# STRATEGIC RESPONSES BY KENYA TOURIST DEVELOPMENT CORPORATION TO CHANGES IN ITS ENVIRONMENT

**ODONGO TOM**
**Reg. No: D61/P/7037/03**

**SUPERVISOR: DR. JOHN YABS**

**A research project study submitted in partial fulfilment of the requirements for the degree of Master in Business Administration**
**School of Business,**
**University of Nairobi**

Date: October 2008

## Declaration

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

Signed____________________ Date 7/11/2008____________________

ODONGO TOM OTIENO
D61/P/7037/03

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

Signed____________________ Date 8/11/2008____________________

DR. JOHN YABS
LECTURER
DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY OF NAIROBI

## Dedication

I dedicate this proposal to my dear wife Maureen for the support she gave me during the exercise.

## Acknowledgements

My special thanks to my Supervisor without whose guidance and constant advice this work would not have been completed.

## Acronyms/Abbreviations

| | | |
|---|---|---|
| GOK | - | Government of Kenya |
| KTDC | - | Kenya Tourist Development Corporation |
| WTO | - | World Tourism Organization |
| MTEF | - | Medium term Expenditure Framework |
| DFI | - | Development Financial Institution |
| PRSP | - | Poverty Reduction Strategy Paper |
| ERS | - | Economic Recovery Strategy for Wealth and Employment Creation |
| GNP | - | Gross National Product |
| GDP | - | Gross Domestic Product |
| WTTC | - | World Travel and Tourism Council |
| CBK | - | Central Bank of Kenya |
| COMESA | - | Common Market for Eastern and Southern Africa |
| PTA | - | Preferential Trade Area |
| EAC | - | East Africa Co-operation |
| KTB | - | Kenya Tourism Board |

# TABLE OF CONTENTS

# CHAPTER 1: INTRODUCTION

## 1.1 Background

### 1.1.1 Concept of Strategy

A strategy is a pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole (Quin, 1980). A strategy also defines the range of business the organization is to pursue, the kind of economic and non-economic contribution it intends to make to its shareholders, employees, and the communities (Andrew, 1980). Johnson & Scholes (2003) defines strategy as a process that matches resources and activities of an Organization to the environment in which it operates. They argue that strategic fit which involves developing strategy 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 time.

Strategic fit recognizes that organizations are not independent, self-sufficient entities existing in a vacuum (Jennings P, 2004). They are subsets of society, reflecting the cultural norms of the communities in which they operate. Each organization is set in a particular environment that provides multiple contexts that affect the organization and its performance. A host of external factors influence a firm's choice of direction and action and, ultimately, its organizational structure and internal processes (Pearce and Robinson, 2004). Ansoff (2006) states that for a firm to optimize its competitiveness and profitability and indeed long-term sustainability, it has to match its strategy and supporting capability with the environment.

When trying to define an organization environment, it is helpful to differentiate between directly influential, indirectly influential and residual elements (Jennings P, 2004). The effects of these influences however can only be detected or experienced through interaction between internal and external stakeholders. To achieve strategic fit, management must be able to analyze what activities will be welcome and supported by which stakeholders and why, taking into account the probability that what is and is not supported will inevitably change over time.

Different environments demand different strategies for organizations to succeed. According to Andrews (1980), the way in which distinctive competences, organizational resources, and organizational values are combined is unique for each organization and each situation. Organizations are open systems, and the external environment in which they operate is very important (Pearce and Robinson, 2007). Organizations need support from their environment if they are to survive and perform well. The environment is the key factor in determining the level of available resources and the ease with which an organization can carry out its activities.

Management need to devise a strategy for each type of environment with a different degree of aggressiveness, where aggressiveness is defined as the degree of discontinuity between each succeeding generation of products, technologies and marketing concepts (Ansoff and McDonnel, 1990). Environments are not fixed but change their position, influence, texture and so on (Jennings P, 2004). Organization response can only occur when there is a shared mental model of the impact of the environment upon the organization.

In dynamic environment like the one KTDC operates in, Jennings (2004) suggests that the strategy should be novel, based upon the creativity of decision makers. Strategic adaptation is now a much more creative process recognizing that reactive flexibility is a necessary, but not sufficient condition. Only those organizations with visionary leadership able to both conceive and enact strategic fit will be able to survive.

Porter's Seminal Five Forces Model and Generic Competitive Strategic (Porter, 1980) typify the analysis, which are said to support strategic decision-making within the positioning perspective of strategic management that is wholly grounded in the concept of strategic fit. Whilst the organization can in the short term employ a number of competitive tactics that can briefly influence company profits, these types of analyses are founded on the assumption that in the long term it is the environment that determines competitive strategy in a direct and deterministic mode.

Jennings (2004) argues that organizations are assumed to be passive, simply responding to environmental changes and surviving by optimizing the relationship with external stakeholders to maintain strategic fit. The question that researchers have been arguing about remains however, does the organization simply respond reactively and uniformly to change in the environment, or are there ways in which those changes can be influenced to create the type of environment that organization members would prefer?

