RESPONSES BY THE HIGHER EDUCATION LOANS BOARD(HELB) TO THE ENVIRONMENTAL CHALLENGES OF FINANCING HIGHER EDUCATION IN KENYA

By

TOM J. LALAMPAA

A Management Research Project Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration (MBA), School of Business, University of Nairobi

AUGUST 2006

DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University.

Signed........................ Date. 15-11-2006

TOM JONATHAN LALAMPAA

D61 /7345/04

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

Signed........................ Date. 15/11/2006

Dr. Martin Ogutu,

Senior Lecturer,

Department of Business Administration,

School of Business,

University of Nairobi.

DEDICATION

I. dedicate this project paper to my late dad, Mr. Lorrokeri Lalampaa behind whose inspiration I enrolled for school.

ACKNOWLEDGEMENTS

The preparation and compilation of this paper has been made possible with varied support, which I wish to acknowledge. First, I'm grateful to the Almighty God, the one above, who has always been there for me throughout my studies. Second, my profound gratitudes go to my supervisor Dr. Martin Ogutu for his constructive criticism, support and insightful guidance that yielded to the successful completion of the study.

To my fellow MBA students of the 2004 class; thanks for your encouragement. I would like to particularly single out my colleagues especially (Otuke, Kamiru, Shikanga, Lelekoitien, Wekesa, Lesiyampe, Wambugu, and Longit) with whom we resided with in Block M for their wide range of encouragement and support rendered throughout the MBA epoch.

I wish to thank my wife Grace and children namely Kelvin, Brenda, Yvonne and Bayo for their moral support, great sacrifice and understanding of the need for my long absence from home in pursuit of my MBA studies.

I' am additionally grateful to the management of the Higher Education Loans Boardfor allowing me to conduct a case study on the board. I would particularly like to mention the BoardSecretary (Chief Executive Officer), his Deputy as well as departmental heads of the board, who I interviewed for their time and patience. The absence of such cooperation would have brought the entire process of developing this paper into a quagmire.

TABLE OF CONTENTS

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

CHAPTER FIVE: SUMMARY, DISCUSIONS AND CONCLUSIONS

APPENDICES

LIST OF ACRONYMS AND ABBREVIATIONS

HELB: Higher Education Loans Board

HIV/AIDS: Human immune virus/ Acquired immune deficiency syndrome

ABSTRACT

The environmental variables defining HELB's environment of operation are ever changing, greatly impacting on the board's strategic capabilities and the expectation from its stakeholders. This case study sought to establish the responses by the Higher Education Loans boardto the environmental challenges of financing higher education in Kenya. Data for this study was primary, collected by the researcher through personal interviews with the boardSecretary (Chief Executive Officer), his deputy as well as departmental heads.

Research findings revealed that political, economic, socio-cultural, technological factors of the external environment as well the board's internal environment exercise some influence in determining the strategic direction of the board. Findings from the study indicate that challenges facing the boardin its quest to adequately finance higher education in Kenya are manifest. The response strategies have been reactive thus creating some limitations to transforming the boardinto a self-sustain and autonomous institution, as a result of its internal structure. This has resulted to the board's continuous reliance on the government for grants in order to sustain its objectives of assisting needy students in accessing higher education in Kenya.

Arising from the findings, it was suggested that a study be done on understanding and establishing the extent to which the adopted strategies enhance the effectiveness of the Higher Education Loans Boardin financing higher education in Kenya. Such a study would highlight the underlying forces that affect the Board's response to the challenges in both of its environments of operation in its quest to adequately finance higher education in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background

The goal of every organization is to operate with success and keep its operations continuous. In spite of this aspiration, organizations are faced with enormous challenges and need to align with the turbulent environment. Heresy (1996) noted that organizations do not exist in a vacuum, but are continually affected in numerous ways by changes in the external environment and the Higher Education Loans Board (HELB) is not an exception. In most cases, organizations have little or no control over economic, social, political, technological, and ecological factors in their environment of operation. Organizations are open systems that depend on the environment as a source of inputs in the form of resources and as outlets for their outputs after a transformation (Porter, 1985). Cole (1990) stated that open systems are those that interact with their environment in which they rely for obtaining essential inputs and then discharge of their systems' outputs. The environment is composed of political, legal, social, economic, customer, technological and competitive factors.

The environmental variables defining HELB's environment of operation are ever changing, greatly impacting on the board's strategic capabilities and the expectation from its stakeholders. The HELB has traditionally relied on Government funding to carry out its activities. Due to the harsh economic situations witnessed by the country over the recent past, Government support to this institution has seen a steady decline, and the board has been forced to operate under very tight budgets. The situation has not been made any better by the low funding from the exchequer, increased enrolment in both Private and Public Universities, increased enrolment without commensurate improvement in available facilities, and the high unemployment levels in the country where students lucky enough to get a university degree have no guarantee of finding employment. Whereas in the 1970s, university graduates were able to step into managerial-level civil service posts, today's job prospects are less obvious, due to tough structural adjustment programmes and recruitment restrictions. The board has therefore been forced to rethink its strategy (UNESCO, 1998).

As a result of the developments in the macro environmental factors, a number of challenges have emerged that are likely to impact on the board's survival and continued discharge of its expectation of funding higher education. These challenges include the low loan recovery rate, rapid growth of universities in the Kenyan system hence increased numbers of possible beneficiaries, high numbers of unemployed graduates, the ravaging HIV/Aids pandemic, migration of loanees and poverty levels in the country (HELB Review, 2005). The board's interaction with such environmental factors is essential for its survival. The board has to find and obtain needed resources, interpret and act on the environmental changes, dispose of outputs, control and coordinate internal activities in the face of environmental turbulence and uncertainty if it is to be effective in its operations. Hofer and Schendel (1978) observed that for firms to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment.

1.1.1 Responses to Environmental Challenges

There is an interdependent relationship between the organization and its external environment. Because the organization is an open system, it obtains its resources from the external environment while discharging its outputs to the same. The external environment is always changing in uncertain ways, and as a result, an organization has to configure its resources in a foresight, flexible and speedy way in order to respond to these changes in a timely manner (Ansoff and McDonnell, 1990). Firms in dynamic industries respond to environmental changes in different ways. Responses can be operational or strategic by nature. Pearce and Robinson (1991) have defined strategic responses as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms' objectives. It's thus a reaction to what is happening in the organization's environment. On the other hand operational responses are concerned with efficiency of operations (Byars, 1991).

1.1.2 Financing Higher Education in Kenya

Higher education in Kenya was historically free, with the public purse covering both tuition and living allowances (Weidman, 1995). The rationale for free higher education in Kenya was based, among other things, on the country's desire to create highly trained manpower that could replace the departing colonial administrators. In return, graduates were bound to work in the public sector for a minimum of three years. By 1974, provision of education in general had expanded dramatically and the number of students seeking university education had grown to an extent that it was becoming increasingly difficult to adequately finance university education by providing full scholarships and grants by the Government. The Government therefore introduced the University Students Loans Scheme (USLS), which was managed by the Ministry of Education. Under the scheme, Kenyan students pursuing higher education at Makerere, Nairobi and Dar es Salaam universities received loans to cover their tuition and personal needs, which they would repay on completion of their education (Chacha, 2004).

However, the University Students Loans Scheme (USLS) was plagued with a number of problems right from the onset. It lacked the legal basis to recover matured loans from loanees. In addition, the general public and university students wrongly perceived that the loan was a grant from the government, which was not to be repaid. In order to address this problem, the Government through an act of Parliament established the Higher education Loans Board in July 1995 to administer the Student Loans Scheme. In addition, the Board is also empowered to recover all outstanding loans given to former university students by the Government of Kenya since 1952 and to establish a revolving fund from which funds can be drawn to lend out to needy Kenyan students pursuing higher education. The establishment of a revolving fund was also expected to ease pressure on the exchequer in financing education, which currently stands at 40% of the annual national budget (Chacha, 2004).

1.1.3 The Higher Education Loans Board(HELB)

The Higher Education Loans Board was established by the colonial government as the Higher Education Loans Fund to support Kenyans traveling overseas for training. During the post-independence periods of 1963-1974, higher education was free as the new government needed to develop human resources to meet the development needs of the newly independent nation. From 1974-1995, a loan scheme was established as a department within the Ministry of Education, to transfer some of the costs of higher education to the beneficiaries. This was due to the rising costs of sustaining higher education, in the face of rapidly growing demand for the same in addition to other areas of national importance as primary and secondary education, infrastructure, health care, food production and many others (HELB Review, 2005).

