

**RESPONSE STRATEGIES ADOPTED BY AUDIT FIRMS OPERATING IN  
NAIROBI TO CHANGING OPERATING ENVIRONMENT IN KENYA**

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**DECLARATION**

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

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**D61/63302/2011**

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

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## **DEDICATION**

This work is dedicated to the almighty God for the wisdom and gift of life that has made me realize and see the conclusion of this research and to those who helped me carry out this research.

## **ACKNOWLEDGEMENT**

I am sincerely grateful to God for the gift of serenity throughout my studies from the beginning of the course to its completion.

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## **LIST OF ABBREVIATIONS & ACRONYMS**

<b>ICPAK</b>	Institute of Certified Public Accountants
<b>RAB</b>	Registration of Accountants Board
<b>KASNEB</b>	Kenya Accountants & Secretaries Examination Board
<b>OST</b>	Open system theory

## ABSTRACT

The operating environment in which an organisation works assumes a key part in determining the organization's performance. Keeping in mind the end goal to keep up its competitiveness, an organisation needs to ceaselessly create proper response strategies that would encourage the arrangement of authoritative operations to the evolving environment. The fundamental goal of this study was to define and establish the response strategies employed by audit firms to changing operating environment in Kenya. The research work employed a cross-sectional descriptive research design since it cuts crosswise over various audit firms operating in Kenya. The populace of this study contained 819 enrolled audit firms working in Nairobi, Kenya as at September 2015. The study employed simple random sampling method to choose a specimen of 82 audit firms which speaks to 10% of the population. The research study utilized primary data to guarantee thorough accomplishment of the objective of the research. The required primary data was acquired from the field by utilization of a questionnaire. In request to appreciate the reactions and make surmising's, the surveys gathered from the field were coded and went into Statistical Package for Social Sciences (SPSS. 22.00) for analysis. The study found out that the audit firms had entered in collaborations, partnerships and business alliances with other organizations, audit firms had distinguished services for different customer segments, the audit firms had several service offerings to customers, invested in other industries supporting the operations of the company, had several services portfolios and involved in development of industry practices. The study concludes that response strategies can be a capable and in fact a fundamental instrument for fulfilling an organisation's key objectives through cooperation and sharing of resources. Response strategies can give a viable high ground in new markets, cost, speed and access of technology. The recommendations of the study are that in order to increase chances of creating competitive advantage, firms must follow a careful, well thought out process in strategy formulation through strategic conception to alliance termination. It is therefore critical to properly set the strategy for the alliance and to create an optimum organizational structure to ensure the strategic alliance strategy works, to establish clear governance structures and to monitor the results proactively.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Operating environment has in the recent times become highly dynamic and competitive following increased competition and globalization of firms. In order to remain competitive in a given industry, firms have to continuously scan the operating environment and develop appropriate strategies to ensure they keep pace with the changes in the operating environment. Audit as a function is a highly important infrastructure that becomes a premise to ensure the correct understanding of the financial situation and appropriate disclosure by these companies, support their appropriate and smooth economic activities, and lead to sustainable growth of the Kenyan economy. Regulations and standards to perform audit have been developed to a respectable degree through successive efforts to improve the systems of audit. However, few happenings following emergence of contrary position from that express opinion provided by the auditing profession among Kenyan firms have eroded public confidence.

This study was anchored on the dynamic capabilities and open systems theories. The dynamic capabilities theory holds the view that organizations are made up bundles of resources which can be used to achieve sustainable competitive advantage (Teece, 2009). These bundles of resources are however heterogeneous across firms which means that there are no two firms with similar bundle of resources (Li & Liu, 2014). This therefore means that the bundle of resources owned by an organization can be applied to gain sustainable competitive advantage (Wang & Ahmed, 2007). The open systems theory on the other hand is of the view that there is no organization that operates in a vacuum but rather they exist in an environment. The external environment affects the way

organizations operate which means that they have to be considered whenever organizations are making their strategies.

The environment within which audit firms operate has been very volatile. The changes are brought about by changes in the external and internal environment such as competition, socio-social changes, mechanical changes, financial difficulties, systems and structures and inadequate resources. The political anxieties, rivalry from new participants, social changes, innovative progression and globalization are a portion of the difficulties that have incredibly influenced the development of this sector. Challenges postured have genuine vital dangers to existing firms and a decent number of these organizations are not ready to survive the new unforeseen development and those that are as yet surviving have needed to receive earnest measures in type of strategies. These challenges call on the firms to institute appropriate strategies that would help align their operating accordingly in order to remain competitive. This therefore calls for better strategies that capture the industry dynamics and that are premised on radical changes reminiscent of the industry for swift responses.

### **1.1.1 Response Strategies**

Response strategies are game plans developed by an organization in order to align its operations to the changes taking place in the operating environment (Pearce and Robinson, 2003). It involves search for a favorable competitive positioning in the industry in order to beat competition and remain relevant in the market (Pearce and Robinson, 2007). Response strategies constitute an arrangement of choices and activities that outcome in the detailing and usage of arrangements intended to accomplish an

organisation's goals in rapidly changing environment (Pearce and Robinson, 1997). Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's so as to align organizations to the changes taking place in the operating environment.

Response strategies requires firms to change their methodology to align with the environment and to update their inner capacity to match methodology adopted (Porter, 1985). Where firms find themselves operating in a highly dynamic environment, they respond to the dynamics and environmental forces in very different ways. Some enhance current items, enhance and strip, while others utilize systems that guarantee operational viability (Porter, 1985). Strategic reactions embraced by organizations mirror the company's interior qualities and the open doors confronted in the outer environment. Firms have to apply their internal strengths and external opportunities appropriately so as to overcome the internal weaknesses and external threats if they are to emerge successful.

### **1.1.2 Operating Environment**

A business does not work in a vacuum instead it is surrounded by the environment which affects it. Organizations have to act and respond to what happens outside their premises if they are to remain competitive and survive the challenges posted by the operating environment. Factors affecting businesses range from social, lawful, financial, political, mechanical and moral considerations. Social factors relate with how purchasers, families and gatherings act and their feelings, for instance, demeanor changes towards prosperity, or a more conspicuous number of recipients in a populace (Ansoff & McDonnell, 1990).

Legitimate factors refer to the way in which institution in people in general field impacts the business, for example, work laws alterations on working hours. Fiscal factors refer to how the economy impacts a business in regards to duty accumulation, government spending, general demand, advance costs, exchange rates and overall money related segments. Political variables allude to how changes in government approach may impact the business e.g. a decision to support amassing new houses in a range could be helpful for an adjacent piece works. Mechanical changes allude to how the quick pace of advance in progress techniques and thing headway impact a business. In conclusion, moral variables allude to what is seen as morally right for conducting business.

