firm to establish a coherent framework of objectives, mission statement, corporate values for all parts of an organization, and at all management levels, if goal congruence and optimal decisions are to be achieved. Strategic response involves changes in the firm's strategic behavior to ensure success in a transforming future environment. It is therefore a reaction to what is happening or expected to happen in the environment (Ansoff *et al.,* (1990). Businesses that learn to live with environmental uncertainty and incorporate it within their decision making process are likely to succeed in the long run. Successful strategies seem to capitalize on company expertise, resource strengths and strongest competitive capabilities. Strategic success calls for bold entrepreneurship, willingness to pioneer and take risks, an intuitive feel for what customers prefer; quick responses to new developments and optimistic strategy making. An organization's culture is either an important contributor or an obstacle to successful strategy execution (Fahey and Narayanan, 2006). Strategy therefore must be flexible enough to accommodate developments and the impact thereof. According to Hax and Majluf (1996) strategic management therefore tries to ensure that opportunities are grasped, risks are accepted, failures can be contained and success can be built upon.

Porter (2005) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Strategic response is a conceptual framework for predicting choice of alternative strategies through the enactment of certain courses of action triggered by institutional pressures towards conformity to changes in the business environment. Aosa (2008) asserts that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. Ansoff and McDonnell (1990) point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how they are matched to level environmental turbulence. Each level of environmental turbulence requires a matching strategy which has to be matched by appropriate organizational capability for survival, growth and development. The speed or response time to the environment challenges has been identified as a major source of competitive advantage for numerous firms in today's intensely competitive global economy (Johnson and Scholes, 2002).

Kanter (2004) points out that to adapt to environmental changes, firms require effective leadership. He goes on to state that, while leadership is crucial, most firms are over-managed and others under-led. Effective strategic responses may enable a firm to influence the environment in its favor and even defend itself against competition. Strategic response involves strategic intelligence gathering and analysis which is highly influenced by the breadth and depth of such information. The information gathered must be on one hand up to date, accurate and relevant. On the other hand the intelligence gathered will include nature and dynamics of competition, likely changes in technology, general market dynamics, political and social foreseeable trends and patterns. Potential legal changes and requirements through regulation and legislation should also be timely noted with aggressive lobbying done at appropriate time to influence the nature and likely impact of such changes.

According to Johnson and Scholes (2002), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future. Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

The organization will incur two types of costs as a result of delayed response to discontinuous changes. These are the cumulative loss of profit and the cost incurred in arresting or reversing the loss. Management problem is to minimize the total losses (Ansoff and McDonnell, 1990). To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategic responses to survive. If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups of customers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because it takes into consideration fundamental changes in the environment thus making firms proactive rather than reactive.

1.1.3 Capital Gains Tax in Kenya

Capital Gains Tax which is commonly referred to as CGT is one type of tax provided under Kenyan law. CGT is levied on a capital gain; that is on profit from the sale of property or of an investment. Capital gains tax was first introduced in Kenya in 1975 but was abolished ten years later in 1985. The CGT was abolished in order to attract investors into the country. The CGT was at the time considered to be a discouraging factor to potential investors. Following the National Assembly enactment of The Finance Act of 2014 and the Presidential assent dated 14th September 2014, the capital gains tax was reintroduced in Kenya effective from 1st January 2015. The Act set the CGT at a rate of 5% on capital gains.

Taxation of capital gain on transfer of property has been an emotive and sensitive issue which has in the past sparked political influences that have made the idea of its re-introduction shelved on various occasions. The success of the re-introduction in the latest attempt was due to the unbearable financial pressure on the government to provide the colossal amounts of money needed by Treasury in financing the ever growing budget which currently stands at Kshs 2 trillion for the 2015/ 2016 fiscal year. Despite the successful re-introduction of CGT, there have been heated debates, arguments and counter arguments and very divergent opinions between the key stakeholders on its re-introduction. Those critical to CGT re-introduction have faulted its manner of re-introduction, claims of lack of proper stakeholder participation and consultation, claims of insufficiency or lack of clear rules and regulations guiding its administration, claims of ambiguity in enabling Act and this has resulted in confusion thereby causing the matter to be brought before the High Court by a section of the stakeholders for adjudication.

1.1.4 Real Estate Industry in Kenya

Real estate can be defined as land, permanent fixtures to land like buildings and natural resources such as crops, plants, minerals or water; that is land and immovable property of this nature. Miles (1991) states that the real estate industry is concerned with creating value on land through development of such land or land with attached structures through sale or lease or marketing of real estate parcels or interests. The real estate industry employs developers, architects, designers, planners, landscapers, engineers, surveyors, market researchers, construction workers and building and ground maintenance workers.