Since its establishment, the Ministry of Education managed the loan scheme until 1995 when the government established HELB through an Act of Parliament as part of the World Bank policies and financial support through the Universities investment project, which saw the board provided with equipment and funds for staff training. From 1995 to date, HELB has the mandate to source for funds to lend Kenyan students studying in institutions of higher learning both in Kenya and abroad. The board also disburses loans, bursaries and scholarships to students pursuing higher education in accredited institutions. In addition to this, the board recovers mature loans and has established a revolving fund, from which funds are drawn to lend needy students. To accomplish this, the board invests funds that are not required immediately (HELB Review, 2005).

1.2 Statement of the Problem

In recent years, HELB has experienced increasing demand for loans, bursaries and scholarships largely attributed to its expansion of the possible beneficiaries of its scheme to include students from both Private and Public Universities as well as Post graduate students. At its establishment in 1995, the board was a small organization dealing with much fewer students and recovering a mere Kshs. 5 million per month. However, the developments in Kenya's economic, social, political, and legal arena have seen the board develop into a reputable institution charged with the responsibility of financing higher education (HELB Review, 2005).

Financing Higher education is financially challenging. The HELB needs to meet the challenges of supporting this sector through good funding to enhance the development of adequate human resources necessary for economic and political prosperity. The HELB has traditionally relied on Government funding to carry out its activities. Due to the harsh economic situations witnessed by the country over the recent past, Government support to this institution has seen a steady decline. The situation has not been made any better by the low funding from the exchequer, low loan recovery rate, rapid growth of universities in the Kenyan system hence increased numbers of possible beneficiaries, the ravaging HIV/Aids pandemic, migration of loanees, increased enrolment without commensurate improvement in available facilities, falsification of particulars by loan applicants so as to receive full amounts, and the high unemployment levels in the country where students lucky enough to get a university degree have no guarantee of finding employment. Whereas in the 1970s, university graduates were able to step into managerial-level civil service posts, today's job prospects are less obvious, due to tough structural adjustment programmes and recruitment restrictions. All these have an impact on the board's capabilities in terms of its resources for continued funding of successive applicants. The board has therefore been forced to rethink its strategy by its management embracing on strategic management. More specifically, it is important for it to come up with strategies to cope with the challenges arising from its operating environment if it has to remain a viable body in line with its objectives of financing higher education in the country.

Various researchers have provided valuable insight into the area of strategic responses to various environmental factors. Kandie (2001) studied the strategic responses by Telkom (K) Ltd in a competitive environment and found out that financial constraints and lack of managerial empowerment construed on the capacity to respond to environmental changes. Kiptugen (2003) did a study on the strategic responses to changing competitive environment, a case of the Kenya Commercial Bank; Migunde (2003) studied the strategic responses by the Kenya Broadcasting Corporation to increased competition;

Mokaya (2003) studied on the responses to Urban Bus Companies in Kenya to environmental changes; and Mwarania (2003) did a study on the responses by insurance companies to changes in the environment. Others include those done by Gichobi (1999); Abdullahi (2000); Muturi (2000); Chepkwony (2001); and Isaboke (2001); Kombo (1997); Njau (2000); and Mugambi (2003). In these studies, it was generally found out that firms made adjustments to their strategic variables depending on their uniqueness to ensure survival.

As it can be seen from the available literature, most of the studies done are on profit-oriented organizations. A study by Awino (2001) on HELB focused the challenges to strategy implementation at the board. This study is building on the former study in order to establish the strategic responses by the board in response to the identified challenges by the former study. In addition, HELB is unique in context from the other studied organizations. First, it is a non-profit making organization. Secondly, it is the only government body mandated to disburse loans, bursaries and scholarship for higher education through an act of parliament. The body is therefore likely to respond in a unique way to the challenges as presented by the macro environment. Arising from the above descriptions, the proposed study sought to answer the following research question.

What are the responses by HELB to the environmental challenges of financing higher education in Kenya?

1.3 Objectives of the Study

The objective of the study was to establish the responses by HELB to the environmental challenges of financing higher education in Kenya.

1.4 Significance of the study

The results of this study would be of use to:

i. The HELB, in adopting responses to the environmental challenges of financing higher education sustainably and remain an outstanding financier of higher education in the region.

ii. Other non-profit making institutions in designing responses to changes in the variables of the macro environment.

iii. Future scholars and researchers as they may use the results as a source of reference.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

As businesses try to survive and thrive in an increasingly turbulent environment filled with ambiguities and uncertainties with the need for new information both internally and externally, strategy has become increasingly relevant. Chandler (1962) observed that the emergence of strategy in civilian organizational life resulted from the emergence of the opportunities and needs created changing population, income and technology to employ existing resources more profitably. According to him, strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals.

There are five main interrelated definitions of strategy (Mintzberg et al. 1998). According to them strategy is defined in terms of plan, ploy, pattern, position and perspective. Aosa (1992) noted that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. As he observed, a strategic problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through the development of the organization's core capabilities that are correlated to the external environment well enough to enable the exploitation of opportunities existing in the external environment and to minimize the impacts of the threats from the external environment. Strategy is a multidimensional concept embracing all critical activities of the firm, providing it with a sense of unity, direction and purposes as well as facilitating the necessary changes induced by its environment (Hax and Majluf 1996). They argue that strategy is the means of establishing the organizational purpose in terms of its long-term objectives, action programs and resource allocation; a response to external opportunities and threats, and internal weaknesses and strengths and a way to define managerial tasks with corporate businesses and functional perspectives. The essence of strategy is to relate the organization to the changes in the environment (Ansoff, 1987). Strategy is therefore a fundamental framework through which the organization can simultaneously assert its vital continuity and facilitate its adaptation to the changing environment. It is a tool of the top management team for coping with both external and internal changes (Wanjohi

2002). Organizations therefore have to respond with relevant strategies that match the changed environment. Failure to respond may lead to organizational decline or obsolescence. Strategy is therefore required in order for an organization to meet the demands of an ever-changing environment.

Response by any organization to challenges brought about by the various variables of the organization's environment of operation can be both strategic and operational. However, as Byars (1991) observed, there is a difference between the two. Operational responses are concerned with efficiency of operations. On the other hand, strategic responses have the following dimensions: First, they require top-management decisions because they affect several areas of the organization's operations. Secondly, they require large amounts of the organization's resources that must be redirected from internal sources or secured from outside the organization. Thirdly, they often affect the organization's long-term prosperity. Strategic decisions ostensibly commit the organization for a long time. Fourthly, strategic issues are future oriented and are based on what managers forecast rather than what they know. Finally, strategic issues involve considering the organization's external environment. Organizations must thus look beyond their operations (Pearce & Robinson, 1997).

2.2 Environment and its Challenges

Ansoff and McDonnell (1990) observed that environmental serving organizations are in constant two-way interaction with the environment. They take an assortment of resources from the environment, add value to them and deliver them back to the environment. They observed that the environment can be relatively stable or turbulent and the bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment. Heresy (1996) noted that organizations do not exist in a vacuum, but are continually affected in numerous ways by changes in the external environment. In most cases, organizations have little or no influence on or control over economic, social, political, technological, and ecological factors in their environment of operation.

Understanding an organization's environment of operation is made difficult by its diverse influences, the element of uncertainty and the way organizations cope with complexities posed by the uncertain environment. A firm's environment of operation is composed of various variables of the external environment such as the political-legal, economic, socio-cultural and technological factors (Johnson and Scholes, 2001). Usually, such environmental factors are beyond the control of the organization and sometimes present themselves as threats. Many macro-environmental factors are industry specific and must be followed up by consideration of how a business should respond to these influences. The following discussion depicts how some of the possible factors could indicate important environmental influences for a given organization.

2.2.1 Economic Factors: According to Pearce and Robison (1997), these concern the nature and direction of the economy in which an organization operates. These factors affect the organization through economic growth, monetary policy, interest rates, inflation, money supply, government spending, unemployment rates, disposable income, efficiency of financial markets and infrastructure quality. HELB is not an exception. In terms of the interest rates, the loan scheme is faced with the challenge of fluctuating inflation rates in the country. The scheme charges interest of 4% per annum, while inflation has been on the rise since 2002. In 2002, inflation was 2% per annum, which rose to 11.6% in 2004 eroding the actual loan recovery (HELB Review, 2005). In terms of unemployment, the level of unemployment in Kenya has been high due to a weak economy impacting negatively on loan recovery. However, the recent indication showing a return to increased economic growth (5.8% growth in GDP) brings hopes that the growth will enable the board realize more funding because government funding had been drastically reduced over the years due to harsh economic factors. Furthermore, the poor economic performance of the country has seen the migration of loanees. Many beneficiaries have migrated to the West and Southern African countries in search of employment thus posing challenges to the board's quest to recover loans from them. Moreover, economically, the poverty levels in the country have created a large portfolio of needy students leading to higher demands for loans from the board, which ends up stretching its already meager resources (HELB Review, 2005).