### 1.1.2 Kenya Tourist Development Corporation

Kenya Tourist Development Corporation (KTDC) is a state corporation established in 1965 under an Act of Parliament, Cap 382 of the Laws of Kenya. The Corporation was formed to provide financing to investors in the tourism industry. KTDC's business purpose is to provide financing to the tourism industry in the form of loan and equity financing. Loan financing is provided under two broad programmes, notably the Revolving fund and the Commercial Loans programme. According to the Act, KTDC mandate is to facilitate and finance development of tourism and tourism related facilities in Kenya.

Equity funding is in the form of joint partnerships where the Corporation can invest in projects in partnership with others. KTDC also offers business advisory services to the tourism industry, from which the Corporation earns additional income.

KTDC is Kenya's first development financial institution with this mandate, and today the only DFI that wholly finances the tourism industry in Kenya. Since its founding in 1965, the corporation's asset base and equity portfolio has grown to Kshs 1 billion, with a 10% market share in number of beds of the total lodging supply in Kenya. While KTDC provides financing, it operates purely as a State corporation and not as a commercial bank, a factor that gives it significant leeway in terms of innovation and operational efficiency vis a vis banks and financial institutions.

The KTDC vision is "To be the leading and most reliable Development Financial Institution (DFI) providing affordable and accessible financial facilities and advisory services to the tourism industry".
The KTDC mission statement is to "develop and diversify Kenya's tourism industry by providing a range of advisory and financial services to investors in tourism related enterprises."

Since Project financing for the Tourism Industry has been and remains KTDC's core business. The government being the major shareholder of the Corporation has enabled the corporation to provide and continue to provide much needed financing on soft terms. Initially, the Kenyan Government funded Tourism projects through annual budgetary allocations through KTDC. Budgetary support ceased in the 1980/81 financial year and the Corporation has continued with its developmental programmes, through internally generated funds.

Government key policy papers identify KTDC as one of the government agencies that will continue to play an important role in the country's economic development in terms of Gross Domestic Product contribution, foreign exchange earnings and employment. Key policy papers noted are the Poverty Reduction Strategy Paper (PRSP), Economic Recovery Strategy for Wealth and Employment Creation (ERS). Tourism in Kenya remains one of the most important activities and is critical to our nation's future. The government has selected tourism as one of the leading sectors in achieving the goals of the Vision 2030. Kenya aims to be among the ten long haul tourist destinations in the world, offering a high-end, diverse and distinctive visitor experience that few of her competitors can offer.

## 1.2 Statement of the problem

The commercial banks have changed their strategy over the last decade by venturing into products that were a preserve of specialized Development Financial Institutions (DFI's). When facing domestic competition, scholars have pointed out that market incumbents need to carefully analyze their new rivals, identify their source of competitive strength and adapt their strategies accordingly (Kumar, 2006).

An organization must continuously monitor its environment and adjust its plans accordingly when undesired results are detected to maintain a fit between operating environment and itself. (Pearce and Robinson, 2007). A well-developed strategy would reflect the firm's awareness on how, when and where it should compete, against who and for what purpose. Johnson and Scholes (1999) agree with the strategy by stating that careful analysis of resources and their allocation become very important in a competitive environment.

KTDC is operating in not only a stiff competition environment but also it faces challenges of inadequate financial allocations that make it very difficult for it to survive with the multi-national banks with stable liquidity position. It is in this regard therefore that KTDC must re-position itself by continuously monitoring its environment and by adjusting its plans accordingly when undesired results are detected to maintain a fir between the operating environment and itself (Ansoff, 2006).

Strategic behaviour reflects firm's attempts to pursue profit and utility objectives given the constraints imposed by the institutional environment and the interdependence that exists among market actors (North, 1990). Strategic behavior includes investment in production facilities, research and innovation, pricing practices, non-price competition, and the organization and governance of relations with suppliers and clients.

The effective and efficient management of information across an enterprise and detailed understanding of the business environment is critical to long-term sustainable success. The correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations and boost the fulfillment of its strategic goals (Venkalraman and Prescott, 1990).

The external environment may be perceived broadly along two dimensions; (i) Sources of impact i.e. environmental segments such as regulations, competitor, supplier and customer; and (ii) the nature of impact (Complexity, dynamism and hostility) (Dess and Beard, 1984, Miller, 1992). Together, these two dimensions describe the business environment affecting firms operations. Both dimensions depend upon and reinforce each other (Scott, 1987).

According to Porter (1979), customers, suppliers and competitors i.e. existing and potential competitors in the same and substitute industries all shape competition in an industry. Similarly, in his integrated environment management framework, Miller (1992) categorizes the dimension of the industrial environment as Input (Suppliers), Product (Customer) and Competition (Competitors).

## 1.3 Objectives of the Study

i. To determine challenges facing KTDC in implementing its mandate.
ii. To determine how KTDC has been responding to environmental changes.