The development of real estate is sensitive to fluctuations in the economy and in turn contributes to economic cycles. Moini (2014) states that across the emerging markets, real estate is coming of age. Infrastructure and development, young demographics and strong economic fundamentals have fueled the rapid growth of property sectors in these regions. The results: these countries are fast emerging as the next frontier for global properties investors."

According to a review of the national data by the Devolution and Planning Ministry in 2014, Kenya's lucrative real estate sector was noted to have rapidly expanded to become the fourth biggest contributor to the country's wealth. The real estate sector contribution to Kenya's Gross Domestic Product in 2014 was noted to have more than doubled to 10.6 per cent from the previous 4.9 per cent. Economic analysts expect this new trend to dictate future investment decisions, projecting that banks and businesses are most likely to put their money in the property market in pursuit of higher returns from increased activity and growth in the real estate sector over the past decade. This will result in an upward trajectory of the property market and hence shift the focus of the banks from consumer lending to home loans and financing to purchase land and carryout construction to capture the ever growing real estate sector.

1.1.5 Property Agency Firms in Kenya

Winnie (2000) explains property agency being about sale and purchase of real estate products such as commercial properties, residential properties, agricultural properties and industrial properties for and on behalf of a client for a commission. Property agency firms conduct business upon receiving formal instructions to either look for a potential and suitable buyer of a property on sale or look for a particular property which the client is interested to purchase (Notion, 1996). Property agency firms therefore, act as a conduit between buyers and sellers of property in the property agency market with an aim to facilitate conveyance at a commission. The property agency market in Kenya is regulated by the Estate Agents Act, Cap 533 of the laws of Kenya. This Act of Parliament prescribes who is eligible to register as an estate agent, the process of registration as an estate agent, the expected professional code of conduct for registered estate agents and the remuneration rules which provide for the scale of agency fees to be charged by registered estate agents for services rendered.

The property agency firms in Kenya are either real estate brokerage or realtor firms. They employ licensed estate agents who are registered under the Estate Agents Act, Cap 533. According to the Government Gazette Notice No. 2434 of 10th April 2015, there are currently 305 registered and licensed real estate agents. These licensed real estate agents through a contractual arrangement, represent a buyer or a seller in a real estate transaction in exchange for a commission.

1.2 Research problem

The ever changing business environment poses challenges to organizations. The recently re-introduced CGT in Kenya poses such challenges to the property agency firms. According to Ansoff (2000), organizations in general have to interact with their external environment as this is where they get their inputs and release their outputs after transformation. Therefore organizations have to design strategies that allow for effective interaction with their external environment for their benefit.

A number of studies attempting to shed light on the strategic response of firms to changes in the external environment have been done. In his study, Mukira (2012) sought to establish the strategic responses by East African Breweries Limited to changes in the external environment. Although the study established the main strategies employed by East African Breweries Limited such as anticipatory strategic responses and reactive approach both of which rely highly on consumer research in order to deliver winning options, it did not focus on all aspects of organizational strategic response. Lagat (2011) studied the strategic responses to changes in external environment by supermarkets in Kenya. Although the study attained its objectives, it mainly focused on the retail sector. Muthaura (2011) researched on strategic responses by stockbrokers in Kenya to external environment. The study revealed that stockbrokers are employing varied responses to cope with environmental threats ranging from implementation of new systems to offering negotiable commissions to large volume trades. This study too did not focus on all aspects of organization strategic response and focused solely on the stock market brokerage. None of these previous studies have investigated the strategic responses employed by property agency firms to cope with the re-introduction of CGT. This study therefore sought to close this knowledge gap by asking the strategic responses applied by property agency firms in Kenya upon the recent re-introduction of CGT?

1.3 Research Objective

The objective of this research project was to determine the strategic response by property agency firms due to the re-introduction of Capital Gains Tax in Kenya.

1.4 Value of the study

The findings of this research study will be of importance to the property agency firms by providing insight into the strategic responses that are effective in dealing with environmental changes such as re-introduction of CGT. The management of property agency firms can learn from such findings on the best strategic responses to apply.

The findings are also of importance to the government and more importantly to Kenya Revenue Authority (KRA) who is mandated under law to levy and collect taxes for and on behalf of the government. The results of the study will give insight into how such policies and regulations affect the business environment and the importance of ensuring proper stakeholder consultation and participation to accommodate their views in order to reduce as much as possible the negative impacts of introduction of such tax regulations.

The findings will also be important to the academic community who will benefit from the added knowledge which can guide training, policy and further research. This study will fill a gap in knowledge that will give students, faculty and the general fraternity added knowledge in the field of strategic management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides for a review of the relevant literature for this study. The literature covered will include: Theoretical foundation, capital gains tax and strategic response by firms.