2.2.2 Political/Legal Factors: Pearce and Robinson (1997) pointed out that the direction and stability of a country's political factors is a major consideration for managers on formulating company strategies. This is because political factors define the legal and regulatory parameters. In addition, political constraints are placed on firms through fair trade decisions, legislation, political stability, environmental protection and regulation, taxation policies, trade regulation and tariffs, pricing regulations, government laws and competitive regulations. Since such laws and regulations are most commonly restrictive, they tend to reduce potential profits of organizations. However, Pearce and Robinson (1997) note that some actions are designed to benefit and protect organizations. Financing of higher education by the HELB has been impacted by the various political factors. For instance the impact of free primary education, which is not being felt at the moment, will be felt in future when the numbers translate into large university entry material. In addition, the rapid growth of universities as sanctioned by the state is leading to a corresponding growth in the number of students. As a result, this has posed and continues to pose a challenge to the Higher Education Loans Board because it has meant and continues to mean that the Board has to find for ways of supporting more students (HELB Review, 2005). Furthermore, political factors have a hand in the running of public bodies. For instance, political factors have directly affected the running of the Higher Education Loans Board in terms of recruitment, transfers and discipline of officers at the board. For example, the appointment of the board's executive secretary is political. As a result, the direction and stability of political factors is a major consideration for HELB. How it has carried its operations over the years has to a large extent been influenced by what is happening politically. As such, the board is not able to make independent decisions as required by their mandate.

2.2.3 Socio-Cultural Factors: Like other forces in the external environment, social-cultural factors are dynamic, with constant changes resulting from efforts of individuals to satisfy their desires and needs by controlling and adapting to the environment. The social-cultural factors that do have an impact on an organization's performance include population demographics, income distribution, social mobility, education beliefs, values, culture, attitude to work and leisure (Pearce and Robinson, 1997). For instance, many students have formed an attitude about the services they get at the organization's offices. Furthermore, the general public and university students wrongly perceive that the loan is a grant from the government, which is not to be repaid. This in turn poses the challenge to the board to go hunting for the beneficiaries to start repaying their loans. Without the board moving for them, they do not have any intensions of voluntarily starting repaying their loans.

There has been some dissatisfaction about the services offered by HELB. There has been concern over poor quality service delivery, where, when, and how the service product is delivered to the customer. The HELB has not faired very well in this and has been viewed as not being mindful of the students. The organization's office at the Anniversary Towers is often characterized by long queues. Nobody likes to be kept waiting. It's boring, time wasting, and sometimes uncomfortable and yet students are kept waiting somewhere in it's operations. Waiting lines or queues occur whenever the number of arrivals at the facility exceeds the capacity of the system to process them. Queues are basically a symptom of unresolved capacity and management problems. Socio-culturally, the HELB has severely been affected by the HIV/AIDS pandemic. The pandemic impacts negatively on the economy and recovery of loaned out funds. The board has over the years waived a sizeable proportion of loans of people who have died of HIV/AIDS and continues to do so (HELB Review, 2005). Consequently, this impacts negatively on the board's ability to ably maintain the desired liquidity levels to meet the increased demand for loans from a large portfolio of needy students.

2.2.4 Technological factors: To avoid obsolesces and promote innovation, an organization must be aware of technological changes that might influence it's industry. The Internet is expected to play a major role in service delivery for example in obtaining information, making payments among many others. As Pearce and Robison (1991) noted, creative technological adaptations can suggest possibilities for new products, for improvement in existing products, or in manufacturing and marketing techniques. The variables considered here include the organization's spending on research, its focus on technological efforts, impact on the value chain structure, impact on cost structure, rates of obsceneness and impact of changes in information technology. They further noted that a technological breakthrough could have a sudden and dramatic effect on an organization's environment. For instance the board finds it challenging to adequately maintain an accurate information database of the loanees.

However, it is worth noting that the macro environment is not limited to the above discussed factors. Andrews (1980) argued that the number of macro environmental factors is virtually unlimited and in practice, an organization has to prioritize and monitor those factors that influence its operations. As a result the organization may turn to scenario planning techniques to deal with high levels of uncertainty in important macro environment variables. He further argues that to facilitate such a scenario, the SWOT (Strengths, Weaknesses, Opportunities and Threats) technique of assessing the internal strengths and weaknesses of an organization in light of the opportunities and threats posed by the environment in which it operates can be used.

Some of the challenges that the board is facing in its quest of financing higher education in the country include increasing demand for higher education loans, transforming the Board into a self-sustaining and autonomous institution with a potential of administering a revolving fund, maintaining and managing credible public relations and image on a continuous basis, improving service delivery in order to meet customers or client's expectations, increasing unemployment level hence retarding loan repayment and recovery efforts, maintaining an accurate information data base of the loanees, maximizing the recovery of outstanding loans, promoting and creating institutional team work and internalization of corporate values and recruiting and retaining qualified and competent workforce with creativity and innovativeness (HELB Review, 2005).

Out of these, there are a number of issues arising that needs the attention of the board for its continued and successful operation. These include the rising demand for higher education, dwindling resources from the Ex-Chequer, the need to seek alternative sources of funding, The need to finance regular as well as self-supporting students, imminent competition from other education financing institutions, setting up of foreign universities with unique financing arrangements, misuse of loans by students hence requiring counseling services, national economic decline (Retrenchment, Unemployment), the impact of HIV Aids on loan recovery, and the globalization and liberalization of world economies (HELB Review, 2005).

2.3 Organizational Response to Environmental Challenges

According to Thompson and Strickland (1993), organizations depend on the environment for their survival and they have to scan it in an effort of building trends and conditions that could eventually affect the industry and adapt to them. As Ansoff (1987) observed, the change in the macro environmental factors may require new strategies, which in turn, call for reformed organizational capability. Thompson and Strickland (1997) noted that one way to predict future driving forces is to utilize environmental scanning techniques. Such scanning involves studying and interpreting social, political, economic, ecological and technological events in an effort to spot budding trends and conditions that could eventually affect an organization's operations and continued success. Muturi, (2000) argued that environmental scanning raises a managers' awareness of potential developments that could have an important impact on industry conditions posing new opportunities and threats.

According to Porter (1996), companies must be flexible to respond rapidly to environmental changes, which in turn pose challenges to the organization. Hofer and Schendler (1978) observed that for organizations to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment. Consequently, they need strategies to focus on their customers and deal with the emerging environmental challenges. Response by any organization to challenges brought about by the various variables of the organization's environment of operation can be both strategic and operational. While strategic responses are long-term in nature and embrace the entire organization, operational tasks are concerned with transformation process, which takes inputs and converts them into outputs, together with various support functions closely associated with these tasks (Brown, 1998)

2.3.1 Strategic Responses

Organizations are environment dependent. They depend on the environment for their survival and they scan the environment in effort of budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland 1993). Ansoff and McDonnell (1990) noted that strategic responses involve changes in firm's behaviors to assure success in transforming future environment. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment. They stated that assessment of the environmental threats and the opportunities of the organizational strengths and weaknesses are the core to developing strategic responses. The types of strategies include intensive strategies, integration strategies, diversification strategies and defensive strategies.

Strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. This in turn means that organizations need to harness both its tangible and intangible assets to maintain a strategic fit in its environment and strategy (Ansoff, 1987). If an organization's strategy is not matched to its environment, then a strategy gap arises. Also if by any chance the internal capabilities are not matched to its strategy, the capability gap arises. It is thus important that organization be able to shift its strategy with changes in the environment and match its capability to the set strategy in order to survive, succeed and to remain relevant (Porter, 1985).

Strategic responses are therefore the choices that firms' make in an attempt to address key issues that arise from internal and external analysis of the firm and its business environment (Migunde, 2000). These strategic responses include restructuring, marketing, diversification, information technology, culture change, integration, acting defensively, pricing, keeping focus on powerful customers, improvement in quality of products or services, relationship marketing, and lastly, the Porter's generic strategies of cost leadership, differentiation and focus. These are discussed as follows.

Restructuring

Wilson and Rosenfeld (1996) define structure as the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. In essence, structure distinguishes the parts of the organization and delineates the relationship between them. One of the major activities of restructuring is business process reengineering. According to Hammer (1996), companies can dramatically improve their efficiency and quality by focusing on customers and processes that create value for them. Outsourcing, for instance, would enable an organization to concentrate on its core business, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity.

Thompson (1997), states that radical business process reengineering implies that an organization searches for new ways through which performance can be improved. Consequently, this would demand for the breaking down of the organizations functional and individual job boundaries as the process do not have to coincide with existing departmental structures. Restructuring, as a strategic response can be as a result of various organizational needs. As Senior (1997) noted, thee triggers for organizational restructuring may include the purchase of a new IT equipment or system, business process reengineering through process intensification or extension, the redesign of a group of jobs, staff right-sizing and subsequent staff cutbacks, as well as staff redundancies.