## 1.4 Importance of the study

The study will assist KTDC and other similar Development Financial institutions appreciate the need to align their strategies to changes in the environment. The study will also provide a body of knowledge on the benefits accruing to Organizations as a result of strategic fit. The study is therefore a contribution to the debate justifying the existence of Development Financial Institutions (DFIs) in various sectors and in particular the Tourism Sector.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 The Concept of Strategic Response

There is general consensus in the strategy literature that successful firms alter strategy to address changes in their environments and enact more favourable conditions. Different beliefs about cause and effect have been established as a plausible explanation for differential responses to environmental change. According to Pearce & Robinson (1991), strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. It is thus a reaction to what is happening in the Organizations environment. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides groundwork for strategic agenda in action.

Scholars have demonstrated that firms changing strategy in response to changes in the environment outperform those that maintain current strategies in the face of new circumstances (Haveman, 1992; Smith and Grimm, 1987). Ansoff and MacDonnel (1990) observe that strategic diagnosis identifies whether a firm needs to change its strategic behaviour to ensure success in the future environment. If the diagnosis confirms the need, the next step is to select and execute specific actions, which will bring the firms aggressiveness and responsiveness in line with the future environment.

## 2.2 Organization, Environment and Strategy

The alignment between strategy and environment lies at the center of strategic management (Luo, Tan & O'Connor, 2001). The difficulties faced by companies make them configure their strategies with environmental dynamics. The contribution of strategy to firm growth largely depends on its alignment with external environment. The particular approach of analyzing dimension of an uncertain environment in isolation from other dimensions has recently come under criticism (Miller, 1992).

Environment should be viewed as a multidimensional construct (Duncan, 1972). Broadly, the external environment may be perceived along two dimension; (i) sources of impact i.e. environmental segments such as regulatory, competitor, supplier and customer; and (II) the nature of impact (Complexity, dynamism and hostility) (Dess and Beard, 1884, Miller 1992).

Hunger & Wheelen (1995) observes that the environment consist of variables that form the context within which firms exist. For survival, an Organization must maintain a strategic fit with both the external and internal environments. An Organization's external environment includes economic forces, socio-cultural, demographic, political and technological forces while its internal environment include the Organization's systems, policies, resources capabilities and corporate culture (Pearce & Robinson, 1991).

Strategy is largely fixed while the environment is mutable. Such a change can either be achieved if firms relocate themselves into a more favourable environment or if the environment is actively manipulated in favour of the firm's strategy. Strategic choice theory suggests that companies wither can remain in their given environment pursuing a dedicated strategy best suited in response or can decide to change the environment by moving into product segments with little competition or erecting barriers to thwart imports from countries (Porter, 1980). The difficulties faced by companies make majority of them configure their strategies with environmental dynamics (Luo, Tan & O'Connor, 2001). Facing these difficulties, companies are likely to have different strategic responses to environmental dynamics than freestanding, autonomous domestic businesses. The later are generally more proactive and innovative in response to emerging opportunities in advanced market economies (Miller and Friesen, 1983)

### 2.3 Organization response to the Dynamic Environment

A key aspect of the analysis of a firm's strategy is the interaction between the strategic choice and its environmental context. Strategy scholars argue that environment and strategy interact in a dynamic coalignment process. According to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Mahoney and Pandian, 1992).

Consistent with the resource-based view, Mintzberg (1973) considers strategy as a pattern stream of decisions, which allocate resources to reach consistency between a firm's strategy and its environment. However, in case of inconsistency, strategic choice theory (Child, 1972) suggests two distinctive categories of strategic action to resolve this misfit. They argue that organizational strategies refer to situations where companies seek to actively fit their strategies to the existing environment; the environment perceived as being given, while the strategy can be adapted. Alternatively, 'environmental strategies' aim at manipulating the environment in such a way that fit between strategy and the environment is established.

## 2.4 Product Differentiation Strategy

Product differentiation strategies strive to create unique products that are not easily matched by other competitors and thereby alleviate cost pressure on the firm (Porter, 1980). Availability of latest technology is crucial for product innovation while market knowledge allows firms to re-engineering themselves to fight competition.

KTDC needs to develop differentiation as a strategy being the only DFI in the Tourism sector. Porter (1980) states that differentiation strategy is one of differentiating the product or service of the firm creating something that is perceived industry wide as unique. The aim of differentiation is to achieve higher market share than competitors that could in turn yield cost benefits by offering better products or services at the same price or enhanced margins by pricing slightly higher. Approaches to differentiating can take many forms i.e. Design or Brand image, Technology, Features, Customer services, Dealer networks or other dimensions (Johnson & Scholes, 2003). In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1980).

## 2.5 Competitive Advantage Strategy

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1980).

Porter (1985) defines Competitive Advantage as the advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies higher prices. The overall efficiency of an Organization originates from the various Organizational segments i.e. Marketing, Human Resource, ICT development, Good leadership. These combinations provide a company wide commitment to efficiency and facilitate cooperation among functions.

Prehald and Hamel (1990) suggest that firms combine their resources and skills into core competences and distinctive competence. Core competences are those activities that a company does best in relation to others while distinctive competence is what a firm does best than its competitors.