2.2 Theoretical Foundation

The theories on strategic response are discussed under this section. The main theories include the Dynamic Model of the Strategy Process and the Rational Lens Perspective.

2.2.1 The Dynamic Model of the Strategy Process Theory

This theory explains that strategy is actually a dynamic and interactive process. This is informed by the fact that planned strategy is faced with numerous challenges due to emergent factors that were previously unforeseen during the planning stage. Some of the earliest challenges to the planned strategy approach came from Linblom in the 1960s and Quinn in the 1980s. Linblom (1959) claimed that strategy is a fragmented process of serial and incremental decisions. His study viewed strategy as an informal process of mutual adjustment with little apparent coordination. Quinn (1978) developed an approach called "Logical Instrumentalism." This approach claimed that strategic management involves guiding actions and events towards a conscious strategy in a step by step process. Managers nature and promote strategies that are themselves changing. In regard to the nature of strategic management he says:

"Constantly integrating the simultaneous incremental process of strategy formulation and implementation is the central art of effective strategic management." Whereas Linblom saw strategy as a disjointed process without conscious direction, Quinn saw the process as fluid but controllable. Bower (1970) and Burgelman (1980) took this one step further. They argued that not only are strategic decisions made incrementally rather as part of a grand unified vision. According to them, this multitude of small decisions is made by numerous people in all sections and levels of the organization. These arguments are informed by the fact that strategy keeps changing to cope with the dynamic environment and by so doing firms strategically respond to the changes in the environment.

Mintzberg (1987) furthers this theory by making a distinction between deliberate strategy and emergent strategy. He argues that emergent strategy originates not in the mind of the strategist, but in the interaction of the organization with its environment. He goes further to state that emergent strategies tend to exhibit a type of convergence in which ideas and actions from multiple sources integrate into a pattern. One particular insightful model that expounds on this is Moncrieff (1999) strategy process dynamics which explains that strategy is partially deliberate and partially unplanned. He goes on to explain that the unplanned element comes from two sources: "emergent strategies" result from the emergence of opportunities and threats in the environment and "strategies in action" are ad hoc actions by many people from all parts of the organization. These multitudes of small actions are typically not intentional, not teleological, not formal, and not even recognized as strategic. They are emergent from within the organization, in much the same way as “emergent strategies” are emergent from the environment.

2.2.2 Rational Lens Perspective Theory

Nandini and Gretchen (1997) describe rational lens perspective as a sequential, planned search for optimal solutions for well-defined problems based on previously defined firm objectives. The theory goes on to argue that rational managers optimize performance by establishing a fit between the firm and its environment through the creation and implementation of a strategic vision. The environment is assumed to be objectively determined and manifested as a source of opportunities and threats. Immutable by managerial actions, environmental conditions are assumed to directly influence changes in the content of strategy through a deliberate analysis of strategic alternatives. Also assumed to be objectively determined, organizational factors associated with inertia are considered weaknesses that inhibit change, and factors contributing to flexibility are considered strengths that support the need for change. The theory sums up by stating that firms change strategies mainly to improve their economic performance (Nandini & Gretchen, 1997).

2.3 Capital Gains Tax

CGT is a type of tax chargeable on the whole of a gain that accrues to a legal person on or after 1st January 2015, on the transfer of property situated in Kenya, whether or not the property was acquired before 1st January 2015. CGT is not a new tax as construed by many people. It is a re-introduced tax through the Finance Act of 2014 and became effective from 1st January 2015 after being suspended for 30 years since

1985. CGT has been set at 5% of the net gain. It is a final tax and cannot be offset against other income taxes.

According to the Eighth Schedule to the Income Tax Act, assets taxable under Capital Gains Tax include property such as land, buildings, and marketable securities. CGT applies to transfer of such properties. For purposes of this project, the asset of concern is real property like land and buildings which fall under the property agency market.

The Eighth Schedule to the Income Tax Act provides for persons liable to pay CGT. It provides that CGT is to be paid by the person (resident or non-resident) transferring the property, that is, the transferor. The general idea behind this is for the transferee to pay for stamp duty while the transferor pays for CGT.

Transfer of property according to the Eighth Schedule to the Income Tax Act, takes place; i) Where a property is sold, exchanged, conveyed or disposed of in any manner (including by way of gift); ii) On the occasion of loss, destruction or extinction of property whether or not compensation is received; and iii) On the abandonment, surrender, cancellation or forfeiture of, or the expiration of rights to the property.

The Income Tax Act also provides for determination of net gain by defining net gain for purposes of CGT as the excess of the transfer value over the adjusted cost of the property that has been transferred. It is this excess that is subjected to tax at 5%. The transfer value of the property is defined under Income Tax Act as the amount or value of consideration or compensation for transfer of the property less incidental costs on such transfer. The adjusted cost on the other hand is defined under Income Tax Act as the sum of the cost of acquisition or construction of the property; expenditure for enhancement of value and/or preservation of the property; cost of defending title or right over the property, if any; and the incidental costs of acquiring the property.