Retrenchment, an offshoot of the restructuring strategy is usually embarked upon when an organization is in trouble or, because of adverse market conditions, sees trouble ahead. It occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. Thompson and Strickland (1993) observed that retrenchment involves a process of downsizing entailing the cutting on numbers of employees and activities undertaken. They further argued that the general aim of this strategy is to cut back in order to match expenditure to projected income, and refocus the organization so as to be able to attain prosperity in the future. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees and the media.

Defensive Strategies

Apart from restructuring, organizations can also pursue defensive strategies in terms of forming or entering into strategic alliances, joint ventures, retrenchment, divestiture, or liquidation and mergers/acquisitions, which are geared towards guaranteeing growth for an organization in terms of its portfolio extension. Entering into strategic alliances will see an organization pull resources with other organizations, to band together in order to exploit opportunities and to share ideas and information (Burnes, 2000). A joint venture is a strategic alliance that occurs when two or more companies for a temporary partnership or consortium for the purpose of capitalizing on some opportunity. This strategy can be considered defensive only because the firm is not undertaking the project alone. According to Byars (1991), mergers and strategic alliances allow for growth or development of an organization to take place without the organization involved having to invest the level of resources that would be necessary if they were operating in isolation. The other, acquisition, is usually resource-intensive but brings together immediate gains in terms of an established and, hopefully, profitable business. In some case, the products or markets are changing so rapidly that this becomes the only successful way of entering the market successfully (Johnson and Scholes, 2001). Another reason for acquisition is lack of resources or competence to develop a strategy internally. There are also financial motives for acquisitions as well as cost efficiency case. Mergers are more typically the result of organizations coming together voluntarily because they are actively seeking synergistic benefits, perhaps as a result of common impact of a changing environment in terms of either opportunities or threats.

Other defensive strategies include divestiture and liquidation. Divestiture is the selling of a division or part of an organization. It is often used to raise capital for further strategic acquisitions or investment. According to Johnson and Scholes (2001), divestiture can be an overall retrenchment strategy to rid an organization of businesses that are not profitable. Liquidation is the selling of a company's assets, in parts, for their tangible worth. It is the recognition of defeat and consequently can be an emotionally difficult strategy. According to Shollei (1999), more and more firms seek collaboration with other firms the aforementioned strategies to enable through them operate effectively as a result of increased forces towards globalization. He argues that pooling of resources is necessary since some market opportunities are too massive for a single firm to exploit and that collaboration also reduces the cost of differentiation and enhances competitive advantage.

Information Technology (IT)

According to Porter (1985), technological change, especially IT, is amongst the most important forces that can alter an organization's operations because most organizational activities generate and utilize the information. He states that IT can create new businesses from within a company's existing activities. Luftman (1996) adds that the way an organization views its businesses, customers and competition is critical to successfully aligning its business IT strategy. It is used to automate processes and to augment the skills of the organizations staff. Information supports and enhances every activity in the organization, and it can itself be a source of added value and, hence, competitive advantage, provided organizations are able to draw that value. Strategically, successful organizations obtain market feedback continuously and rapidly, and adapt to the feedback. Some of the information technology variables that can influence a firm's response to competition include the usage of real-time systems, extent of interconnectivity of distribution channels, as well as the efficiency of the telecommunication systems (Rayport and Sviokla, 1995).

Generic Competitive Strategies

According to Porter (1996), an organization can enhance its position in the ever changing environment by building around three variables of overall cost leadership, differentiation and focus. Pearce and Robinson (1997) noted that firms could sometimes pursue more than one approach as its primary target. Cost leadership, according to Porter (1985) requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales force, and advertising. The aim of this strategy is to achieve overall costs than other players in the industry without reducing comparable quality. Mugambi (2003) argues that cost leadership can be achieved by a firm adopting functional policies and resorting to aggressive construction of efficient scale facilities. The quality assurance process may also be elaborate to reduce costs of customer delays and cost of errors.

Differentiation, as the second generic strategy involves the differentiation of the product or service offering of the organization and creating something that is perceived industry wise as being unique. This strategy attempts to achieve industry-wide recognition of different and superior services as compared to other players. This recognition can be accomplished through special design and creation of innovative features in a product or a service. Differentiation can also be created through aggressive marketing campaign. Such campaigns tend to be on a strong brand identification and greater customer loyalty. According to Barman (2002), differentiation is a strategy used by non-profit organizations when a crowded market faces them and firms seek to assert uniqueness and superiority over their rivals by constructing a hierarchical based on a certain criteria.

In the focus strategy, the organization is concerned with selecting (focusing upon) only certain markets, products or geographical areas in which to operate. Porter (1996) argues that focusing in this way, it becomes feasible for an organization to dominate its chosen areas. Mugambi (2003) argues that a focuser selects a segment or group of segments and tailors a firm's strategy to serve them to the exclusion of others. He further argues that a focus strategy could take the form of cost focus where the focuser seeks a cost advantage in that segment or a differentiation focus by seeing differentiation in its segment. Firms should narrow their operations to target specific markets so as to develop a competitive edge.

Culture change

Culture is the pattern of beliefs, value, and learned ways of coping with experience that have developed during the course of an organization's history and which tend to be manifested in its material arrangements and in the behaviors of its members (Brown, 1998). An appropriate and cohesive culture can promote consistency, co-ordination and control, and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitate the chances of the organization being successful in its operations.

Marketing

Marketing is a social and managerial process. Kanuk and Schiffman (1994) observed that firms could respond to changes in their environment of operation by improving on the quality of their products or services as customers often judge the quality of a product or service on the basis of a variety of information cues. Furthermore, Kotler (1997) argues that firms can respond to challenges ensuing from environmental turbulence by enhancing their relationship marketing campaigns. This involves a process of attracting and keeping customers by trying to convert them to repeat customers which are in turn converted into loyal customers, who become advocates by patronizing the company and encouraging others to build a long-term "win-win" relationship with customers, which is accomplished by delivering high quality goods or services to them over time.

The above strategies are not mutually exclusive and they can be linked together in whatever combination that seems appropriate given the circumstances of the organization in question. This gives rise to combination strategies. According to Glueck (1978), combination strategies are clearly more appropriate or at least more necessary, in large multidivisional organizations where the circumstances faced by different activities are likely to vary. Burnes (2004) noted that there are no exhaustive strategies, given that each organization is free to develop its own strategic variant in relation to its own circumstances. Many if not most organizations pursue a combination of two or more strategies simultaneously, but a combination strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the firm. Difficult decisions must be made and priorities established. Organizations have limited resources and as a result, they must choose among alterative strategies and avoid excessive indebtedness

2.3.2 Operational Responses

In a dynamic environment the real source of competitive advantage is the ability to respond consistently to changing markets with new products and ever-improving competitiveness. A firm can achieve this ongoing renewal by identifying, developing and maintaining its critical capabilities. The critical capabilities are those that are difficult to develop and are created by three common characteristics namely; complexity, organizational diffuseness and well-developed interfaces. This may give rise to an increase in integrating and coordinating mechanisms such as committees, joint work groups and project teams or emphasis on social control through professional networks. The tasks undertaken by the operating core of an organization has an important influence on various aspects of an organizational design and control (Johnson and Scholes, 2001). Organizations with less standardized operational processes are likely to have devolved an informal decision making process.

Operational tasks are concerned with transformation process, which takes inputs and converts them into outputs, together with various support functions closely associated with these tasks (Brown, 1998). These transformation processes are applied in three main categories; materials, customers and information. Operations are the key functions of any organization and continuously manage the flow of resources through it and account for 80% of employees and hence most of the added value. If an organization is not continuously satisfying the needs of its customers then it will fail. The role of the manager therefore will be to develop operating processes, products locations and to meet the demands and pressures of the changing environment (Naylor, 1996).

Operations management organizes plans, controls and improves the use of processes, inventory, workforce and facilities and equipment in order to appropriately determine the ranking of competitive priorities like quality, dependability and flexibility. Operations managers thus have the responsibility both within their own organizations and in the relationship with other stakeholders within the supply chain. A manager's involvement in the activities within the supply chain varies from one industry to another depending on its core activities and mandate.

2.4 Strategic Issues in the Service Sector

Service typically subsumes a variety of specific characteristics, ranging from the speed with which a service is delivered to the quality interactions between clients and service personnel, and from avoiding errors to providing desirable extras to supplement the core services. As changes in the environmental variables intensifies in the service sector, it's becoming more important for service organizations to differentiate their products in meaningful ways. A business must set itself a part from its competitors; it must identify and promote itself as the best provider of attributes that are important to target clients. The concern is what sort of customers should an organization seek to serve and how do they create lasting relationships with them (Kotler, 1997).