### **1.1.3 Global Auditing Industry**

The accountancy practice comprises of three traditional functions namely, financial accounting, taxation and auditing. Audit audit as function is vital to increment monetary proclamation clients' trust in the companies financial statements, thereby providing value to the financial statements (Raghunandan, Read & Rama, 2001). Users of financial statements apply information contained in financial statements for proper and timely informed decision making therefore, such information need to speak to a genuine and reasonable perspective of the operations of an association being referred to (Low, 2004). Audits include testing exchanges, meeting and acquiring customer specific knowledge, and assessing the inside controls and frameworks utilized inside the organization. A review requires an autonomous open bookkeeping firm to express an assessment about the legitimacy of representations made by an organization's administration on its budgetary explanations (Krishnan, 2005).

Public accountants in conducting their jobs are regulated by the code of professional ethics (Low, 2004). The code of ethics determines how they carry on their work to ensure they issue an assessment on truthfulness and reasonable representation of monetary statements prepared by an organization. With a specific end goal to express an assessment, reviewers look at confirmation and assess the bookkeeping strategies and appraisals utilized by administration for budgetary reporting (PCAOB, 2004). The "Big Four" bookkeeping firms are the four biggest worldwide expert administrations organizes in bookkeeping and expert administrations, which control by a wide margin a large portion of audits for exchanged on an open market associations and what's more various exclusive organizations, making an oligopoly in looking at broad associations (Raghunandan et al., 2001). The "Big Four" are PwC with its headquarter in UK, Deloitte Tohmatsu whose headquarter is in USA, Ernst & Young (EY) with its headquarter in UK and KPMG whose headquarter is in Netherlands. This gathering was once known as the "Big Eight", and was decreased to the "Enormous Five" by a progression of mergers. The "Big Five" turned into the "Huge Four" after the end of Arthur Andersen in 2002, after its association in the Enron scandal. The "Big four" are some of the time alluded to as the "Final Four" because of the broadly held recognition that opposition controllers are probably not going to permit encourage grouping of the bookkeeping business and that different firms will never have the capacity to rival the "Big four" for top-end work, as there is a market discernment that they are not dependable as reviewers or counsels to the biggest organizations (Low, 2004).

#### **1.1.4 Audit Firms in Kenya**

In Kenya, the profession of Accountancy is anchored through and regulated under Accountants Act, Chapter 531 of the Laws of Kenya. The Act was sanctioned in 1977 and brought into being three bodies; ICPAK, RAB and KASNEB. ICPAK serves as the umbrella body that regulates the exercises of qualified and enrolled Certified Public Accountants (CPAKs). The order of ICPAK are; Setting and upholding guidelines of expert work on including bookkeeping, examining and moral models.

The accountancy practice in Kenya comprises of customary money related bookkeeping, taxation and auditing works and also other vital administrations, for example, business counseling, business consultancy and administration bookkeeping (Haria, 2011). ICPAK built up the (KCA), which is currently one of the main mentors in bookkeeping in Kenya for the reasons for implementing a program of value certification for the review calling; checking moral conduct and arbitrating over cases including indiscipline through the Statutory Disciplinary Committee; accommodating the upkeep of ability by overhauling individuals' information through distributions and the direct of proceeding with expert instruction; and giving arrangements through which preparing of bookkeepers can be moved forward.

As per the (ICPAK) the number of registered audit firms operating in Nairobi, Kenya as at September 2015 was 819. The auditing industry is extremely aggressive and because of expanded rivalry, the organizations have put accentuation on corporate methodology. The review business in Kenya is commanded by four (the Big 4) examining firms, all of which have universal foundations. Four firms are the auditors of practically all the



publically traded companies in Kenya. The contrast in their methodologies advancement and usage is that though neighborhood review firms autonomously create and actualize their own procedures, the Big 4 as a general rule have their systems created and executed after worldwide firm wide direction and norms.

## **1.2 Research Problem**

The operating environment in which an organization operates plays a key role in determining performance. There are many changes taking place due to developments in information communication and technology, globalization all of which influence the level of competition that a firm faces. In order to maintain its competitiveness, a firm has to continuously develop appropriate response strategies that would facilitate the alignment of organizational operations to the changing environment. Expanded rivalry debilitates the appeal of an industry in this way lessening the productivity by applying weight on firms to be proactive in planning effective techniques that would encourage proactive reaction to expected and genuine changes in the aggressive environment. Failure of firms to react properly to the progressions in the operating environment may lead to poor performance and at worst cause a firm to cease operations.

By and large, the difficulties that review firms face are fake monetary reporting and review disappointments, new enactment, direction and benchmarks, review expenses and review charges, staff preparing, change and maintenance, examiner autonomy and the arrangement of non-review benefits, the review desire hole and evaluator prosecution. This has constrained review firms to concoct new methodologies to counter these difficulties and improve their performance.

A number of studies have examined response strategies adopted by organizations in Kenya. For instance, (Aaltonen,2009) examined reaction systems to partner weights in worldwide undertakings when it distinguished reaction methodologies to include: adjustment procedure, trading off technique, shirking methodology, rejection system, and impact system. This study concentrated on emerging markets and not audit firms in the Kenyan setting. Yannopoulos (2011) studied defensive and offensive strategies for market success through literature review methodology. The findings indicate that cautious systems work better in the event that they happen before the challenger focuses on the business while firms need to take part in hostile techniques to fulfill their development destinations. Bhoola, Hiremath and Mallik (2014) conducted an appraisal of hazard reaction techniques rehearsed in programming ventures. The study presented four central medications to hazard reaction including: (ATMA). This study strictly concerned itself with risk and not overall response.

Locally, Evusah(2013) examined strategic responses by the University of Nairobi to changes in the external environment and established that the University had adopted various strategic responses to address these challenges which included expansion into new markets, product development, forming strategic alliances and collaborations with other universities, improving resource management and governance, increasing and diversifying the revenue base, upgrading and fully exploiting university assets and preparing a university strategic plan for the development and use of physical facilities. Muthoka and Ogutu (2014) studied reaction methodologies to challenge faced by the horticultural firms in Nairobi County of Kenya and established key strategies to include: Turn around techniques an inside and out procedure managing rivalry, item broadening,

new market entrance, e-promoting of the organization's items, putting resources into bundling and item separation, target showcase, out-sourcing of administrations, separating methodologies, refocusing the business and extended branch arrange around the world.