2.4 Strategic response by firms

If the external environment facing organizations was stable and simple to understand, then firms would be faced with an enviable situation of having relatively little change or, if change occurs, it would be easy to forecast based on historic trends (Mercer, 2008). However, a firm's business environment is an ever changing dynamic environment with constantly changing variables such as level of competition, change in technology, introduction of new legal requirements, political and governance changes and also social changes such as demographics, fashion trends, change in tastes and preferences. For a firm to keep up with these dynamic variables in the environment, a firm has to develop a strategic response program bearing in mind that managing uncertainty is critical to a firm's survival, growth and profitability. Hax and Majluf (1996) expound on this by stating that if past performance is no guarantee of what will occur in the future because of uneven changes and discontinuities then attempts at forecasting the future are fraught with uncertainty. Discontinuities refer to the threats faced by organizations and industries that have the potential to undermine the way they do business.

According to Gertner (2010) scanning is an opportunity for the organization to detect weak signals in the general environment before these have coalesced into a discernible pattern which might affect its competitive environment. He goes on to state that weak signals refer to minor changes in the external environment that an organization’s scanning of the environment may barely register. This is because their impact is yet to be felt. The key for organizations is to be able to read these signals correctly and monitor them until they coalesce into a more clearly discernible pattern (Schoemaker, 2002). Monitoring and scanning of the environment helps firms detect the various market signals that indicate variables in the environment that are likely to change in the future. This is critical for the firm’s preparedness and readiness to proactively adopt or align itself in a manner suitable to its survival and competitiveness in the new environment thereby reducing the effect of any negative impact the change may bring in the business environment. Monitoring and scanning of the business environment requires systems and mechanisms that will aid in gathering of information and intelligence and a suitable procedure for disseminating such gathered information and intelligence through firm systems in a suitable manner to the concerned parties for action and implementation. Barney (2002) scanning the environment as a general activity has been made far more cost effective with the advent of the internet. Prior to the internet, the view was that scanning was a costly activity which could only take account of a fraction of the information that existed in an organization’s environment. By redefining search costs, the internet has changed the economics of undertaking scanning. At the same time it has provided an opportunity to access a wealth of data which requires time and effort to structure properly.

Gathering of business information and intelligence is a very crucial activity which requires firm resources and well trained and skilled labor to capture data that is up to date, accurate and relevant. Such collected data is then analyzed and converted into useful information for business decision making. The need for fast decision making based on accurate and relevant data is explained by the magnitude, speed, unpredictability and impact of change which is greater than ever before (Burnes, 2000). This places emphasis on the need for firms to make timely decisions in the face of the current fluid business environment. Strategic response is therefore a critical process for a firm's survival, growth and competitiveness and which must be handled with the necessary caution in order for the firm to achieve the desired response. This calls for both vertical and horizontal communication and coordination between the different units within the firm structure for purposes of having a collective cohesive action of strategic response.

2.5 Chapter Summary

From the above literature review, a firm needs to have a clear strategic response plan to deal with emerging issues in an ever dynamic business environment. Failure to have a strategic response well thought out in advance as a result of business research would make the firm uncompetitive and strategically disadvantaged in the face of growing local and global competition.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures and methodologies that will be undertaken in conducting the study. These will be aimed at collection of requisite data and thereafter analysis of such collected data to arrive at conclusions in regard to the strategic response of estate agency firms due to re-introduction of CGT.

3.2 Research design

According to Singh 2006, research design is a mapping strategy; a statement of the object of the inquiry and the strategies for collecting the evidences, analyzing the evidences and reporting the findings. This research is a survey because it seeks to obtain opinions of different individuals regarding the strategic response of the property agency firms on the re-introduction of the CGT in Kenya. The research problem will be studied through the use of a descriptive research design which enables the researcher to generalize the findings to a larger population (Kvale, 1996). The main study of this study is quantitative; however, some qualitative approach was used in order to gain a better understanding and insightful interpretation of the results.

3.3Population of the Study

According to Weily 2004, a population is the total collection of elements about which a researcher wishes to make inferences. He goes on to state that, it is the complete group of specific population elements relevant to the research.

According to the Kenya Gazette notice No. 2434 of 10th April 2015 there are three hundred and five (305) registered estate agents. The population will consist of these registered estate agents who on a daily basis are engaged in sale and purchase of different properties across the vast geographic locations in the country. This therefore makes them very knowledgeable with the most current data on the property market values, property price trends, demand and supply of property products in the real estate industry. These registered estate agents are directors, managers or employees of the licensed property agency firms in Kenya.