The question organizations in the service sector ask themselves is what kind of customers should they seek to serve and how do they create lasting relationships with them. A valued relationship is the one in which the customer finds value because the benefits received from the service delivery significantly exceed the associated costs of obtaining them. The economic benefits of customer loyalty often explain why one organization is more successful than others. Loyal customers become more efficient in dealing with their dealings with the supplier and increase their spending over time. Achieving the full potential of each customer relationship should be the fundamental goal of every business. Organizations in the service industry can engage in various operational responses such as managing demand through managing capacity by utilizing facilities for longer periods. Also, organization can also schedule downtime during periods of low demand by scheduling repair and maintenance when the demand is expected to be low and arranging employees' vacation during such periods. In addition, organization may hire extra workers during their busiest periods, rent or share extra facilities and equipment to limit the investment in fixed assets (Kanuk and Schiffman, 1994).

Furthermore, organizations in the service sector cross-train their employees. Even when the service delivery system appears to be operating at full capacity, certain elements and their attendant employees may be underutilized. If employees are cross-trained to perform a variety of tasks, they can be pushed to bottleneck areas as needed, thereby increasing total system capacity (Kotler, 1997).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study was conducted through a case study design. This methodology was suited to identify the complexities and details of the Higher Education Loans Board. A Case Study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community and embraces depth rather than breath of a study (Kothari, 1990). This study was built on similar grounds as it made a detailed investigation of a single subject. In addition the case study approach enables the researcher to collect in depth data on the population being studied and allow the researcher to be more focused and hence give recommendations that are specific and relevant.

3.2 Data Collection

The data for this study was primary data. This was needed to help determine the responses HELB has put in place to cope with the challenges of financing higher education in Kenya. Primary data was collected by use of an interview guide (see appendix II). HELB has four major departments namely; the Loans disbursement and recovery department, the Human Resource management department, the Information technology department, and the Finance department.

The respondents in the interview were Heads of Departments or senior staff in the respective departments. The Board Secretary (Chief Executive Officer) and his Deputy were also interviewed. It is these senior officers who were expected to have a thorough understanding of the challenges that have continued to hinder HELB from realizing its pursuit of becoming a dependable Institution financing needy Kenyans pursuing higher education and the organization has been attempting to respond. Six senior officers at the board were therefore interviewed.

3.3 Data Analysis

Because the data was qualitative, only content analysis was done. This being a case study, most responses were expected to be qualitative in nature, and hence necessitating content analysis. This type of analysis was deemed appropriate, as it does not limit the respondents on the answers. This entailed analyzing the content of the interviews to determine the major challenges facing HELB and HELB responses to them. Content of information was what was important and not the proportions associated with the factors studied.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This study had one major objective to establish the responses by the Higher Education Loans Board to the environmental challenges of financing higher education in Kenya. Data for this study was primary collected by the researcher conducting personal interviews with the Board Secretary (Chief Executive Officer), his Deputy as well as departmental heads of the board.

The data was recorded by writing the responses as provided by the respondents. After the interviews and recording of the data, the data was mainly analyzed by the conceptual content analysis, which sought an objective, systematic and qualitative description of a manifest content of communication between the researcher and representatives of the board under study, and the results are provided below.

This chapter presents the analysis and findings of the research in three parts. The first part presents the role of the Higher education Loans Board as highlighted in the Act of Parliament. This was aimed at establishing the functions of the board as it would have led to the establishment of the factors in the external environment that do impact on its ability to fulfill those roles as stipulated in the Act. The second part presents the general environmental challenges that are impacting on the Higher Education Loans Board abilities to adequately finance higher education in Kenya. The third part presents the responses of both top management as well as the respective departments to the environmental challenges.

4.2 Role of HELB as a Financier of Higher Education in Kenya

From the responses, the study established that a parliamentary Act CAP 213A provided for the establishment of the Higher Education Loans Board charged with the role to manage a fund to be used for granting loans to assist Kenyan students in obtaining higher education at recognized institutions within and outside Kenya.

The study established that as a financier of higher education in Kenya, the board was assigned various roles as per the Act of Parliament. As per the Act, the responses indicated that the board was assigned functions to formulate sound policies for regulating the management of the fund; solicit for funds and other assistance to promote the functions of the board; set the criteria and conditions governing the granting of loans including the rate of interest and recovery of loans; receive any gift, donation, grants or endowments made to the board and make legitimate disbursements there from; enter into contract with financial institutions for the purpose of Loan disbursement and recovery; grant loans out of the fund either with or without security to any eligible person to enable him or assist any student to meet the cost of higher education. Responses also indicated that the board is assigned functions to invest any surplus funds not currently required for the purpose of the board in any investment authorized by law of investment f trust fund with power to vary or realize those investment; receive and consider all loan applications from eligible persons or students wishing to be considered for the award of higher education loans, and to approve, withhold or reject such requests in accordance with the provisions of the Act; and to establish and award bursaries and scholarships which it may consider necessary for promotion of the objectives of the Board.

4.3 Environmental Challenges

The objective of this study was to establish the responses by the Higher Education Loans Board to the environmental challenges of financing higher education in Kenya. Two sets of data were collected so as to accomplish this objective. The first set sought to identify the respective environmental challenges impacting on the Higher Education Loans

Board's abilities to adequately finance higher education in Kenya. On this aspect, respondents were requested to indicate how the Higher Education Loans Board had been impacted by the variables in both of its external as well as internal environments of operation. From the responses, the study revealed that the Higher Education Loans Boards faces various challenges in financing higher education in Kenya as a result of various variables in its environment of operation as discussed below.

4.3.1 Political Environmental Challenges

From the interviews conducted, the study revealed that there are several political factors, which have impacted on the board's ability to finance higher education in Kenya. Financing of higher education by the HELB has been impacted by various political factors. The responses indicated that the government's declaration of free primary education, which is not being felt at the moment, would be felt in future when the numbers translate into large university entry material. In addition, the responses indicated that many Private Universities have been politically chartered leading to a rapid growth of universities, whose corresponding growth in the number of students expect to be served by the HELB. As a result, this has posed and continues to pose a challenge to the Higher Education Loans Board because it has meant and continues to mean that the board has to look for ways of supporting more students.

Furthermore, the responses also led to the revelation by the study that political factors have a hand in the running of the board in terms of recruitment, transfers and discipline of officers at the board. The study established that the operations at the board are largely influenced by what is happening politically. The responses indicated that at times, it becomes difficult for the board to make independent decisions as required by their mandate without lobbying for political approvals.

4.3.2 Economic Environmental Challenges

The study sought to establish what economic factors in the country have affected the Board's quest of adequately financing higher education and the resultant responses adopted by the Board. The study established that in terms of the interest rates, the loan scheme is faced with the challenge of fluctuating inflation rates in the country. The responses indicated that the scheme charges interest of 4% per annum, while inflation has been on the rise since 2002. In terms of unemployment, the study established that the level of unemployment in the country has been high due to a weak economy impacting negatively on loan recovery.

Furthermore, responses confirmed the fact that the poor economic performance of the country has seen the migration of loanees to the West and Southern African countries in search of employment thus posing challenges to the board's quest to recover loans from them. Moreover, the responses led to the confirmation that poverty levels in the country have created a large portfolio of needy students leading to higher demands for loans from the board, which ends up stretching its already meager resources. As a result, the study revealed that the board is faced with a challenge of raising adequate funds. It was established that currently, the board has insufficient funds to finance higher education in the face of the rapidly growing number of Kenyans seeking higher education.

4.3.3 Technological Environmental Challenges

Respondents were asked to indicate whether global technological developments posed any challenges to the Board's quest of adequately financing higher education in the country. It was established that Information and Communication Technology was the backbone of operations at HELB. The responses indicated that key functions of the board such as loan disbursement, recovery of loaned funds as well as human resources and financial management revolve around the Information department. However, the responses indicated that the board finds it challenging to adequately maintain an accurate information database of the loanees.

4.3.4 Socio-cultural Environmental Challenges

Socio-culturally, respondents were asked to indicate what socio-cultural factors have affected the Board's quest of adequately financing higher education in Kenya. The responses indicated that the Board's quest to adequately finance higher education in Kenya is affected by the HIV/AIDS pandemic, unfaithfulness of potential loanees, lack of prudent financial management systems and the negative national culture towards loan repayment.