Nthigah, Iravoand Kihoro (2014) examined the impact of rivalry force on key reaction of multinational partnerships: an investigation of multinational organizations in Kenya and set up that opposition power essentially affected the key reaction of multinational enterprises. Githinji (2015) examined strategic choice and performance of audit firms in Kenya and established that cost leadership strategy protects the organization from new entrants, which can be attributed to their adoption of the cost leadership strategy, which has helped them have lowest costs as well as offer their services in a broad market at the lowest prices. The existing studies have concentrated on other organizations whose findings may not be applied to audit firms. Research fills gap in study by seeking to answer the question: What response strategies adopted by audit firms to changing operating environment?

### **1.3 Research Objective**

The research objective was to establish the response strategies adopted by audit firms operating in Nairobi to changing operating environment in Kenya.

### **1.4 Value of the Study**

Research findings would be important to interested parties including: Future scholars and academicians, Government of Kenya and managers in audit firms in Kenya. For the

future scholars and academicians, the findings of this study would act as an empirical source of literature which can guide their future studies besides suggesting areas where they can extend literature on strategic management subject.

Research results would also be valuable to the managers in audit firms as they plan on how to align themselves to environmental alterations. Study findings would depict different response strategies by audit firms and how they have impacted their competitiveness.

Research results are relevant to the Kenyan Government especially the Ministry of Finance in streamlining the operations of audit firms in Kenya in order to ensure that they observe the laid down rules. This would help streamline the operations of all firms in the country.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Part depicts various materials for research topic depicted by various researchers and scientists. It first shows the theoretical review where it reviews theories on which the study is founded then discussed the various response strategies and the empirical literature.

#### **2.2 Theoretical Perspective**

This section discusses various theories on which this study was anchored. It specifically discusses dynamic capabilities and the open system theory.

##### **2.2.1 Dynamic Capabilities Theory**

It is concerned with ability of an entity to intentionally adjust its resources for competitive advantage (Teece, 2009). This theory assumes that core abilities should be utilized to change fleeting aggressive positions among organizations which thus can be utilized to fabricate longer-term upper hand (Li & Liu, 2014). Theory was developed from the asset based view of the firm to connect between financial aspects based procedure writing and developmental ways to deal with associations.

Dynamic capacities structure breaks down sources and strategies for riches creation capturing organizations working in situations of quick innovative change (Wang & Ahmed, 2007). The upper hand of firms is viewed as laying on unmistakable procedures, molded by the company's benefit positions, for example, the company's arrangement of hard to-exchange information resources and corresponding resources, and the

advancement way it has embraced or acquired (Makkonen, Pohjola, Olkkonen & Koponen, 2014). The theory believes that the bundle of resources owned and controlled by organizations are not uniform across firms. This therefore means organizations can utilize the bundle of resources at their disposal to achieve a sustainable competitive advantage as it may not be easy to replicate the bundle of resources across firms in the industry (Teece, 2009).

### **2.2.2 Open System Theory**

The theory looks at the relationships and interdependence between companies and their operating environments (Katz and Kahn, 1978). It was made by (Emery,1960) after World War II in light of earlier hypotheses of affiliations (Pfeffer, 2003). In open structures, there are trades of vitality, matter, individuals, and data with the outside environment. In close frameworks, there are no trades of data and matter, just trades of centrality. In secluded structure, there is no trade of sections. The theory hopes to elucidate how affiliations are affected by the external environment in which they work. The portrayed the earth as containing diverse affiliations that apply distinctive forces of a budgetary, political, or social nature. Nature similarly gives key resources that keep up the affiliation and provoke to change and survival. (Emery ,1960) rather address relation as particularization structures, underlining the two essential parts of the firm observed as a framework: a social segment (individuals), and a specific section

Organizations need to reflect on their capacity to adjust to changes in natural conditions (Boulding, 1956). This hypothesis expects that elements capable of preparing data about possess particular environment indicate more adjustment abilities to shifts in relevant conditions. The association is viewed as framework operated lively data yield where

vitality origin incorporates framework. (Emery,1960) address associations as socio-specialized frameworks, considering two principle parts of the firm observed as framework: a social segment (individuals), and specialized segment. The association is viewed as a framework worked by lively info yield where the vitality originating from the yield reactivates the framework. Social associations are then open frameworks because of their material trades with the earth.

### **2.3 Organizations and their Environment**

In looking at an organization's operating environment, focus is given to both external and internal environments. According to Pearce and Robinson (2005), an organization's outer environment alludes to each one of those components outside the capacity to control of the firm that effect its choice of bearing, action, authoritative structure and inner procedures. Organizations exist in a monetary, legal, demographic, political, socio-cultural environment. This environment is not static but is under constant change which affects the organizations that operates within it. These natural changes are more mind boggling to a few associations than others and for survival an association must keep up a key fit with its surroundings (Porter, 1998). The earth is critical and an association needs to react to its dynamism, heterogeneity, unsteadiness and vulnerability for it to survive and meet its objectives (Thompson, 2007). What's more, the focused environment has been and keeps on being driven by mechanical advancement, globalization, rivalry and outrageous accentuation on value, quality and consumer loyalty as the main thrusts. Therefore, associations should persistently make and improve keeping in mind the end goal to remain pertinent and be fruitful.

Business firms interact with environment in 2 ways because they receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services (Ansoff and McDonnell, 1990). The association of the outside environment and the association is that of info – all through – yield handle where information sources are gotten from the earth and discharged once more into a similar situation subsequent to being prepared by the association. These natural changes are more mind boggling to a few associations than others and for survival an association must keep up a key fit with its surroundings (Pearce and Robinson, 2005). Pearce and Robinson (2005) urge that the bearing and solidness of political elements are significant thought for administrators on defining organization procedure. Political elements characterize the legitimate and administrative parameters inside which firms must work. Political imperatives are put on association's reasonable exchange choices antitrust laws, impose programs, the lowest pay permitted by law enactment, contamination and valuing approaches and regulatory regulations. Some are meant to protect the firm and they include patents laws and government subsidies

#### **2.4 Response Strategies to Environmental Changes**

The changing business environment presents uncertainty that demand for adoption of emergent strategies in order to align the operations of an organization to these changes. Response strategies can therefore be viewed as a well-planned set of actions aimed at countering a change in the organizations environment. According to Pearce and Robinson (2005), there is need for organizations to adopt new strategies that match the challenges from the environment so as to remain competitive.



### **2.4.1 Strategic Alliances**

Key organizations together are transforming into a basic sort of business development in various endeavors, particularly in context of the affirmation that associations are fighting on an overall field. Through essential unions, organizations can enhance their aggressive situating, grow their market share, supplement fundamental capacities, and share the danger and cost of genuine change wanders (Soares, 2007). Advances in media interchanges, PC development and transportation have made entry into outside business areas by general firms more straightforward. At the point when appeared differently in relation to entering a market alone, molding a key association transforms into a way to deal with decrease the risk of market area, worldwide augmentation, creative work among various focal points. Contention ends up being all the more convincing when accessories impact off each other's qualities, bringing joint effort into the methodology that would be hard to finish if trying to enter another market.