3.4 Sampling

Kombo and Tromp (2006) define a sample as a finite part of a population whose properties are studied to gain information about the whole population. Out of a population of 305 registered estate agents as contained in the Kenya Gazette Notice No. 2434, a sample of 59 registered estate agents is derived from the following formula (Chava F., Nachmiaas D.; 1996).

$$n = \frac{Z^2pqN}{e^2 (N - 1) + Z^2pq}$$

Where,

N –Size of the population

n – Sample size

p – Sample proportion estimated to have characteristics being measured. Assume a 95% confidence level of the target population.

q – 1- p

e – Acceptance error, e = 0.05, since the estimate should be 5% of the true value

Z – The standard normal deviate at the required confidence level i.e. 1.96

The number therefore is;

$$n = 59$$

3.5 Data Collection

The instrument used to collect data from the directors, managers or employees of the estate agency firms for the research project was through self-questionnaires. The researcher dropped the questionnaires physically at the respondent's place of work.

The choice of questionnaire was found ideal since the researcher gave the respondents an opportunity to respond at their convenience. The questions were organized in a way which was easy to the respondents in giving their views on the strategic response they have employed on the re-introduction of CGT.

3.6 Data analysis

The data collected from the questionnaires was first sorted, and then edited for completeness and consistency. These data was then input into Microsoft excels and analysed using descriptive statistics such as mean, median and mode. Quantitative data of frequencies and percentages was then presented using tables, graphs, pie charts and figures as suitable. According to Ngechu (2004), content analysis is a technique for making reference by systematically and objectively identifying specific characteristics of information and using the same approach to relate to trends. Conclusions, recommendations and areas of further study have been identified.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the research. Data was collected using self-administered questionnaires to the target respondents which were the registered estate agents and who are directors, managers or employees of the estate agency firms. The questionnaires were framed in line with the objective of the research which was to establish the strategic response of estate agency firms due to the re-introduction of capital gains tax in Kenya.

4.2 Data Collection Overview

The study targeted a sample size of 59 respondents from which 52 filled in and returned the questionnaires making a response rate of 88%. According to Mugenda and Mugenda (2003) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response of 70% and above is excellent. Based on this, the response rate was not only satisfactory but excellent.

4.3 Respondents Information

From the findings on respondent designation, the study revealed that majority (53.6%) of the respondents, as shown on Figure 4.1, were in a managerial position, 27.5% of the respondents were head of departments, whereas 18.8% of the respondent were staffs.

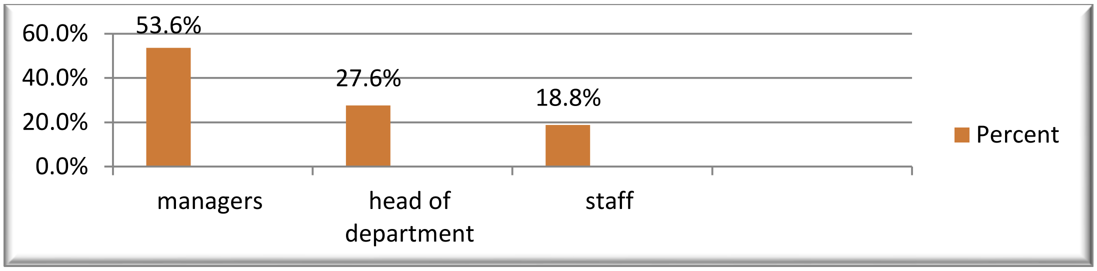

Figure 4.1: Respondent's designation

This shows that most of the respondents were in position to give accurate and reliable information on the strategic response of their firms due to the re-introduction of CGT in Kenya and thus adding credibility to the information collected.

4.4 Awareness of Re-Introduction of CGT in Kenya

The researcher sought to determine the awareness of the re-introduction of CGT in Kenya amongst the respondents and the findings were that 86.3% of the respondents were aware of the re-introduction of CGT as shown in Figure 4.2 below.

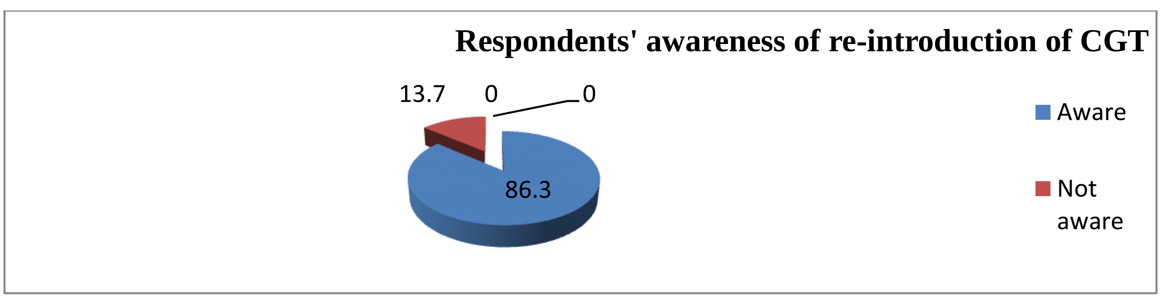

Figure 4.2: Respondent's awareness of re-introduction of CGT

This shows that a majority of the respondents were aware of the re-introduction of CGT and were therefore expected to give credible, accurate and relevant information in regard to the strategic response of their firms due to re-introduction of CGT in Kenya.