The study established that HELB has severely been affected by the HIV/AIDS pandemic that has negatively impacted on the economy and recovery of loaned out funds. The responses indicated that the board has over the years waived a sizeable proportion of loans of people who have died of HIV/AIDS and continues to do so. Consequently, this impacts negatively on the board's ability to ably maintain the desired liquidity levels to meet the increased demand for loans from a large portfolio of needy students.

In addition, the research established that the general public and university students wrongly perceived that the loan was a grant from the government, which was not to be repaid, which poses challenges the loan recovery efforts by the Board. Furthermore, the study established that there is frequent falsification of particulars by loan applicants so as to receive full amounts, which poses challenges to the board in determining who the genuinely needy cases are for its disbursements. Moreover, responses also indicated that there was lack of prudent financial management in the student fraternity. The study established that many students have occasionally dropped from the university due to frustration resulting from their inability to prudently manage their loans, which in turn impacts on the Board's recovery system for its loaned amounts.

4.3.5 Internal Environmental Challenges

As an institution, respondents were asked to indicate the factors within the board' internal environment that has affected its quest of financing higher education. The study established that the board lacks adequate capacity to transform itself into a self-sustaining and autonomous institution with a potential of administering a revolving fund.

It was also established that the board is unable to maintain an accurate information database of the loanees in addition to its failure to maximize the outstanding loans. Furthermore, the responses also confirmed that there has been woe and cry about the services offered by HELB. The study revealed the organization's office at the Anniversary Towers is often characterized by long queues, which are basically a symptom of unresolved capacity and management problems.

4.3.6 Other Challenges

Respondents were asked to indicate what other factors that have affected the Boards quest of financing higher education in Kenya. The study established that financing higher education has increasingly become challenging to the board as a result of the increase in University fees. The responses indicated that in the recent past, Public Universities increased fees and thus gave the Higher Education Loans board pressure to increase its Loan allocation. Also, the study established that various universities have introduced new degree courses tailored to meet certain market or industry needs that require industrial attachment. As a result, the responses indicated that the board has been forced to provide attachment loans to such students, which is posing financial challenges.

4.4 Responses to the Environmental Challenges of Financing Higher Education

From the responses, there seems to have been an inclination by all the responses to the fact that there have been challenges in both the external and internal environments and the HELB has adopted various strategies in response to the challenges to enable it be effective its service delivery. The following is the environmental scanning, the challenges arising and the responses adopted by the Board's management to enhance effectiveness of its service delivery.

4.4.1 Political Environment

From the interviews conducted, the study revealed that there are several political factors, which have impacted on the body's ability to finance higher education in Kenya.

Financing of higher education by the HELB has been impacted by the various political factors. The responses indicated that the government's declaration of free primary education, which is not being felt at the moment, would be felt in future when the numbers translate into large university entry material. In addition, the responses indicated that many Private Universities have been politically chartered leading to a rapid growth of universities, whose corresponding growth in the number of students expect to be served by the HELB. As a result, this has posed and continues to pose a challenge to the Higher Education Loans board because it has meant and continues to mean that the board has to find for ways of supporting more students.

Furthermore, the responses also led to the revelation by the study that political factors have a hand in the running of the board in terms of recruitment, transfers and discipline of officers at the Board. The study established that the operations at the board are largely influenced by what is happening politically. The responses indicated that at times it becomes difficult for the board to make independent decisions as required by their mandate without lobbying for approval.

The board has responded to the above challenges in various ways. For instance, the board has entered into partnership arrangements with different bodies in order to enhance its loan recovery to boost its available funds for further loaning. For example, the board has continued to collaborate with financial institutions such as the National Bank of Kenya and the Cooperative Bank of Kenya, where the banks undertake to give loans to privately sponsored students at low interest rates per annum to ease the demand for loans from the Board. The study established that the board is in a partnership with the Kenya Revenue Authority in the area of loan recovery, which translates positively on loan disbursement.

In responding to the challenge of political interference in the running of the Board, the study established that the board has responded by strengthening the participation of all the stakeholders in reviewing its progress and policy issues. The interviews indicated that key Government Ministries are represented in the Board.

4.4.2 Economic Environment

The study sought to establish what economic factors in the country has affected the Board's quest of adequately financing higher education and the adopted responses by the Board. The study established that in terms of the interest rates, the loan scheme is faced with the challenge of fluctuating inflation rates in the country. The responses indicated that the scheme charges interest of 4% per annum, while inflation has been on the rise since 2002. In terms of unemployment, the study established that the level of unemployment in the country has been high due to a weak economy impacting negatively on loan recovery.

Furthermore, responses confirmed the fact that the poor economic performance of the country has seen the migration of loanees to the West and Southern African countries in search of employment thus posing challenges to the board's quest to recover loans from them. Moreover, the responses led to the confirmation that poverty levels in the country have created a large portfolio of needy students leading to higher demands for loans from the board, which ends up stretching its already meager resources. As a result, the study revealed that the board is faced with a challenge of raising adequate funds. It was established that currently, the board has insufficient funds to finance higher education in the face of the rapidly growing number of Kenyans seeking higher education.

As a response, the board is seeking to increase its loan recovery rate through its partnership with the Kenya Revenue Authority. Also, the study revealed that the board is in partnership with private banks. It was established that the board has signed two memoranda of understanding with two local banks (the National Bank of Kenya and the Cooperative Bank of Kenya), with the understanding that the banks will give loans to privately sponsored students at low rates so as to ease the pressure on the Board. Moreover, the board is in collaboration with the Cooperative Bank of Kenya to strengthen loan repayment from the no-formal sector.

4.4.3 Socio-cultural Environment

Socio-culturally, respondents were asked to indicate what socio-cultural factors have affected the Board's quest of adequately financing higher education in Kenya. The responses indicated that the Board's quest to adequately finance higher edi8cation in Kenya is affected by the HIV/AIDS pandemic, unfaithfulness of potential loanees, lack of prudent financial management systems and the negative national culture towards loan repayment.

The study established that HELB has severely been affected by the HIV/AIDS pandemic that has negatively impacted on the economy and recovery of loaned out funds. The responses indicated that the board has over the years waived a sizeable proportion of loans of people who have died of HIV/AIDS and continues to do so. Consequently, this impacts negatively on the board's ability to ably maintain the desired liquidity levels to meet the increased demand for loans from a large portfolio of needy students.

In addition, the research established that the general public and university students wrongly perceived that the loan was a grant from the government, which was not to be repaid, which poses challenges the loan recovery efforts by the Board. Furthermore, the study established that there is frequent falsification of particulars by loan applicants so as to receive full amounts, which poses challenges to the board in determining who the genuinely needy cases are for its disbursements. Moreover, responses also indicated that there was lack of prudent financial management in the student fraternity. The study established that many students have occasionally dropped from the university due to frustration resulting from their inability to prudently manage their loans, which in turn impacts on the Board's recovery system for its loaned amounts.

As a response to the challenges, the board is working on a policy that will empower it ascertain the beneficiaries' cause of death and possibly attach his or her assets where possible. Also, the study revealed that the board is enhancing awareness on the dangers posed by the HIV/AIDS pandemic in social forums. In response to the unfaithfulness of the applicants, the study established that the board utilizes the Means Testing instrument to assess an applicant's level of need by analyzing their family's financial status. It was established that in response to falsification of an applicant's information for full allocation, the board has an Act that would see those who give false information liable to prosecution when found and their loans cancelled.

To instill prudence in financial management by the students so as to curb wastage, the study established that the board encourages student counseling. In addition, the study revealed that the board introduced the bank account system to guard against lump sum withdraws by students, which has reduced cases of dropping out of university.

4.4.4 Technological and Internal Environments

Respondents were asked to indicate whether global technological developments posed any challenges to the Board's quest of adequately financing higher education in the country. It was established that Information and Communication Technology was the backbone of operations at HELB. The responses indicated that key functions of the board such as loan disbursement, recovery of loaned funds as well as human resources and financial management revolve around the Information department. However, the responses indicated that the board finds it challenging to adequately maintain an accurate information database of the loanees.

As an institution, respondents were asked to indicate the factors within the Board' internal environment that has affected its quest of financing higher education. The study established that the board lacks adequate capacity to transform itself into a self-sustaining and autonomous institution with a potential of administering a revolving fund. It was also established that the board is unable to maintain an accurate information database of the loanees in addition to its failure to maximize the outstanding loans. Furthermore, the responses also confirmed that there has been woe and cry about the services offered by HELB. The study revealed the organization's office at the Anniversary Towers is often characterized by long queues, which are basically a symptom of unresolved capacity and management problems.

As a response, the board has adopted several strategies. The study established that the board has established its own website on which students are able to check their loan allocation and the time of disbursement. The study also established that the board has introduced a mobile phone inquiry line, which has necessitated the access of the HELB database by students. The study revealed that the board intents to take this further to the processing of its procurements to help minimize contact with its suppliers except where there is need to verify the quality of goods delivered.