The strength of the Organization's culture is one of the most fundamental competitive advantages. If it can build and preserve an innovation-adept culture, a culture of commitment, one where employees passionately pursue the Organization's cause and mission, there will be better positioned for success. It is important for a company like KTDC to adopt 7-S Model in achieving a sustainable competitive advantage. The Seven-Ss is a framework for analyzing Organizations and looking at the various elements that make them successful, or not. The framework has seven aspects: strategy; structure; systems; style; skills; staff; and shared values. To improve, companies have to pay attention to all seven of the Ss at the same time. All seven are interrelated, so a change in one has a ripple effect on all the others. Hence it is impossible to make progress on one without making progress on all.

# CHAPTER 3: RESEARCH METHODOLOGY

## 3.1 Research Design

This study was conducted through a case study design. This is deemed an appropriate design, as the study involves an investigation of sustainable competitive strategies in a specialized Development Financial Institution. The study deals with processes that take place and their interrelationship. The object of the case study is to locate the factors that account for the behaviour patterns of the given unit as an integrated totality.

The research design is chosen because the objectives of the study requires an in-depth understanding of the challenges facing Kenya Tourist Development Corporation and the specific strategies it has put in place in the changing competitive environment. A case study of KTDC is justified because it is the only DFI that focuses on financing projects in the tourism sector.

## 3.2 Data Collection Method

The study involved personal interview method of primary data collection to obtain the strategies KTDC has put in place to deal with changes in its environment. This was done using interview guide. The guide was used to interview the Chief Executive Office and heads of department. The target population was preferred considering the fact that KTDC is a single organization and it is the top management who develop strategies. According to Kothari (2002) this method is particularly suitable for intensive investigation.

Secondary data was collected by checking relevant information from Government records like Economic Surveys, Tourism Journals, Media and Central Bureau of Statistics.

### 3.3 Data Analysis

The collected data was analyzed using content analysis because the study solicited for data that is qualitative in nature, and given that it is a case study where respondents will be drawn from a single Organization. Content analysis technique uses a set of categorization for making valid and replicable inferences from data to their context.

The technique was used on the basis of the fact that subjecting the collected data to content analysis allows the researcher to learn about underlying attitudes, biases, or repeating themes.

# CHAPTER 4: DATA ANALYSIS AND FINDINGS

This chapter highlights how the interview guide was administered and data analyzed. The collected data has been analyzed and interpreted in line with the aims of the study, namely, determine challenges facing KTDC in implementing its mandate and determining how KTDC has been responding to environmental changes.

## 4.1 The Profile of Kenya Tourist Development Corporation

The government of Kenya established the Kenya Tourist Development Corporation (K.T.D.C) in 1965 under an Act of Parliament, Cap 382 of the Laws of Kenya. The Corporation was formed to provide financing to investors in the tourism industry. KTDC's business purpose is to provide financing to the tourism industry in the form of loan and equity financing. Loan financing is provided under two broad programmes, notably the Revolving fund and the Commercial Loans programme.

Two fundamental reasons dictated the need for a strong financial intermediary in Kenya's tourism sector; (i) Kenya obtained independence in 1962. As a newly independent country, Kenya needed to rapidly develop its industrial, agricultural and tourism sectors. KTDC was an instrument of choice to accelerate long-term investment, achieve rapid economic growth and create employment in the tourism industry envisioned in the national development plans and (ii) the financial sector traded in traditional commercial banking activities that do not support long-term investment in national development. KTDC was therefore a major developmental conduit for the Government in long term project financing in Kenya.

The KTDC Act therefore specifically targets the provision of funding to tourism investors in Kenya.

Since, Project finance for the Tourism Industry has been and remains KTDC's core business. The government being the major shareholder of the Corporation has enabled the corporation to provide and continue to provide much needed financing on soft terms.