4.5 Awareness of Vision and Mission Statements

The researcher sought to determine the awareness amongst the respondents of their vision and mission statements and the findings were as shown in Table 4.1 below.

The findings indicated that majority of the respondents and who make up 87% of the respondents were aware of their firms' vision and mission statements.

Table 4.1: Respondents' awareness of their vision and mission statements

	Distribution	
	Frequency	**Percent**
Yes	45	87
No	7	13
Total	52	100

4.6 Awareness of Firm Strategies

The researcher sought to also determine the awareness amongst the respondents of their firms' strategies and the findings were as shown in Table 4.2 below.

The findings indicated that majority of the respondents and who make up 77% of the respondents were aware of their firms' strategies.

Table 4.2: Respondents' awareness of the various strategies being employed by their firms in attaining the set vision and mission

	Distribution	
	Frequency	**Percent**
Yes	40	77
No	12	23
Total	52	100

4.7 Respondents' Involvement in Formulation of Firm Strategies

The researcher sought to determine the respondents' involvement in formulation of firm strategies and the findings were as shown in Table 4.3 below.

The findings indicated that 100% of those in managerial position are involved in formulation of firm strategies, 71% of heads of department are involved in formulation of firm strategies while only 18% of those in employees category are involved in formulation of firm strategies.

Table 4.3: Respondents' involvement in formulation of firm strategies

Designation	Frequency		Percentage	
	Yes	**No**	**Yes**	**No**
Managers	27	0	100	0
Heads of Department	10	4	71	29
Employees	2	9	18	82
Total	**39**	**13**	**75**	**25**

4.8 Strategic Response Employed due to Re-Introduction of CGT

The researcher sought to find out the strategic response employed due to re-introduction of CGT and the findings were as shown in Table 4.4 below.

The findings indicated that none of the firms had employed any strategic response in light of the re-introduction of CGT.

Table 4.4: Respondents opinion on whether there has been any strategic response by the firms due to re-introduction of CGT

	Distribution	
	Frequency	**Percent**
Yes	0	0
No	52	100

Total	52	100

4.9 Discussion on Findings

The study found that the various estate agency firms in Kenya do not have an in depth understanding of the subject matter of strategic management. This is informed by the fact that none of the respondent firms has developed any strategic responses due to the re-introduction of CGT in Kenya; instead the firms had developed a ‘wait and see’ attitude on how the CGT re-introduction would affect the property prices and therefore demand and supply of real estate products in the property agency market before making any strategic moves.

This is a risky way of doing business considering the highly dynamic modern business environment which could be as a result of good past business performance by the real estate agency firms. The environment in which organizations operate is constantly changing with different factors influencing the organizations (Welch and Welch, 2005). According to Hax and Majluf (1996) state that past performance is no guarantee of what will occur in the future because of uneven changes and discontinuities. The discontinuities refer to the threats faced by organizations and industries that have the potential to undermine the way they do business.

Nandini and Gretchen (1997) argue in their theory of rational lens perspective that rational managers optimize performance by establishing a fit between the firm and its environment through the creation and implementation of a strategic vision. The environment is assumed to be objectively determined and manifested as a source of opportunities and threats.

From the research findings on the strategic response of estate agency firms in Kenya, their lack of strategic response due to the re-introduction of CGT in Kenya goes against the expected strategic management behavior of modern firms which appreciate the fluid business environment which requires constant scanning of the environment in order to re-align and adapt as suitable to the changing business environment for both survival and competitive edge. To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategic responses to survive (Ansoff and McDonnell, 1990). The speed or response time to the environment challenges has been identified as a major source of competitive advantage for numerous firms in today's intensely competitive global economy (Johnson and Scholes, 2002). Strategic response involves changes in the firm's strategic behavior to ensure success in a transforming future environment. It is therefore a reaction to what is happening or expected to happen in the environment (Ansoff *et al.,* (1990).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, the conclusions drawn from the research and recommendations made based on these findings and conclusions on the strategic response by estate agency firms due to re-introduction of CGT in Kenya.