It was also established that the board is strengthening Information and Communication Technology, which has greatly reduced the need for a bigger workforce, enhanced efficiency, reduced the operational costs and eliminated the need for branches. Further, the study established that the board has effected the Electronic Fund Transfer (EFT) system to reduce corruption by minimizing the physical contact with the students and suppliers. Apart from the aforementioned, the study revealed that the board has set up the Disaster Recovery Site to ensure that it does not lose any data of its loan beneficiaries as well as maintain the data up-to-date in addition to its Capacity building on ICT, in which the board has continued to train its staff on IT skills both locally and abroad. The study also established that the board is developing a policy that will lead to the development of a document management system that will help ease the task of managing current data inflows and outflows.

4.4.5 Other Challenges

Respondents were asked to indicate what other factors that have affected the Boards quest of financing higher education in Kenya. The study established that financing higher education has increasingly become challenging to the board as a result of the increase in University fees. The responses indicated that in the recent past, Public Universities increased fees and thus gave the Higher Education Loans board pressure to increase its Loan allocation. Also, the study established that various universities have introduced new degree courses tailored to meet certain market or industry needs that require industrial attachment. As a result, the responses indicated that the board has been forced to provide attachment loans to such students, which is financially challenges to its resources.

As a response, the study established that the board has responded to the above challenges in various ways. For example, the board has continued to collaborate with financial institutions such as the National Bank of Kenya and the Cooperative Bank of Kenya, where the banks undertake to give loans to privately sponsored students at low interests rates per annum to ease the demand for loans from the Board. The study established that the board is in a partnership with the Kenya Revenue Authority in the area of loan recovery, which translates positively on loan disbursement.

CHAPTER FIVE: SUMMARY, DISCUSIONS AND CONCLUSIONS

5.1 Introduction

This chapter gives a summary of the findings, discussions, conclusions and recommendations drawn. The chapter also provides recommendations for policy and practice.

5.2 Summary, Discussions and Conclusion

This study had one major objective that is to establish the responses by the Higher Education Loans board to the environmental challenges of financing higher education in Kenya. Hofer and Schendler (1978) observed that for organizations to be effective and hence successful, they should respond appropriately to the changes that occur in their respective environment.

Results of this study indicated that the environment within which the Higher Education Loans board is operating presents great challenges to the Board. The situation has not been made any better by the low funding from the exchequer, low loan recovery rate, rapid growth of universities in the Kenyan system hence increased numbers of possible beneficiaries, the ravaging HIV/Aids pandemic, migration of loanees, increased enrolment without commensurate improvement in available facilities, falsification of particulars by loan applicants so as to receive full amounts, and the high unemployment levels in the country where students lucky enough to get a university degree have no guarantee of finding employment. It was established that the board had various strategies in response to the challenges.

For instance, the board has entered into partnership arrangements with different bodies in order to enhance its loan recovery to boost its available funds for further loaning. Also established that the board is strengthening Information and Communication Technology. Further, the study established that the board has effected the Electronic Fund Transfer (EFT) system to reduce corruption by minimizing the physical contact with the students and suppliers. The study revealed that the board has set up the Disaster Recovery Site to ensure that it does not lose any data of its loan beneficiaries as well as maintain the data up-to-date in addition to its Capacity building on ICT.

In response to the unfaithfulness of the applicants, the study established that the board utilizes the Means Testing instrument to assess an applicant's level of need by analyzing their family's financial status. It was established that in response to falsification of an applicant's information for full allocation, the board has an Act that would see those who give false information liable to prosecution when found and their loans cancelled.

The study established that the board is seeking to increase its loan recovery rate through its partnership with the Kenya Revenue Authority. Also, the study revealed that the board is in partnership with private banks. It was established that the board has signed two memoranda of understanding with two local banks (the National Bank of Kenya and the Cooperative Bank of Kenya), with the understanding that the banks will give loans to privately sponsored students at low rates so as to ease the pressure on the Board. Moreover, the board is in collaboration with the Cooperative Bank of Kenya to strengthen loan repayment from the no-formal sector.

In responding to the challenge of political interference in the running of the Board, the study established that the board has responded by strengthening the participation of all the stakeholders in reviewing its progress and policy issues. The interviews indicated that key Government Ministries are represented in the Board.

5.3 Limitations of the Study

The major limitation of the study was the fact that some heads of departments were not available for the interview and as a result, the researcher was forced to interview their deputies. Arising from this, the absence of the targeted respondents may have had some slight implication on the direction of the study because they are in a better position to handle strategic management matters.

5.4 Recommendations for Further Research

I would recommend a study on understanding and establishing the extent to which the adopted strategies enhance the effectiveness of the Higher Education Loans board in financing higher education in Kenya. Such a study would highlight the underlying forces that affect the board's response to the challenges in both of its environments of operation in its quest to adequately finance higher education in Kenya.

5.5 Recommendations for Policy and Practice

The board needs to embrace strategic thinking in its service delivery guided by a clear vision. From the results of the study, it is evident that the Higher Education Loans board faces various challenges in financing higher education in Kenya. The study revealed that the board is highly inhibited by its internal factors in its quest to adequately finance higher education in Kenya. There is inadequate capacity to transform the board into a self-sustaining and autonomous institution with a potential of administering a revolving fund. In addition, the board has failed to maintain an accurate database of the loanees in addition to its failure to maximize the recovery of outstanding loans.

The board evidently needs to consolidate its strengths and capabilities in order to develop unique linkages and networks with various financial institutions in order to improve on loan recovery through enhanced loanee tracer mechanisms. The strong mandate that the board currently enjoys, that is also related to the empowerment it has in financing higher education, will reinforce the move to enhance on its loan recovery rate. The board should also fully exploit the functions as stated in its Act of establishment such as offshore funding, education lottery and endowment funds. This will enable them have more disposable funds for disbursement to increased needy cases for financial assistance.

The board needs to explore the possibilities of investing in quick yielding financial securities as well as the possibilities of turning itself into a learners' bank. The board should also float an education bond. Instead of depending on the government for grants, the board should explore the possibility of raising funds offshore through partnership with development partners as well as raising funds through the money market. For effectiveness in service delivery, an institution must adopt proactive managerial policy led by a qualified and competent workforce driven by creativity and innovativeness. Only then will the board identify and promptly exploit emerging opportunities and also manage the challenges ensuing from both its external as well as internal environments of operation.

REFERENCES

Abdullah, O. A. (2000), "A Study of Strategic Responses by Kenyan Insurance Companies Following Liberalization", **Unpublished MBA Project, University of Nairobi.**

Andrews, K. R. (1980), **The Concept of Corporate Strategy,** Irwin: Homewood, IL, USA.

Ansoff, I. (1987), **Corporate Strategy,** New York: McGraw-Hill, USA

Ansoff, I. and McDonnell, E. (1990), **Implanting Strategic Management, 2nd edition,**

Prentice Hall, UK.

Aosa, E. (1992), "An Empirical Investigation of Aspects of Strategy Formulation and Implementation within Large Private Manufacturing Companies in Kenya", **Unpublished PHD Thesis, University of Strathclyde, Scotland, Feb.**

Awino, Z. B. (2001), "Effectiveness and Problems of Strategy Implementation of Financing Higher Education in Kenya by the Higher Education Loans Board", **Unpublished MBA Project, University of Nairobi.**

Barman, A. (2002) **"Asserting Difference: The Strategic Responses of Non-Profit Organizations to competition",** Social Forces, Volume 80, Issue 4, 2002.

Bedeian, A. G. (1980), **Theory and Analysis,** Hinsdale, Dryden, Illinois.

Brown, A. D. (1998), **Organization Culture, 2nd Edition, Financial Times,** Prentice Hall

Burnes, B. (2000), **Managing Change, 3rd edition,** Harlow: Financial Times.

Burnes, B. (2004), **Managing Change: A Strategic Approach To Organizational Dynamics, 4th edition,** Prentice Hall, England.

Byars, L. L. (1991), **Strategic Management: Formulation and Implementation,** 3rd

edition, Harper Collins Publishers.

Chacha, C. N. (2004), **Reforming Higher Education in Kenya:** Challenges, Lessons and Opportunities, A Paper Presented at the state university of New York workshop with the parliamentary committee on Education, Science and Technology, Naivasha, Kenya, August 2004.

Chandler, A. (1962), **Strategy and Structure:** Chapters in the History of American Industrial Enterprises, Cambridge: Massachusetts, MIT Press.

Chepkwony, J. (2001), "Strategic Responses of Firms in Kenya to Challenges of Increases Competition in the Industry", **Unpublished MBA Project, University of Nairobi**

Cole, G. A. (1990), **Management Theory and Practice, 3rd edition,** D. P. Publishers Ltd.

