

STRATEGIC PLANNING PRACTICES IN AUDIT FIRMS IN NAIROBI,  
KENYA

BY  
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## STUDENT DECLARATION

I, the undersigned declare that this research project is my original work and has not been submitted to any other College, Institution or University other than University of Nairobi for academic credit.

Signed.......... Date 20 November 2008

Scott B. Karanja

The research project has been submitted for examination with my approval as the appointed supervisor

Signed.......... Date 20-11- 2008

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Project Supervisor

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## **ABBREVIATIONS**

CMA	Capital Markets Authority
COMESA	Common Market for the Eastern and Southern African Countries
EAU	East African Union
GDP	Gross Domestic Product
IASs	International Accounting Standards
ICPAK	Institute of Certified Public Accountants of Kenya
ICPSK	Institute of Certified Public Secretaries of Kenya
ICT	Information and Computer Technology
IMF	International Monetary Fund
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
KASNEB	Kenya Accountants and Secretaries National Examination Board
MBA	Masters Degree in Business Administration
NSE	Nairobi Stock Exchange
SWOT	Strengthens Weaknesses Opportunities and Threats
TRIPS	Trade Related Aspects of the Intellectual Property Rights
UON	University of Nairobi
ISPs	Internet Service Providers

## **ABSTRACT**

The objective of this study was to establish the strategic planning practices audit firms in Nairobi, Kenya have adopted. A descriptive survey design was used in the study in order to facilitate an all encompassing data from the respondents. The study population was the registered audit firms operating in Nairobi, Kenya as at January 2008, whose number stood at three hundred and thirty. The respondents in each of the audit firms were either the managing partner or a senior member of the firm charged with the responsibility of shaping the strategic direction of the firm.

A questionnaire was used to collect data to achieve this objective. The study utilized both quantitative and qualitative techniques in the collection of data. Primary data was collected using a structured questionnaire, divided into two sections with both open ended and closed ended questions.

A study was done from a sample of sixty audit firms, thirty two firms responded to the questionnaire. The data collected was checked for consistency and then analyzed to arrive at various conclusions. The data was analyzed by use of descriptive statistics such as the percentages, frequencies and tables. Statistical Package for Social Sciences (SPSS) was used to aid in analysis. Computation of frequencies in tables, charts and bar graphs were used in data presentation.

The study concluded that strategic planning is being adopted in most of the audit firms especially the medium and big firms had started using the plans to be able to develop their vision and mission and implement their objectives for better performance. The strategic planning practices that are being adopted by audit firms in Nairobi are similar to those proposed in strategic management theory and also reported in the literature review from studies conducted in other industries.

From the findings of the study it can be concluded that by implementing strategic plans firms are able to respond to the turbulent environment in an appropriate manner to ensure their continued survival and profitability hence providing the partners with value for money invested.

The current research focused on audit firms in the City of Nairobi. Despite the fact that Nairobi contains a high concentration of small, medium size and big audit firms in the country; a research needs to be focused on other areas apart from Nairobi. This would enable a complete documentation of strategic planning practices adopted by audit firms in Kenya.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The top management of organizations must constantly think strategically about the future of the organizations. This is necessitated by the changing environment which is normally very uncertain as the business environment in which organizations operate is very turbulent and dynamic with constant and fast paced changes that often render historical strategies irrelevant. The environment turbulence necessitates an equal need for rapid recognition of appropriate strengths, opportunities to be exploited, threats to be countered and weaknesses to be overcome (Pearce and Robinson, 2002).

The uncertainty in the business environment has made strategic planning an important tool in facilitating for development. According to Hax and Majluf (1991) strategy is a coherent, unifying and integrated pattern of decisions that determine and reveal the organization purpose in terms of long term objectives, actions, programs and resources allocation priorities. A firm's strategy selects the businesses the organization is in or is to be in, attempts to achieve a long-term sustainable advantage in each of its business by responding properly to the opportunities and threats in the firm's environment and the strengths and weaknesses of the organization.

All business firms exist in an open system, they impact and are impacted by external conditions largely beyond their control (Pearce and Robinson, 2002). Therefore if a firm is to succeed in positioning itself in future competitive situations, its strategic managers must both beyond the limits of the firms own operations. They must consider what relevant other players (competitors, customers, suppliers, creditors, government and labour) are likely to do.