5.2 Summary of Findings

The study established that all the target respondents were aware of their estate agency firms' vision and mission statement. This illustrates that the various estate agency firms appreciate the importance of corporate identity, purpose of existence and corporate direction. This implies that the estate agency firms are being managed and run in accordance to the set vision and mission statements.

The study established that not all members of staff of the various estate agency firms targeted were aware of their firm's vision and mission statements. This illustrates that the general staff are not involved nor do they participate in the formulation of the firm's vision and mission statement.

The study also established that majority of the respondents were not sure whether their firms had a strategy that guided their firms operations. This reinforces the above finding of none involvement and none participation of the general staff both in formulation of the firm vision and mission statements as well as the formulation of the firm's strategies. This is worrying considering that the general staff are the ones involved in execution of the daily tasks which they should be aware whether the tasks they are undertaking conform to the set vision, mission and firm strategies.

The study established that the respondents were unanimous that it's the directors of their firms who come up with the firm strategies. This confirms the above findings of involvement of only top level management in formulation of the firm's vision and mission and firm strategies.

The study also established that in all the respondent estate agency firms there was no specific position or department that dealt with firm strategy. The work of strategy formulation was mainly at the director's level.

The study established that majority of the respondents were aware of the re-introduction of CGT in Kenya. This illustrates that the estate agency firms are aware of the current happenings and developments in the external environment in regard to changes in the laws that affect them like the re-introduction of capital gains tax.

Lastly, the study established that the respondents were unanimous that there had been no strategic response by their firms in the face of the re-introduction of CGT in Kenya. They had instead all developed a wait and see attitude on the impact, if any, on the property prices, demand and supply for them to make a strategic move. This illustrates the lack of preparedness and lack of a proactive approach to the changes in the external environment.

5.3 Conclusion

The study sought to establish the strategic response by the estate agency due to the re-introduction of CGT in Kenya. To this objective, the study concluded that the estate agency firms in Kenya do not have a good understanding of the subject matter on strategic management. This is well illustrated by the fact that despite changes in the external environment by way of a new tax requirement on capital gains, which has a direct bearing on their core business of sale and purchase of property, none of the respondent estate agency firms has put in place any strategic response to deal with the changes.

The study revealed that the managers, heads of department and staff are not involved in formulation of business strategies. They therefore work without pursuing any corporate strategy and this raises fundamental issues of corporate purpose and direction.

From the research findings it is apparent that the estate agency firms are run in a rudderless manner with no proper goals set and no measurable objectives.

5.4 Recommendations

The study recommends that there is need to have the subject matter of strategic management induced into the running of the local estate agency firms in Kenya. The directors, managers and heads of department ought to understand the importance of strategic management in the day to day running of the firms bearing in mind that the business environment globally is never static and is under constant change which requires strategic response in order to survive and align accordingly for purposes of remaining competitive.

The study also recommends that the estate agency firms ought to appreciate the importance of having all members of staff aware of their vision and mission statements. These define a firm's corporate future direction and purpose of existence. Without the staff being aware of the firm vision and mission statement, it means they are not informed of the corporate direction and the purpose of the firm's existence.

The study recommends that it is also imperative for estate agency firms to ensure participation and involvement of their staff in formulation of the vision, mission statements and the strategies to be employed to attain such set vision and mission.

Lastly and bearing in mind that the re-introduction of CGT in Kenya will most likely have a long term effect on the property market, specifically on the property prices, demand and supply of properties, the study recommends that there is need for estate agency firms to put in place plans of strategic response to prepare for such future impact.

5.5 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to the information sought by the study. These challenges were time constraints since the research was being undertaken in a short period with limited time for doing a wider research. Some of the respondents were reluctant to give information freely fearing that the information being sought might be used against them or portray a negative image about their firms. The researcher handled the challenge by carrying an introduction letter from the University of Nairobi and assured the respondents that such information given was to be treated confidentially and it was to be used purely for academic purpose.

5.6 Areas for Further Research

Since this study sought to find out the strategic response by estate agency firms due to the re-introduction of CGT in Kenya, future studies on the same ought to be carried out since the study was carried out only about nine months since the re-introduction of CGT was effected. The effects and strategic responses by affected firms due to the changes in tax requirements like the re-introduction of CGT, sometimes take long to be noticed due to their long term nature.

A similar study ought to be carried out in the future to find out what the effects of such re-introduction of CGT are and what the strategic responses by the estate agency firms are in dealing with such effects,

5.7 Implementation of the study on Policy, Theory and Practice

The study has highlighted the lack of understanding of the strategic management and its importance in firm's response to changes in the external environment. The findings will provide a platform for inducement of the subject matter on strategic management in running of local firms and particularly estate agency firms in Kenya.

The study will also assist Government in developing more consultative approaches when introducing legal changes to the business environment and especially with the findings that local estate agency firms have no strategic responses in place to deal with the re-introduction of the capital gains tax requirements.