Hax, C. A. and Majluf, N.S., (1996), **The Strategy Concept and Process: A Pragmatic Approach, 2nd edition,** New Jersey: Prentice Hall International, USA.

HELB Review 5t v(2005). **A Decade of Service to the Nation: Gains and Challenges,** Issue No. 7, October Glueck, W. W. (1978), **Business Policy and Strategic Management,** New York: McGraw-Hill, USA.

Hammer, M. (1996), **Beyond Re-engineering: How does the Process-Central Organization is Changing our Work and Lives,** Harper Collins Publishers.

Heresy, P., Blanchard, H. K., and Dewey, J. E. (1996), **Management of Organizational Change: Utilizing Human Resources, 7th edition,** New Jersey: Prentice Hall, Inc.

Hofer, C. W. and Schendel, D. (1978), **Strategy Formulation: Analytical Concepts,** St. Paul; West Publishing.

Isaboke, S. (2001), "Strategic Responses by major Oil Companies in Kenya to the **Threat** of New Entrants", **Unpublished MBA Project, University of Nairobi**.

Johnson G. and Scholes K. (2001), **Exploring Corporate Strategy, 4th Edition,** Prentice Hall, India.

Kanuk, L. and Schiffman, L. G. (1994), **Consumer Behaviour, 5th edition,** New York: Prentice Hall.

Kandie, P. (2001), **A Study of Strategic Responses by Telkom Kenya Limited in a Competitive Environment,** Unpublished MBA Project, University of Nairobi

Kiptugen, E. J. (2003), **Strategic Responses to Changing Competition Environment,** Unpublished MBA Project, University of Nairobi.

Kombo, H. K. (1997), **Strategic Responses by Firms Facing Changed Environmental Conditions: A Study of Motor Vehicle Franchise Holders in Nairobi,** Unpublished MBA Project, University of Nairobi

Kotler, P. (1997), **Marketing Management: Analysis, Planning, Implementation and Control, 9th edition,** New Delhi: Prentice Hall.

Kothari, C. R. (1990), **Research Methodology: Methods and Techniques, 2nd edition,** New Delhi, Wishwa Prakshan.

Luftman, J. N. (1996), **Competing in the Information Age: Strategic Alignment in Practice,** Oxford Printing Press, March-April.

Migunde, F. A. (2000), "Strategic Responses by the Kenya Broadcasting Corporation to Increased Competition", **Unpublished MBA Thesis, University of Nairobi.**

Mintzberg, H., Quinn, J. B., and Ghoshal, S. (1998), **The Strategy Process,** London: Prentice Hall.

Mokaya, S. B. (2003), "Responses of Urban Bus Companies in Kenya to Environmental Changes", **Unpublished MBA Thesis, University of Nairobi.**

Mugambi, M. G. (2003), "The Strategic Responses of Tourist Hotels to the Changes in the Environment. A Case of Tourist Hotels in Nairobi", **Unpublished MBA Thesis, University of Nairobi.**

Muturi, G. (2000), "Strategic Responses by Firms facing Changed Competitive Conditions: A Case of E. A. B. Ltd", **Unpublished MBA Thesis, University of Nairobi.**

Mwarania, J. M. (2003), "Responses by Insurance Companies to Changes in the Environment", **Unpublished MBA Thesis, University of Nairobi.**

Naylor, J. (1996), **Operations Management,** Great Britain, Bell and Bain Ltd. Glasgow.

Njau, G. M. (2000), "Strategic Responses by Firms Facing Changed Competitive Conditions: The Case of East African Breweries", **Unpublished MBA Thesis, University of Nairobi.**

Pearce II, J. A. and Robinson, R. B. (Jr.), (1991), **Strategic Management: Formulation, Implementation and Control,** New York: Free Press.

Pearce. J. A. & Robison, R. B. (1997), **Strategic Management. Implementation and Control,** Boston: Irwin McGraw-Hill, U.S.A.

Porter, M. E. (1985), **Competitive Advantage: Creating and Sustaining Superior Performance,** New York: The Free Press

Porter, M. E. (1996), What is Strategy? **Harvard Business Review,** 74 (6), pp 61-78

Rayport, J. F. and Sviokla, J. S. (1995), **Exploring the Virtual Value Chain,** Harvard Business Review, November-Dec ember.

Senior, B. (1997), **Organizational Change,** Financial Times, Harlow: Prentice Hall.

Shollei (1999), Shollei W. (1999) "An investigation in the nature of factors Influencing Collaborative Arrangements in Kenya's Media Industry", **Unpublished MBA Thesis, University of Nairobi**

Thompson, J. D. (1997), **The Strategic Management Awareness of Change, 3rd edition,** International Thompson Press, UK.

Thompson, A. A. and Strickland, A. J. (1993), **Strategic Management: Concepts and Cases, 7th edition,** New York: Richard D. Irwin.

UNESCO, 1998).

Wanjohi, P. N. (2002), "An Investigation on aspects of Strategic Planning by Insurance Companies in Kenya", **Unpublished MBA Thesis, University of Nairobi.**

Wilson, D. C. and Rosenfeld, R. H. (1996), **Managing Organizations: Texts, Readings and Cases,** Maidenhead: McGraw Hill.

APPENDIX I

Letter of introduction to the Respondents

Tom Jonathan Lalampaa,
School of Business,
University of Nairobi,
P.O Box 30197,
NAIROBI
July 2006

Dear Respondent,

RE: RESPONSES TO THE ENVIRONMENTAL CHALLENGES OF FINANCING HIGHER EDUCATION IN KENYA

I am a postgraduate student at the University of Nairobi, School of Business. In order to fulfill the degree requirements, I am undertaking a management research project on the above subject at the Higher education Loans board. You have been selected to form part of this study. This is to kindly request you to assist me collect the data by taking some time for a face-to-face interview on issues relating to the subject. The information you provide will be used exclusively for academic purposes and it will be treated with strict confidence. At no time will your name appear in the report.

Your co-operation will be highly appreciated and thanks in advance.

Yours Sincerely,
Tom Jonathan Lalampaa
MBA Student
University of Nairobi

Dr. Martin Ogutu
Lecturer/Supervisor
University of Nairobi

APPENDIX II

INTERVIEW GUIDE

TOP LEVEL MANGEMENT

1. Does HELB have a strategic plan?
2. What is your general description of the macro environment in which HELB is operating?
3. In the quest of financing higher education, has the HELB been affected by political factors in the country? Comment on their nature and influence.
4. What has been your response at the corporate level?
5. What economic factors in the country have affected your quest of adequately financing higher education in Kenya? Comment on their nature and influence.
6. What has been your response at the corporate level?
7. Do global technological developments post any challenges to HELB's quest of adequately financing higher education in Kenya? Please comment.
8. What has been your response at the corporate level?
9. What socio-cultural factors have affected your quest of adequately financing higher education in Kenya?
10. What has been your response at the corporate level?
11. What other factors have affected HELB's quest of adequately financing higher education in Kenya?
12. What has been your response at the corporate level?
13. As an institution, what are some of the factors within your organization's internal environment that affect your quest to adequately finance higher education in the country?
14. What has been your response at the departmental level?
15. How often is the strategic plan reviewed to reflect changes in the environment?
16. What is your role in HELB's strategic planning process?
17. How important would you consider such plans to be responsive to the challenges of financing higher education in Kenya?

MIDDLE LEVEL MANAGEMENT

1. Does the HELB have a vision/mission statement?
2. What role does HELB play as a financier of higher education? (Functions highlighted in Act of Parliament)
3. In what ways does the government support the body to perform these functions?
4. What controls has the government put in place to ensure that these functions are performed?
5. What is your role in HELB's strategic planning process?
6. How often is the strategic plan reviewed to reflect changes in the environment?
7. What is your general description of the macro environment in which HELB is operating?
8. In the quest of financing higher education, has the HELB been affected by political factors in the country? Comment on their nature and influence.
9. What has been your response at the departmental level?
10. What economic factors in the country have affected your quest of adequately financing higher education in Kenya? Comment on their nature and influence.
11. What has been your response at the departmental level?
12. Do global technological developments post any challenges to HELB's quest of adequately financing higher education in Kenya? Please comment
13. What has been your response at the departmental level?
14. What socio-cultural factors have affected your quest of adequately financing higher education in Kenya?
15. What has been your response at the departmental level?
16. As an institution, what are some of the factors within your organization's internal environment that affect your quest to adequately finance higher education in the country?
17. What has been your response at the corporate level?
18. What other factors have affected HELB's quest of adequately financing higher education in Kenya?
19. What has been your response at the departmental level?

THANKS FOR YOUR COOPERATION