According to Hax and Majluf (1991) strategic planning processes introduces a discipline for long term thinking in a firm by enforcing upon the organization a logical process of thinking with a clearly defined sequence of tasks. Planning raises the vision of all key managers encouraging them to reflect creativity on strategic direction of the business. Strategic planning process begins from the stage of formulation then proceeds through the implementation stage and lastly the evaluations stage. Only organizations that correctly follow this process and implementation of the strategic planning correctly will be able to achieve the organization's goals and objectives successfully.

A strategic plan therefore serves as an avenue to provide a focused plan for positive change by facilitating tenacious linkages between an organization's goals and objectives and the resources available thus facilitating consistent work programs and an agreed direction.

### 1.1.1 Strategic Planning Practices

According to Bryson (1995) strategic planning process is defined as a “disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. The strategic planning process involves strategic thinking, understanding the strategic context and the business, analysis and decision making, action planning, putting it in writing and implementation.

Strategic planning is the process of determining what results an organization intends to achieve in the future and how the organization will achieve the intended results. It starts with determining where the organization is, the goals that it wants to achieve and how it will achieve them. It is thus the process of determining the destiny of the organization and mapping the actions necessary to realize that goal. It involves seeking answers to the following critical questions; Where are we? Where do we want to be? How can we get there? It is the process by which an organization conceives the future and takes the necessary steps to achieve the future. Strategic planning thus requires the setting of clear goals and objectives.

Strategic planning calls for the determination of the basic long term goals and objectives of an organization and the adoption of the courses of action and the allocation of resources necessary to carry out the goals. Strategic planning is a conscious systematic process during which decisions are made about mission, values, goals, strategies, priorities and activities that an organization, and by extension industry players will

pursue if they are to survive and remain relevant in the future, amidst a constantly volatile environment. Strategic planning therefore is not a matter of coming up with a detailed plan or program but it is a unifying theme that gives coherence and direction to actions and decisions.

### **1.1.2 Strategic Management**

Strategic management is the process of formulation, implementation and evaluation of strategy. It is an ongoing process of ensuring a competitively superior fit between the organization and its environment (Johnson & Scholes, 2002). Strategic management integrates the functional departments of an organization in order to achieve organizational success.

Strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy and then overtime initiating whether corrective adjustments in the vision, objectives, strategy and execution are appropriate. In crafting a strategy, management is saying in effect, “among all the paths and actions we could have chosen, we have decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in this ways and rely on these particular approaches to doing business”. A strategy focus entails managerial choices among alternatives and signals organization commitment to specific markets, competitive approaches and ways of operating (Thompson and Strickland, 2003).

Strategic management is concerned with matching the organization to the environment in which it operates. The challenge of strategic management is in the involvement of managers in guiding future direction of the organization. Accordingly, managers will need to consider what threats and opportunities exist or may exist in the future in order to position the entity appropriately; linked closely with this is the need to understand organization's own capabilities (Bryson, 1995). According to Pearce and Robinson (1997), in order to achieve their objectives, it is necessary for them to adjust to their environment.

To become performance driven, Thompson and Strickland (2003) point out that organizations must first align the objectives and resources of the different parts of the organization; secondly they must cascade objectives down into the workforce and manage performance; and thirdly to understand organization and individual performance using real time information.

An organization is made up of various business units, departments and divisions. To create organization alignment between activities, it is important to define the overall vision and mission, the key perspective, the critical initiatives and the strategic objectives for each entity of the organization. It is not enough to have the right strategy. Real time information can help management see what initiatives are working, what projects are helping to achieve the strategic objectives and what strategies are producing results.



### 1.1.3 Auditing Profession in Kenya

Auditing can be defined as an independent examination of the books of account and the accounting records with a view of forming an opinion as to whether the books have been properly kept in accordance with the provisions of the Companies Act (Cap 486 of the laws of Kenya) and as to whether the financial statements drawn therefrom portray a true and fair view of the company's state of affairs as at a given date.