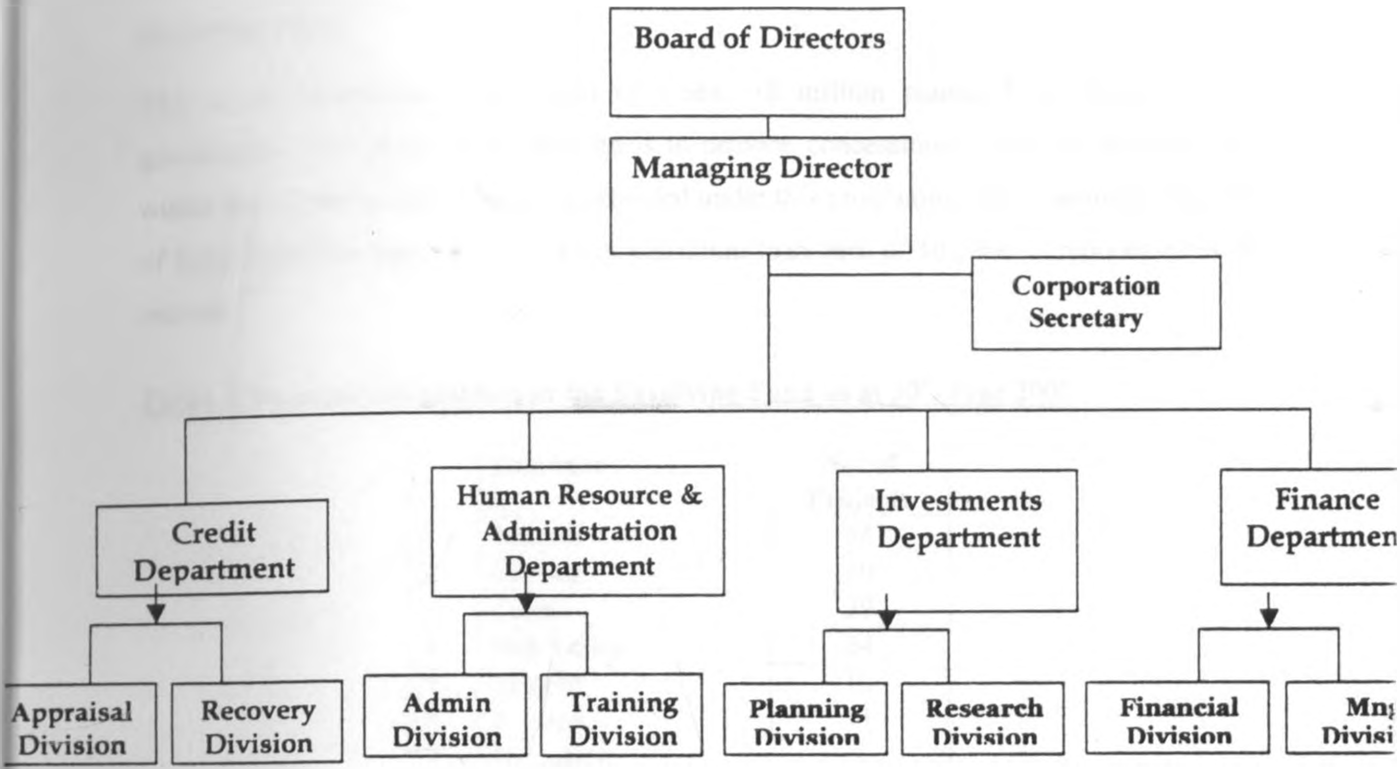
Initially, the Kenyan Government funded Tourism projects through annual budgetary allocations through KTDC. Budgetary support ceased in the 1980/81 financial year and the

Corporation has continued with its developmental programmes, through internally generated funds.

From income earned through its financing activities, the Corporation has, through the years acquired assets and invested in further companies that have generated additional income to the corporation that has led to the self-sustainability that the Corporation is today.

KTDC has a board of directors appointed by the government. The Managing Director heads the management team of the Corporation. The Corporation is currently divided into four departments See illustration below.

Figure 1. KTDC Organization Chart




### 4.1.1 KTDC Operations

KTDC's business purpose is to provide financing to the tourism industry in the form of loan and equity financing. Loan financing is provided under two broad programmes, notably the Revolving fund and the Commercial Loans programme. To date, the Corporation has provided loan financing to 171 tourism facilities in various regions across the country.

Equity funding is in the form of joint partnerships where the Corporation can invest up to a maximum of 25% of the total project costs.

KTDC also offers business advisory services to the tourism industry, from which the Corporation earns additional income.

### 4.1.2 KTDC Loan Financing

**Revolving Fund**

This is an irredeemable seed fund of KShs. 48 million managed on behalf of the government. The objective of the fund is to provide concessional credit to entrepreneurs within the tourism sector. Loans are extended under this programme on a maximum amount of Kshs 10 million per borrower over a maximum loan term of 10 years at reduced rates of interest.

**Table 2: Regional distribution of the Revolving Fund as at 30th June 2007**

| | Province | No. of Projects |
|---|---|---|
| 1 | Nairobi | 54 |
| 2 | Central | 10 |
| 3 | Coast | 29 |
| 4 | Rift Valley | 24 |
| 5 | Eastern | 10 |
| 6 | Nyanza | 11 |
| 7 | N/Eastern | 1 |
| 8 | Western | 7 |
| | **Total** | **146** |

**Source: KTDC, 2007**

**Commercial Loans Programme**

Under this programme, loans are advanced to well established tourist enterprises, including high-class hotels and travel organizations, at commercial rates of interest, for a maximum period of 10 years and for any amounts between Kshs. 10 Million and KShs. 50 Million.

**Table 3: Regional distribution of the Commercial Loans**

| | Province | No. of Projects |
|---|---|---|
| 1 | Nairobi | 9 |
| 2 | | - |
| 3 | Coast | 4 |
| 4 | Rift Valley | 2 |
| 5 | Eastern | 4 |
| 6 | Nyanza | 2 |
| 7 | N/Eastern | - |
| 8 | Western | 4 |
| | **Total** | **25** |

**Source: KTDC, 2007**

**KTDC Equity Portfolio**

As at June 2007 KTDC has equity participation in 14 investments in 8 provinces in the country from which dividend income is expected. Equity participation is illustrated as follows:

**Table 4: KTDC Equity Participation in Subsidiary Companies**

| | Subsidiary Units | Equity Participation (%) |
|---|---|---|
| 1 | Kenya Safari Lodges & Hotels Ltd. | 63.4 |
| 2 | Bomas of Kenya Ltd | 100.0 |
| 3 | Mt. Elgon Lodge Ltd. | 72.9 |
| 4 | Sunset Hotel Ltd. | 95.4 |
| 5 | Utalii Investments Ltd. | 100.0 |
| 6 | Kabarnet Hotel Ltd. | 98.2 |
| 7 | Kakamega Hotel Ltd | 80.0 |