Globally, organizations in a wide range of ventures have chosen to frame key collusion and associations supplement own key activities hence fortify aggressiveness locally and worldwide markets. More endeavour, particularly in quick changing businesses is making vital collusions a centre a portion of their general technique. Toyota has produced long haul key associations with a hefty portion of its providers of car parts and segments. Samsung, a South Korean partnership has gone into key cooperations including organizations, for example, Sony, Yahoo, Hewlett–Packard (HP), Intel, Microsoft, Dell, Mitsubishi and Rockwell Automation. In Kenya, Companies have embraced the concept of strategic alliance to achieve competitive advantage and reduce business risks. For example, Vodafone, Safaricom and the Western Union Company banded together to pilot

a cross-fringe Mobile Money Transfer benefit between the United Kingdom and Kenya. This administration empowered clients to send cross-outskirt settlements from select areas straightforwardly to Safaricom portable endorsers in Kenya. The activity utilizes Western Union's trusted worldwide "centre point" for preparing cross-fringe settlements. It expands on the achievement of its, a portable cash move benefit in Kenya offered by Vodafone and sister organization Safaricom, which has pulled in more than 4 million clients since its dispatch in March 2007.

#### **2.4.2 Differentiation Strategy**

Separation incorporates making a thing that is viewed as special. The one of a kind components ought to give preferred regard over the customer if technique is effective. Since clients see the item as unrivaled and unequaled, the value flexibility of interest has a tendency to be diminished and clients have a tendency to be more brand devotion (Christopher et al., 2006). This can give extensive protection from rivalry. However, there are typically extra expenses connected with the separating item components and this could require a premium valuing procedure.

To cope system the firm should have: strong creative work aptitudes; strong thing outlining capacities; strong innovativeness capacities; awesome cooperation with conveyance channels; aptitudes; motivations in view of subjective gauges; ability to impart importance of the isolating thing attributes; push tenacious alteration and improvement and draw in exceptionally talented, imaginative individuals (Hayes & Pisano, 1996). In the primary school context, the private primary schools can use differentiation strategy by ensuring that their students score higher marks than Public

primary school pupils in order to qualify for the spaces in the National schools (Hayes and Pisano, 1996).

It is a standardizing system produced for distinguishing effective administration techniques for the diverse institutional settings, particularly those empowered by cutting edge data and correspondence innovations (Apte&Vepsäläinen, 1993). At the point when investigating administration forms, four sorts of conveyance channels comprising of associations and frameworks are recognized: primary client or proprietor, in which case administration is acquired inside the association, or "progression" that requirements it; operator or collusion, including specialists, experts, and agents as gatherings participating in giving the administration; benefit faculty, for example, deals office or producer's administration association; and market system, or "market" with clients depending on self-benefit.

Additionally four sorts of client should be fulfilled by administrations, decided regarding recurrence and opportuneness of exchanges, level of instability, many-sided quality of data included, and the sorts of assets utilized. On the scale from complex to straightforward there are: unforeseen connections, which include watchfulness more than a few choices; altered conveyance; standard contracts; and mass exchanges characterized with outright provisions on activities (Apte&Vepsäläinen, 1993). In the system, productivity alludes to the capacity to convey the coveted administration at the most reduced aggregate cost, or the whole of generation and exchange costs for both the administration supplier and clients. As indicated by this cost exchange off, any administration gave ought to be found near the primary inclining to be productive.

### **2.4.3 Diversification Strategy**

It is characterized as development and extension of firms entering related fields and new organizations (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Then again, Guillen (2000), a pro in business organization, characterized expansion as "expanded differences on an entire line of items to offer through business exercises of firms." In this definition, the line of items and criteria on assorted qualities ought to be cleared up with a specific end goal to encourage the discourse.

Diversification is a type of corporate procedure for an organization. It looks to expand benefit through more noteworthy deals volume got from new items and new markets. Broadening can occur at the claim to fame unit level or at the corporate level. At the forte unit level, it is well while in transit to wander into another piece of an industry which the business is starting now in. At latter, it's by and large and it is likewise extremely intriguing entering a promising business outside of the extent of the current specialty unit (Khanna & Palepu, 2000).

Expansion procedure of an organization is a corporate technique planned to build benefits by expanding deals volume. This expansion in deals volume is realized by propelling new items and recognizing new market fragments. Expansion procedure can be actualized at the specialty unit level and in addition the corporate level. If there should arise an occurrence of specialty unit level, the methodology can be executed for the extension of the organization by thinking of another section, identified with the current business. If there should be an occurrence of corporate level, be that as it may, the objective territory is another business, which is not identified with the current specialty unit (Guillen, 2000).

Probably the most noticeable broadening system cases incorporate an organization gaining practical experience in pencil creation settling on generation of erasers or an organization represent considerable authority in mixed drinks entering the aircrafts segment.

According to Yiu, Bruton, Lu, (2005), there are two estimations of reason for improvement. The principal relates to the method for the key objective: development may be defensive or unfriendly. Protected reasons may spread the risk of market tightening, or being constrained to expand when current thing or current market acquaintance shows up with give no further opportunities to improvement. Antagonistic reasons may vanquish new positions, tolerating open entryways that assurance more noticeable profitability than augmentation openings, or using held cash that outperforms mean improvement needs.

Second estimation incorporates the ordinary consequences of upgrade: organization may expect phenomenal money related regard or as an issue of first significance mind boggling clarity and (manhandle of know-how, more viable usage of available resources and breaking points). Moreover, associations may in like manner examine upgrade just to get a huge relation among this system and augmentation (Ghatak& Kali, 2001).

(Porter,1998) sees operational reactions as a major aspect of an arranging procedure that directions operational objectives with those of the bigger association. Consequently, operational issues are for the most part worried with certain expansive approaches and strategies for using the assets of a firm to the best support of its long haul aggressive procedure. (Porter,1998) states that the objectives of an aggressive system for a business went in an industry is to discover a position in the business where the company can best

guard itself against the five focused strengths – section, risk of substitution, dealing compel of buyers, trading power of suppliers and conflict among current contenders. There five powers constitute the business structure and it is from industry investigation that the firm decides its focused system. He distinguished three conceivably fruitful nonexclusive procedure ways to deal with outflanking different firms in an industry. There are general cost authority, separation and center, in defining its vital reaction to changes in its surroundings, a firm should have an initially chosen a center thought of bland procedure about how it can best contend in the commercial center.