Lastly the study has highlighted the need for business administration graduates to translate their knowledge gained through learning of the subject matter strategic management to their areas of work. This will in turn inform the day to day strategic business decisions being undertaken by the local firms.

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APPENDIX I : QUESTIONNAIRE TO BE ADMINISTERED

PART A: RESPONDENT INFORMATION

1. What is your designation at your company?
2. How many years have you worked with the company?

PART B: ORGANIZATION AND STRATEGIC RESPONSES

This section seeks to gather information on the strategies adopted by your company to respond to the re-introduction of capital gains tax

1. Does your firm have a vision and mission statement?
2. Are members of staff aware of the firm's vision and mission statements?
3. Do you have a strategy in place that guides the firm's business operations?
   a) If yes, is the strategy aligned to the firm's vision and mission?
   b) If no, how does the firm go about its business?
4. Who is responsible in coming up with your firm's strategy?
5. Do you have a specific position or department that deals with firm strategy?
6. Are members of staff aware of the various firm strategies?
7. Are members of staff involved in formulation of firm strategy?
8. Are there instances when the firm strategy has been discarded or changed to re-align it to changes internally or externally to the firm?
9. Was your firm aware of the re-introduction of Capital Gains Tax well before it came into effect?
   a) If yes what measures did your firm take in anticipation of the new Capital Gains Tax requirements?
   b) If no, how did this affect your firm?
10. Has your firm come up with a strategy to deal with the new capital gains tax requirements?
    a) If yes, which strategies have been put in place?
    b) If no, how does your firm plan to deal with this new tax requirement?

APPENDIX II : LIST OF REGISTERED ESTATE AGENCY FIRMS

According to the Gazette notice No. 2434 of 10th April 2015, the number of registered estate agents is 305. Out of this and following the sample formula described by Chava F. (1996) a total of 59 registered estate agents form the target respondents. These registered estate agents are directors, partners or employees of the following property agency firms in Kenya:

1. Ark Consultants Limited
2. Ark Consultants Limited
3. Axis Limited
4. Active Homes
5. Afriland Agencies
6. Barloworld Logistics Limited
7. Betterdayz Estates
8. British American Asset Managers
9. Canaan Properties
10. Capital City Limited
11. CB Richards Ellis
12. Colburns Holding Limited
13. Coral Properties Consultants Ltd
14. Country Homes and Properties Limited
15. Crown Homes Management
16. Crystal Valuers Limited
17. Daykio Plantations Limited
18. Double K Information Agents
19. Dream Properties
20. Dunhill Consulting Limited
21. East Gate Apartments Limited
22. Eastwood Consulting Limited
23. Ebony Estates Limited

24. Economic Housing Groups
25. Elgeyo Gardens Limited
26. Fairway Realtors and Precision Valuers
27. FriYads Real Estate
28. Gimco Limited
29. Greenspan Housing
30. Hajar Services Limited
31. Halifax Estate Agency
32. Hass Consult
33. Hewton Limited
34. Homes and Lifestyles
35. Housing Finance
36. Jacent Properties Limited
37. Jimly Properties Limited
38. Jogoo Road Properties
39. Josekinya Enterprises Limited
40. Josmarg Agencies
41. Kali Security Company Ltd
42. Karengata Property Managers
43. Kenya Prime Properties Ltd
44. Kenya Property Point
45. Kenya Valuers and Estate Agents Limited
46. Kilifi Konnection
47. Kiragu and Mwangi Limited
48. Kitengela Properties Limited
49. Knight Frank Limited
50. Kusyombunguo Lukenya
51. Land & Homes
52. Langata Link Estate Estates
53. Langata Link Limited
54. Lantana Homes
55. Legend Management Limited

56. Lloyd Masika Limited
57. Mamuka Valuers (M) Ltd
58. Mark Properties Ltd
59. MarketPower Limited
60. Mentor Group Limited
61. Merlik Agencies
62. Metrocosmo Limited
63. Metropolis Limited
64. Mombasa Beach Apartments
65. Mombasa Homes Limited
66. Monako Investment Limited
67. Muigai Commercial Agencies Ltd
68. Myspace Properties (K) Ltd
69. Nairobi Real Estates
70. Neptune Shelters Limited
71. NW Realite Limited
72. Oldman Properties Ltd
73. Oloip Properties
74. Ounga Commercial Properties
75. Palace Projects Limited
76. Property Investment Network
77. Propertyzone.com
78. Pam Goldings Limited
79. Ryden International
80. Raju Estate Agency Limited
81. Regent Management Limited
82. Tysons Limited
83. Urban Properties Consultants & Developers Limited
84. Value Zone Limited
85. Villa Care Limited

Source: ISK (2014)