**Source: KTDC, 2007**

**Table 5: KTDC Equity Participation in Other Companies**

| | Subsidiary Units | Equity Participation (%) |
|---|---|---|
| 1 | International Hotels (K) Ltd (Hilton Group) | 33.1 |
| 2 | Mountain Lodges Ltd. | 39.7 |
| 3 | Buffalo Springs Ltd. | 41.0 |
| 4 | Maralal Safari Lodge Ltd. | 15.0 |
| 5 | Kenya Hotel Properties Ltd (Intercontinental Group) | 33.8 |

**Source: KTDC, 2007**

Initially, the equity investment strategy was to provide venture capital, which entailed the divestiture of mature investments and re-investment of proceeds in new projects. The exit strategy however, was not implemented as the bill on Privatization had not yet been passed through parliament. However, the Bill has since been passed and the Privatization Act 2005 is now in force. KTDC has since received communication from the Treasury to prepare its subsidiary and associated companies for divestiture.

**KTDC Asset Portfolio**

From income earned through its financing activities, KTDC has acquired assets in Nairobi, Mombasa, and Kitale. The Corporation owns Utalii House, Watalii plot opposite Hilton hotel, Mombasa Island Plot, a Kitale Plot and a 3 bed roomed house in Lavington Estate in Nairobi.

The Utalii house is a major income earner, rented as offices to the general public, on commercial basis. The Residential house in Lavington is also rented out on a residential basis. All the Plots that the Corporation owns are rented out to members of the public.

## 4.2 Challenges facing KTDC

### 4.2.1 Competition

The financial sector in which KTDC is a significant player is divided into the following categories; Commercial banking sector; Non-bank Financial Institutions (NBFIs); Venture Capital Institutions and Development Finance Institutions (DFIs).

**Commercial Banking Sector**

Currently there are over 50 commercial banks in Kenya, four of which have a major network of branches all over the country. This sector controls over 76% of total deposits. Commercial banks are a major source of funding predominantly on short-term basis. Advances are usually made in the form of overdraft facilities or term-loans of up to one-year maturity, although loan can be extended up to a maximum period of five years. Recent developments in this sector also indicate National banks are closing down their branch network around the country. Any anticipated role in facilitating financial resources for development is foreseen as minimal.

**Non-Bank Financial Institutions (NBFIs) and Others**

This sector includes Building Societies, Savings and Credit Cooperative Societies, Insurance Companies, etc. Lending is predominantly on a short-term basis but can also be extended on medium-term periods seldom exceeding five years. Like commercial banks their source of funds consists mainly of short-term deposits mobilized locally. These institutions however, rely less on demand deposits and more on time deposits that enable them to lend for longer terms compared to commercial banks. Long term lending is not however a characteristic of NBFI's.

**Venture Capital Institutions**

There are several venture capital institutions operating in Kenya. It may be noted, that the minimum lending platforms of these institutions are high, therefore the reach to the general public is very limited.

Furthermore, being private organizations whose primary objective is profit on capital invested, participation in the industrialization process, is only guaranteed where a significant return is expected and there is minimal risk.

**Competitive Constraints**

The demand for the Kenyan product is on the upward trend. From the statistics analyzed and reported the increase of 30% in the last quarter of 2005 is the highest the country has seen in the past seven years. Recent reports that indicate increases of above 30% in the overall demand cannot be accommodated in the current classified lodging supply.

Being the major driver for development of the Kenyan tourism product, within today's environment, KTDC faces the following constraints in order to become more competitive. These constraints are noted in order of significance as follows:

### 4.2.2 The KTDC Act

Subsection (3) (a) of the KTDC Act, limits borrowing powers to a maximum of Kshs 265 million, which is insufficient to meet the current market demand in the development of tourism facilities. Proposals to amend the Act and increase this ceiling have already been forwarded to the government and are currently awaiting approval.

### 4.2.3 Inadequate Funding

Non - provision of additional capital budgetary allocation and/or guarantees have contributed to low capital base and consequently reduced KTDC developmental capacity and capability.

### 4.2.4 Inadequate Infrastructure Services

A reliable power supply, road network, water and telecommunication facilities are essential to promote the investment climate.

### 4.2.5 Government Controls

Due to bureaucracy, policy decisions have been delayed adversely affecting KTDC operational activities and strategies to develop tourism in the country and operate as a profitable enterprise

### 4.2.6 Focused Corporate Governance

External interference particularly relating to political influence has affected the management, investment and subsequently the operational performance of KTDC as a Corporation and KTDC investments. Over 70% of default in the non-performance of investments can be attributed to this factor, that in-turn has resulted in bad debt and non-performance of investments.

### 4.2.7 Competitive advantage

**Developmental capability and structure**

KTDC is known to promote local tourism development and in this way has opened up remote areas of tourism despite the developmental constraints. The Corporation is capable to promote new concepts that are viable in these areas, despite the lack of infrastructure. This is particularly true in the area of the Ecotourism demand and supply.