Competitive strategy includes actions or attempts by a firm to attract customers, retain them, withstand competitive pressures and strengthen its market positions and is aimed at gaining competitive advantage. Porter expressed the key aspects of firm's competitive strategies in what he referred to as the "wheel of competitive strategies". The organization's corporate procedure ought to help during the time spent building up a particular skill and upper hand at the business level. There is a vital connection among corporate and business level. As indicated by (Johnson,2002), corporate level reactions are main system level at highest point of association, worried with general reason and extent of association to meet desires of proprietors or real partners hence increase the value of various venture parts.

#### **2.4.4 Market Positioning**

In a marketplace, a position reflects how customers see the product's/administration's or association's execution on particular ascribes in respect to that of the contenders (Kotler, 1994). Additionally, situating is a focused promoting instrument that goes past picture

making. Arranging appears to have created from market division, concentrating on and publicize structure changes in the midst of the 1960s and the mid-1970s (Sekhar, 1989).

As per Ries and Trout, (1986), market situating is an endeavor to recognize an organization from its rivals along genuine measurements so as to be the most favored firm for a specific market portion. It is an endeavor to have an unmistakable or exceptional position in the commercial center. Additionally, situating is an aggressive advertising device that goes past picture making. Market situating is a procedure of setting up and keeping up an unmistakable place and picture in the market for an association as well as its individual item offerings so that the objective market/prospect comprehends and acknowledges what the association remains for in connection to its rivals (Ries& Trout, 1986). Arnott (1992) formally characterizes marketing situating as the ponder, proactive, iterative procedure of characterizing, measuring, altering, and checking purchaser impression of an attractive object. The way toward marketing situating is iterative and requires consider and proactive inclusion of the advertiser. Arnott's (1992) remarks can, be clarified regarding customer and administrative /authoritative viewpoints.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Part shows design research, populace and collection and analysis of data.

#### **3.2 Research Design**

The design of the study is a cross-sectional descriptive one since the study cuts across different audit firms in Kenya. Cross sectional descriptive design aim to portray a subject by making a profile of a phenomenon through accumulation of information and arrangement of the frequencies on research factors from a number of various units of study (Yin, 2013).

Descriptive design has been deemed appropriate for the study because it is concerned with the ‘who, where, when, what and how’ of a phenomenon under study. For the current study at hand, the research is interested in building a profile on the response strategies adopted by audit firms to ensure that they remain competitive in a highly dynamic environment. This method had been chosen because it best provides data which would some way or another take long to gather on the off chance that it is gathered through perception. In addition, the design is suitable for collecting data across many organizations at one point in time (Kothari, 2004).

#### **3.3 Population of Study**

Populace alludes to the whole gathering of individuals that researcher wishes to research (Sekaran, 2010). It is also described as a total of all that adjusts to a given particular (Smith et al., 2009). The population of this study comprised 819 registered audit firms



operating in Nairobi, Kenya as at September 2015 (ICPAK, 2016). The audit firms are classified into various groups as follows.

**Table 3.1: Population of the Study**

<b>Category</b>	<b>Frequency</b>
Large	4
Medium	165
Small	650
<b>Totals</b>	<b>819</b>

### 3.4 Sample Size

A sample is a proportion of populace targeted for research purpose. According to Mugenda (2008) 10-30% of the population is representative enough for generalization, especially if the population is homogeneous. Since audit firms in Nairobi County face similar challenges as far as the environmental changes are concerned, it is assumed that they are homogeneous. Based on this, the study applied simple arbitrary testing procedure to choose an example of 82 audit firms which represents 10% of the population. The sample was distributed proportionately across the different strata in the study.

**Table 3.2: Sample Size distribution**

<b>Category</b>	<b>Frequency</b>	<b>Proportion of sample size</b>	<b>Sample size</b>
Large	4	1	1
Medium	164	20	16
Small	651	79	65
<b>Totals</b>	<b>819</b>	<b>1</b>	<b>82</b>

### **3.5 Data Collection**

Research utilized primary data to ensure exhaustive achievement of the research objective. Questionnaires were utilized in primary data. Closed ended questions were used to help standardize the responses while open ended questions were used provide the respondents with an opportunity to provide more insightful information relevant for the study. The questionnaire contained two sections: general information to help bring out the demographic information about the audit firms while section B covered the response strategies. Section C covered the responsiveness of the strategies to the changing operating environment.

Primary data was collected from audit managers in view of their key part in technique definition and execution. The questionnaire was done through a drop and pick later technique to reduce level of interruptions in target respondents schedule.

### **3.6 Data Analysis**

In order to comprehend the responses and make inferences, the questionnaires collected from the field was coded and entered into (SPSS. 22.00). Information collected was mainly quantitative because of the standardized questions by the use of a five point Likert. To analyse the Likert scale questions, descriptive statistics including aggregate and s.d was used in the analysis. For open ended questions, content analysis was used. The analysed data were presented using tables, figures and charts.

## CHAPTER FOUR DATA ANALYSIS, FINDINGS AND DISCUSSION

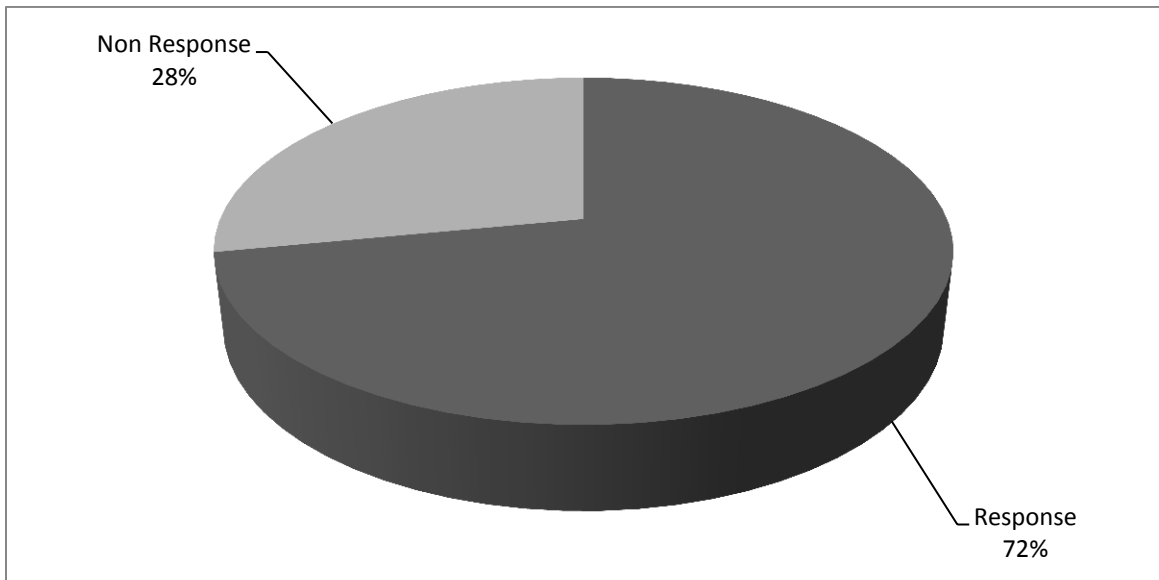
### 4.1 Introduction

Part shows results and research results based on objectives. Response strategies adopted by audit firms to changing operating environment in Kenya was established.

### 4.2 Data Analysis

#### 4.2.1 Response Rate

Research focused on 82 audit firms. 59 questionnaires were filled and returned. This meant a reaction rate of 72% which was sufficient and illustrative of the populace and fits in with (Mugenda and Mugenda,2003) stipulation that a reaction rate of 70% or more is phenomenal. Discoveries are displayed below



**Figure 4.1: Response Rate**

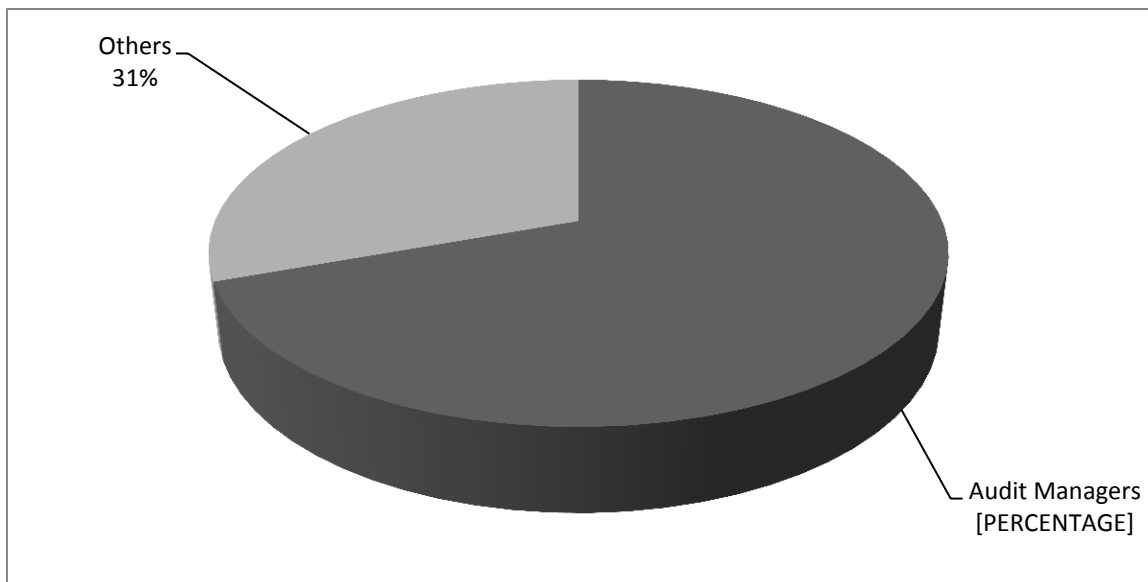
## 4.3 Findings

### 4.3.1 Demographic Information

Research established participants' demographic characteristics including positions in the firms and the period working with the firms in order to have an understanding of their suitability to undertake the research.

#### 4.3.1.1 Position in the Firm

The respondents were required to indicate their position in their respective firm. The finding is shown in Figure 4.2.



**Figure 4.2: Position in the Firm**

69% participants showed they were audit managers and 31% were in other positions. This shows research secured over the positions in the associations along these lines the data gave by participants were pertinent for research.

#### 4.3.1.2 Period Working in the Firm

Research depicted time span participants worked in respective firms. They are as follows

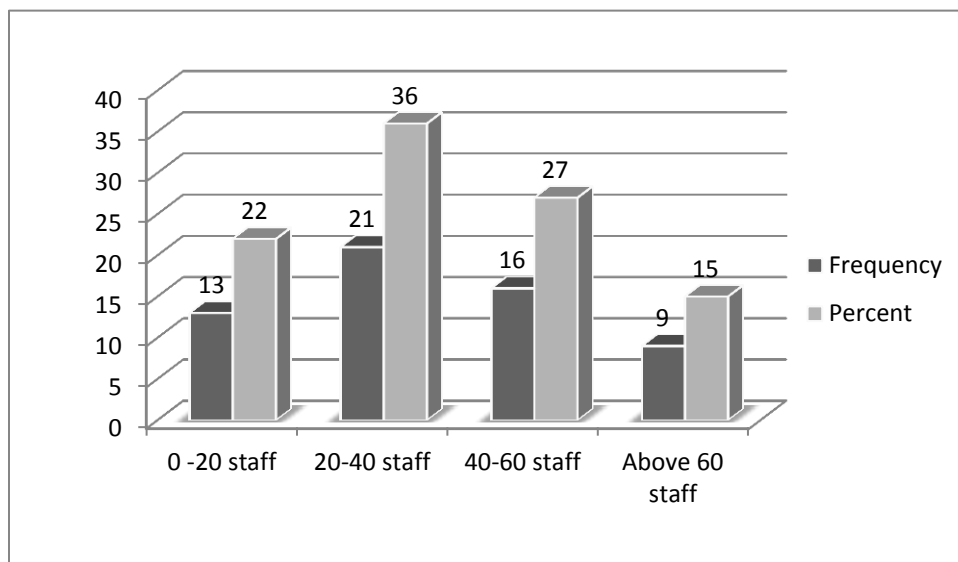
**Table 4.1: Period Working in the Firm**

	<b>Frequency</b>	<b>Percent</b>
Below 2	6	10.2
3-4 years	24	40.7
5 years and above	29	49.2
<b>Total</b>	<b>59</b>	<b>100.0</b>

From results, 10.2% participants had been working in their respective firms for a period of less than 2 years, 40.7% for a period between 3-4 years and 49.2% for above 15 yrs. Depicts participants working in respective firms for long thus had clear understanding on response strategies adopted by audit firms to changing operating environment hence reliable research data provided.

#### 4.3.1.3 Size of Firm

**Figure 4. 3: Size of Firm**



Above depicts many audit companies had between 20-40 staffs at 36%, following by firms with 20-40 staffs at 27%. 0-20 staffs had 22% of the firms and firms with 60 and above staff accounted for 15%.