**Development of the Lodging Industry**

KTDC has facilitated the development of competitive facilities in prime locations increasing bed capacity for the Lodging industry and has also acquired large stakes in the Industry on the behalf of Kenyans.

146 indigenous private investors have been assisted, in which the marketing effect of disbursements recovered and assets acquired has financed over Kshs 1 billion in investments in the overall industry as of June 2005. Successful investments have spurred further investment through forward and backward linkages.

**Impacts on Poverty reduction**

In line with government policy on Poverty Reduction and Employment Generation, KTDC has facilitated the creation of jobs, through the development of tourism and tourism facilities as:

'One hotel bed generates 0.8 persons through direct employment. One person directly employed generates 1.31 indirect employees outside of the hotel.' (National Tourism Master Plan by JICA 1995). Again due to the diversity of investments all over the country, the Corporation has earned a lot of Goodwill from the general public at large.

**Lending capability**

The far most advantage in the current market is the fact that KTDC can lend on a long-term basis at concessional interest rates and provide technical expertise in supervision of projects in the tourism sector. A characteristic of the global Tourism industry is that due to the capital-intensive nature of the industry and the volatility of the demand, the industry cannot sustain short term lending for developmental purposes. It is therefore in this way that KTDC has competitive advantage and captures the demand for financing in the development of the Tourism industry as a whole.

# CHAPTER 5: SUMMARY, DISCUSSIONS AND CONCLUSIONS

This chapter gives a summary of the findings, discussions, conclusions and recommendations drawn from the survey.

## 5.1 Summary

In this section, the results of the study are summarized, discussed and conclusions drawn in line with the research objectives. The results indicate that despite several challenges, demand for funding in the tourism industry has increased over the years. This is due to the performance of tourism sector in the growth of Kenyan economy over the years.

KTDC also has been responding well to environmental changes having right sized in the year 2007 to have a lean and efficient workforce to come with the environmental changes.

## 5.2 Conclusions

The performance of KTDC in the recent past has been very poor due to lack of funding by the exchequer, poor management and political interference. For KTDC to position itself strategically and have a strategic fit in the industry, it is recommended that the following needs to be done: -

### 5.2.1 Government Funding

The government should set aside a percentage of revenue generated to the exchequer from the tourism sector for lending to the sector for refurbishment of existing facilities and offering of concessionary rates to start-up projects.

### 5.2.2 Review of Strategic Plan

KTDC Strategic Plan should ensure that the funds are accessible to the wider business community, emerging entrepreneurs, micro enterprises, sole traders and the informal sector

### 5.2.3 Development of Manpower

KTDC needs to beef up the technical departments to provide technical assistance to potential entrepreneurs. It currently only operates from Nairobi without any branch network to take services closer to the people.

### 5.2.4 Competitive Strategy

KTDC needs to undertake a study on zoning of regions with high tourism potential in Kenya and to specify the kind of facilities that can be viable in each zone. This will help preserve fragile lands or bio-diverse hotspots that require meticulous carrying capacity management. Some of these areas are noted as; National Parks and game reserves, the entire Coastal region, Tana River region, and the Mt. Kenya region.

KTDC needs to enter into strategic alliances with commercial banks and mortgage firms that can avail funds for onward lending to potential projects that KTDC has appraised. This approach will reduce over-reliance on government financing.

## 5.3 Limitations of the Study

The study focused on management perspective. It would have been of value to obtain the views of other stakeholders such as hotels and restaurants, tour operators, airlines, curio and Handicraft traders, ministry of Tourism officials and private sector organizations like KATO, KAHC etc.

## 5.4 Recommendation for further Research

A further study needs to be conducted to establish the link of development of tourism facilities vis-à-vis the marketing strategies and tourism numbers both local and domestic.

### 5.5 Recommendation for Policy changes

The policy and legislative framework under which KTDC operates has not kept pace with the changes in the operating environment. The Organization's capacity to fulfill its mandate has therefore been curtailed. KTDC needs to be proactive in policy and legislative reviews and enforcement to ensure its sustainability.

KTDC being the only DFI in Tourism Sector, it needs to offer competitive products to help in improving the standards of tourism facilities in the country. The government needs to resume funding of the corporation as a sustainable way of ensuring that funds are available to all industry players at competitive rates.

# REFERENCES

Ansoff I and McDonnel E (1990), Implanting Strategic Management, 2nd Edition, Prentice Hall, Hemel Hempstead.

Child, J (1972), Organizational Structure, Environment and Performance: The Role of Strategic Choice, Sociology Journal, 6, 1-22.

Dess, G and Beard D, (1984), Dimensions of Organizational Task Environment. Administrative Science, Quarterly 29.

Duncan J (1972), Characteristics of Organizational environments and Perceived Environmental Uncertainty, Administrative Science Quarterly, 17 pp 313-327.

Haveman, H.A (1992), Between a rock and a hard place: Organizational Change and Performance under conditions of fundamental environment al transformation, Administrative Science journal, quarterly 37, p 48-75.

Hax, and Majluf (1996); The Strategy Concept and Process: A Pragmatic Approach. 2nd ed. Prentice Hall.

Jennings L. Peter (2004): Strategic adaptation: A uni or multi dimensional concept; Strategic Change Journal, Vol. 13, issue 1.

Johnson and Scholes (2003), Exploring Corporate Strategy: Texts and Cases, Publisher: 7th Ed, Prentice Hall.

Kenya Tourist Development Corporation (K.T.D.C) Act of Parliament, Cap 382 of the Laws of Kenya (1965).

Kothari, C.R. (2002); Research Methodology: Methods & Techniques, 2nd Edition, Jaipur, New Age International (P) Ltd.

Luo Y, Tan J, and O'Connor N, (2001). Strategic Response to a Volatile environment: The Case of Cross-Cultural Cooperative Ventures, Journal of Management, 18, pp 7-25.

Mahoney, J. T. (1992), The Adoption of the Multidivisional Form of Organization: A Contingency Model. Journal of Management Studies, 29 (1), pp. 49-72.

Miller, K.D (1992), A Framework for Intergrated Risk Management in International Business, Journal of International business.

Mintzberg, H (1973), The nature of Managerial Work, Harpercollins College Div

North, D.C (1990). Institutions Institutional Change and economic Performance. New York, Cambridge University press

Scott W.R (1987). Organizations: rational, Natural and Open Systems (2nd Edn) Englewood Cliffs, NJ Prentice-Hall.

Pearce & Robinson, 1991; Strategic Management: Formulation, Implementation and Control, 8th Edition, Business week Mc Grawhill.

Pearce and Robinson (1991); Strategic Management, Fourth Edition, Irwin Professional Pub, February 1991.

Porter, M.E. (1980); Competitive Strategy, The Free Press, New York, 1980.

Rubin, R.B, Rubin A.M. & Piele L.J. (1990); Communication Research: Strategies and Sources, 2nd Edition, Belmont, California, Wadsworth, Pg. 182-183.

Smith K.G, Grimm C,M & Guthrie P (1987), Environmental Change and Management Staffing: a reply, Journal of Management, 19; 889-896.

Venkalraman N and Prescott J.F, 1990. Environment Strategy Coalignment; An Empirical Test of Its Performance Implications. Strategic Management Journal, 11, pp 1-23.

Wheelen and Hunger (1995); Strategic Management and Business Policy, 5th Edition, Addison-Wesley Publishing Co., 1995

# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

17th October, 2008

Dear Respondent,

**RE: MBA RESEARCH PROJECT**

I am a student at the University of Nairobi, and am carrying out a research study as a requirement for the fulfillment for award of Master Degree in Business Administration.

I am conducting a case study with the sole purpose of gathering information on "**Strategic Responses By Kenya Tourist Development Corporation to Changes in Its Environment".**

This study is being carried out for management project paper as a requirement in the partial fulfillment of the degree mentioned above.

The information and data required is needed solely for academic purposes and will be treated with a very high degree of confidentiality.

Your cooperation will be highly appreciated.

Thank You.
Yours faithfully,

ODONGO TOM
STUDENTS

DR. JOHN YABS
SUPERVISOR

## APPENDIX II: INTERVIEW GUIDE

**Top Management Team**

Name of the Respondent ________________________________________

Position ______________________________ Date ________________

**SECTION A: Profile of Respondent**

1. How many years have you been with KTDC

   ----------------------------------------------------------------------------------------------------

2. What is your current position in the organization

   ----------------------------------------------------------------------------------------------------

3. How many years have you been in the present position

   ----------------------------------------------------------------------------------------------------

**SECTION B: Profile of Kenya Tourism Development Corporation (KTDC)**

1. What is the role of KTDC

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------------------

2. How many directors does KTDC have and What is the composition?

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

3. How many staff does KTDC have?

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

4. Are all position filled according to the Organization Structure?

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

5. What percentage of the established structure is currently filled?

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

6. How many branches does KTDC have?

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------

7. What are the sources of funds for KTDC?

8. What percentage of KTDC annual budget comes from the government?

9. What are the challenges facing KTDC?

10. Do you have Strategic Plan?

---

11. If yes, what period does it cover?

---

12. How often is it revised and by whom?

---

13. What are the organizations strategic objectives

14. How are the objectives developed

15. Does KTDC have operational plans?

a. If NO, Why?

b. If YES, How frequently are the plans reviewed?

16. Who are the key participants in the development of operational plans?

17. What achievements has KTDC made since inception in 1966

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

18. How does KTDC respond to competition in the market?

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------

19. Who are your main clients?

20. What is your general description of the competitive environment in which you operate?

21. How does KTDC relate it's strategic with the government Tourism Master Plan and Vision 2030?

22. What mechanisms are in place to address the challenges faced by KTDC?

23. How often are you evaluated in implementation of KTDC mandate?

---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------

24. What is your view on market demand in KTDC products?

---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------

25. Which specific products have greater demand?

---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------------------------------------

26. How would you evaluate the decision-making process within your organization?

27. What problems do you think the organization is facing that hinders it from providing efficient service?

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

28. How do you think they can be addressed?

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

29. In your own assessment, where will KTDC be in the next five years?

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------

-----------------------------------------------------------------------------------------------------------