#### 4.3.1.4 Age of Firm

**Figure 4. 4: Age of Firm**

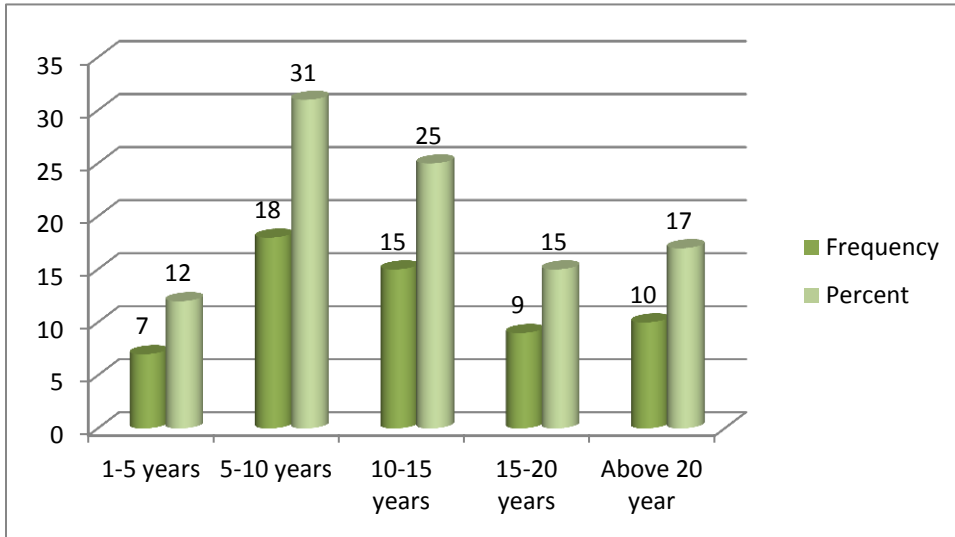


Figure 2, shows that at 31%, majority of the firms have been existence for 5-10 years; 25% of the firms are 10-15 years old; 17% of the audit firms have been existence for above 20 years; 15% of the firms are 15-20 years old and at 12% of all audit firms have been in existence for 1-5 years old.

## 4.3.2 Response Strategies

### 4.3.2.1 Strategic Alliance Strategy

**Table 4.2: Strategic Alliance Strategy**

	<b>Mean</b>	<b>Std. Dev</b>
Our Company has entered in collaborations with other organizations	3.84	1.030
Our Company has entered into partnerships with other organizations	3.62	1.201
Our company has entered into business alliances with other companies	3.79	1.214
Strategic alliances have improved our competitive positioning in the industry	3.96	1.049
Strategic alliances have enabled us to grow our market share	3.67	1.209
Strategic alliances have enabled us to gain entry to new markets	4.18	1.090
Strategic alliances have enabled us to gain entry to new markets	3.74	1.168
Strategic alliances have enabled us to share the risk and cost	3.77	1.160

**Source: Primary Data**

As indicated in Table 4.2, company has entered in collaborations with other organizations had a mean of 3.84 with a standard deviation of 1.030, company has entered into partnerships with other organizations had a mean of 3.62 with a standard deviation of 1.201, company has entered into business alliances with other companies aggregate 3.79 s. d 1.214, strategic alliances have improved our competitive positioning in the industry had aggregate 3.96 s. d 1.049, strategic alliances has enabled us to grow our market share aggregate 3.67 s. d 1.209, strategic alliances has enabled us to gain entry to new markets aggregate 4.18 s. d 1.090, strategic alliances has enabled us to gain entry to new markets aggregate 3.74 s. d 1.168 strategic alliances has enabled us to share the risk and cost had aggregate 3.77 s. d 1.160. Aggregate for results 3.62-4.18 indicated participants accepted statements concurring research of Soares (2007) that through vital organizations together, organizations can enhance their focused situating, grow their market share, pick up

section to new markets, supplement basic aptitudes, and share the hazard and cost of significant improvement ventures.

#### 4.3.2.2 Differentiation Strategy

**Table 4.3: Differentiation Strategy**

	Mean	Std. Dev
Our Company has distinguished services for different customer segments	4.03	1.049
Our Company has branded all its services uniquely	4.01	.991
Our Company has distinguished standards of auditing services	4.05	1.040
Our Company has well informed employees on our services	3.96	.982
Our Company has benchmarked its services to international standards	3.71	1.114
Our Company has unique brand colors in its logo	3.93	1.127
Our Company has distinguished products not offered by other competitors in the audit industry	3.79	1.141
Our Company has invested in research and development for better customer satisfaction	3.88	1.068

**Source: Primary Data**

From the finding in Table 4.3, company has distinguished services for different customer segments had aggregate 4.03 s. d 1.049, has branded all its services uniquely aggregate 4.01 s. d 0.991, has distinguished standards of auditing services aggregate 4.05 s. d 0.991, has well informed employees on our services had aggregate 3.96 s. d 0.982, has benchmarked its services to international standards had aggregate 3.71 s. d 1.141, has unique brand colors in its logo had aggregate 3.93 s. d 1.127, it has distinguished products not offered by other competitors in the audit industry had aggregate 3.79 s. d 1.141 and it invested in research and development for better customer satisfaction had aggregate 3.88 s. d 1.068. Aggregate values for finding 3.71-4.05 which shows that the respondents agreed with the statements which is in line with the finding of Hayes & Pisano (1996)



that to keep up this procedure the firm ought to have: solid innovative work abilities; solid item building aptitudes; solid innovativeness aptitudes; great participation with appropriation channels; solid advertising abilities; impetuses in light of subjective measures; have the capacity to impart the significance of the separating item attributes; stretch consistent change and advancement and pull in profoundly gifted, inventive individuals.

#### 4.3.2.3 Diversification Strategy

**Table 4.4: Diversification Strategy**

	Mean	Std. Dev
Our Company has several service offerings to customers	3.91	1.103
Our Company has invested in other industries supporting the operations of the Company	3.83	1.161
Our Company has several services portfolio	4.05	.917
Our Company is involved in development of industry practices	3.81	1.041

**Source: Primary Data**

As indicated in Table 4.4, company has several service offerings to customers aggregate 3.91 s. d 1.103, it has invested in other industries supporting the operations of Company aggregate 3.83 s. d 1.161, has several services portfolio aggregates 4.05 s. d 0.917 and company involved in industry development practices aggregate 3.81 s. d 1.041. Aggregate value for finding 3.81-4.05 which implies participants accepted statements which is consistent with the finding of Ghatak and Kali (2001) that companies investigate enhancement just to get a profitable correlation between this system and extension.

#### 4.3.2.4 Market Positioning Strategies

**Table 4.5: Market Positioning Strategies**

	<b>Mean</b>	<b>Std. Dev</b>
Our Company has positioned its service stations in strategic areas of operations	3.88	1.051
Our Company has segmented the market for its products	4.06	.925
Our Company has developed service packages for different customer segments	4.01	1.042

**Source: Primary Data**

As shown in Table 4.5, company has positioned its service stations in strategic areas of operations aggregate 3.88 s. d 1.051, company has segmented the market for its products aggregate 4.06 s. d 0.925 and company has developed service packages for different customer segments had aggregate 4.01 s. d 1.042. Aggregates for finding are 3.88-4.06 which shows participants accepted statements which agrees with results of Ries and Trout, (1986) that market situating is an endeavor to recognize an association from its rivals along genuine measurements keeping in mind the end goal to be the most favored firm for a specific market section.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

Part shows recommendations, summary and conclusions. All were focused in depicting research objectives.

#### **5.2 Summary of the Findings**

The findings of the study were that the audit firms entered in collaborations, partnerships and business alliances with other organizations, strategic alliances had improved the competitive positioning in the industry, grow market share, gain entry to new markets, and enabled them to share the risk and cost. The study also revealed that audit firms had distinguished services for different customer segments, had branded all its services uniquely, distinguished standards of auditing services, had well informed employees on their services, benchmarked its services to international standards, had unique brand colors in its logo, distinguished products not offered by other competitors in the audit industry and invested in research and development for better customer satisfaction.

The study also established that the audit firms had several service offerings to customers, invested in other industries supporting the operations of the company, had several services portfolios and involved in development of industry practices. The study also established that audit firms had positioned its service stations in strategic areas of operations, segmented the market for its products and developed service packages for different customer segments.

### **5.3 Conclusion**

The study concludes that response strategies is a capable and fundamental instrument for accomplishing a company's key objectives in its strategy through collaboration and resources sharing. Response strategies can give an effective upper hand in new markets, cost, speed, learning, and innovation get to

.  
Creating effective key cooperation could enhance the association's vital position drastically, maybe even to change the organization. Key collusion offers the gatherings an alternative on the future, opening new entryways and giving unanticipated open doors.

The study concludes that the companies had adopted the differentiation strategy. The differentiation strategy is applied through offering services which are unique from those offered by the competitors and differentiated its products according to what the customer perceive to be of value. Thus products are made according to the perception and need of customers so as to realize competitiveness in the market place.

### **5.4 Recommendation**

The study recommends that with a specific end goal to enhance the odds of accomplishment, companies must take after a watchful, sorted out process through and through from key origination to collusion end. It is essential to require the investment to legitimately set the technique for the collusion, to make the ideal structure for the partnership to prosper, to set clear guidelines of administration, and to screen the outcomes on an auspicious premise.

Study also recommends that to keep up differentiation methodology the firm ought to have solid innovative work abilities and solid item designing aptitudes in order to have the capacity to convey the significance of the separating item attributes, weight on ceaseless change and development and pull in very talented and imaginative individuals.

The study also recommends that companies building up their market situating systems ought to first decide qualities and pictures of contender companies precisely and precisely. At that point they should assign a market situating procedure for their own created item. The primary reason for existing is to head towards items that are not delivered by contender companies but rather are coveted by shoppers and do a situating technique along these lines.

### **5.5 Limitation of the Study**

The research only covered registered audit firms operating in Nairobi hence a limitation in scope. As such, the recommendations of this study may only be applicable to a different industry or company to a minimal extent.

### **5.6 Suggestion for Further Studies**

This study covered registered audit firms operating in Nairobi, thus the study suggests other studies to be carried out covering companies in other industries, since results of research cannot be generalized to represent all industries as it is specific to audit firms in Kenya.

The study looked at response strategies and it recommends that another study could be done to cover other strategies that are adopted by audit firms in changing the operating environment in Kenya.

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## APPENDIX: QUESTIONNAIRE

Please fill out the questionnaire on: RESPONSE STRATEGIES ADOPTED BY AUDIT FIRMS OPERATING IN NAIROBI TO CHANGING OPERATING ENVIRONMENT IN KENYA

Kindly mark [X] only one response that best represents your opinion on each of these statements

### SECTION A: DEMOGRAPHIC INFORMATION

1. Please indicate the name of your organization \_\_\_\_\_
2. Your position in the organization \_\_\_\_\_
3. How many years have you worked with this organization?  
Below 2      [      ]      3-4      [      ]  
5 years and above      [      ]
4. What is the size of your audit firm?  
0 -20 staff      [      ]      20 -40 staff      [      ]  
40 -60      [      ]      Above 60 staff [      ]
5. How old has your audit firm been in existence?  
1-5 years      [      ]      5-10 years      [      ]  
10-15 years      [      ]      15-20 years      [      ]  
Above 20 year [      ]

### SECTION B: RESPONSE STRATEGIES

6. Below are several response strategy applied by organizations to remain competitive on the market. Kindly indicate the extent to which each of these has been applied by your Company. Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

<b>Strategic Alliance Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Our Company has entered in collaborations with other organizations					
Our Company has entered into partnerships with other organizations					
Our company has entered into business alliances with other companies					
Strategic alliances have improved our competitive positioning in the industry					
Strategic alliances has enabled us to grow our market share					
Strategic alliances has enabled us to gain entry to new markets					
Strategic alliances has enabled us to gain entry to new markets					
Strategic alliances has enabled us to share the risk and cost					
<b>Differentiation Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Our Company has distinguished services for different customer segments					
Our Company has branded all its services uniquely					
Our Company has distinguished standards of auditing services					
Our Company has well informed employees on our services					
Our Company has benchmarked its services to international standards					
Our Company has unique brand colors in its logo					
Our Company has distinguished products not offered by other competitors in the audit industry					
Our Company has invested in research and development for better customer satisfaction					
<b>Diversification Strategies</b>					
Our Company has several service offerings to customers					
Our Company has invested in other industries supporting the operations of the Company					

Our Company has several services portfolio					
Our Company is involved in development of industry practices					
<b>Market positioning Strategies</b>					
Our Company has positioned its service stations in strategic areas of operations					
Our Company has segmented the market for its products					
Our Company has developed service packages for different customer segments					

**PART C: EFFECTS OF RESPONSE STRATEGIES ON COMPETITIVENESS**

7. Please indicate the extent to which each of the identified response strategies has affected the competitiveness of your company. Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent

<b>Response Strategies</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strategic Alliance					
Differentiation strategy					
Diversification strategy					
Market positioning strategy					

1. In your opinion, to what extent is the competitiveness of the audit and accountancy industry in Kenya?

- Very great extent [    ]
- Great extent [    ]
- Moderate extent [    ]
- Little extent [    ]
- No extent [    ]

**THANK YOU.**