In the latter half of the 20<sup>th</sup> century and in the last three decades in particular no industry, or profession, remained isolated from the impact of certain trends and events in the environment. They were increased competition, population shifts, an ageing society, information and communications technology, computer revolution, success of the free market economies, fall of the soviet union, formation of the new global as well as regional trading blocks e.g. TRIPS, COMESA, EAU and an increasing voice of stakeholders e.g. CMA, Professional bodies like ICPAK and ICPSK all demanding certain aspects to be covered in the published financial statements of the reported organizations. In Kenya the profession is governed by an Act of Parliament, The Accountants Act (Cap 531 of the Laws of Kenya), and managed by a professional body, ICPAK

There are certain changes that are continuously taking place in the global business environment in general and in the auditing profession in particular. These changes have become more complex and novel in the last decade and more precisely in the past five

years. No profession (or industry) has remained isolated from the impact of certain trends and events happening in the world and certainly in Kenya. In the business world, there are significant developments in the environment that are sending signals to professional firms (and auditing ones in particular) to change in order to survive and stay competitive. Increasing complexities in the form of multiplicity of International Accounting Standards requirements, increased competition, audit scandals affecting a one time world's largest Certified Public Accounting firm (Arthur Andersen) and the Enron affairs, global mergers of world's two leading CPA firms (Pricewaterhouse and Coopers & Lybrand), the revolution of the Information Technology (including internet) and globalization all combined have thrown up many challenges to audit firms in Kenya and the world at large. However, the changes brought about by the environment have not affected the auditing profession alone. This could be a true observation in other professions and industries as well, especially after the introduction of economic reforms in Kenya.

The economic reforms were introduced in most developing countries (including Kenya) in the early 1980s through recommendations of the international organizations like the World Bank and the IMF. Most developing countries including Kenya are generally characterized by low standards of living, low level of productivity, high bank interest rates, high rates of population growth, high and rising level of unemployment and significance dependence on agricultural products and primary crops exports. There is a general tendency in many of them to rely on foreign aid, grants and loans to finance their development activities. This has direct negative effect on any aspiring local companies

who would form the bedrock of clients for local audit firms. Hence the collapse of several locally owned banks, insurance and other main companies which meant loss of clients to the affected audit firms.

Kenya requires foreign aid yet such aid have become increasingly conditional upon requirements set by donor countries and other agencies. For Kenya aid was suspended in 1992 by leading donors and in 1997 the IMF suspended aid citing bad governance and high level of corruption. In year 2000 aid was resumed but conditional upon Kenya making economic, social and political reforms.

Economic reforms introduced in Kenya in 1980s started affecting most Kenya owned companies in the early 1990s when the implementation process was accelerated and this was coupled with political reforms and allowing of political pluralism. The economic reforms touched several areas including reduction in government spending, abolition of price and market controls, selective withdrawal of subsidies, privatization of state corporations, tax reforms, abolition of foreign exchange controls and reforming the financial sector.

The auditing profession has been dominated (and continues to be dominated) for a long time by the world multinationals, the “Big Six”, now the “Big Four” after the merger of Pricewaterhouse and Coopers & Lybrand and the fall of Arthur Andersen. The local audit firms have had no booming period and for them to have a position, government intervention, protection and support is needed by government making deliberate effort to

source its auditing and related services from these firms and by restricting issuance of work permits to foreigners, the tying of aid to certain services notwithstanding.

In mid eighties, when the Kenya government followed the policy of liberalization, the economy started undergoing transformation. With the relaxation in government controls and restrictions like removal of foreign exchange allocation license and liberal import of foreign technology, the Kenyan economy entered a new phase posing new challenges to the auditing profession.

The post liberalization period saw the rapid deterioration of Kenya's GDP and this have had serious downturn on many companies with most local ones either folding or drastically reducing in size. Many foreign-owned companies have also either folded or translocated to other African countries. The overall effect has been on audit firms that compete for these traditional clients. The competition is serious and intense. Auditing profession is an important service in the economy and is struggling today for its survival due to stagnant economy and shrinking clients.

Under this environment, local auditing firms have less room for survival leave alone growth. The arguments for building competitive advantage and creating riches through mergers have become compelling. The changing economic environment in Kenya calls for innovation to face challenges posed by the opening of the economy and increasing globalisation. The concept of personalised auditing service strategy and strategic

planning towards competitive advantage is now the likely answer to retaining clients and survival.

## **1.2 Statement of the Problem**

Organizations are open systems (Ansoff, 1984; Pearce and Robinson, 1997; Johnson and Scholes, 2002). They also exist in the context of turbulence environments depending on the industry of interest. Mintzberg (1994) noted that the environments do not change on any regular or orderly basis. The challenge is to detect the subtle discontinuities that may undermine a business in the future. According to Ansoff and McDonnell (1990) strategic planning is a complex and organizations disturbing process but if properly installed and accepted by management, it can produce superior improvement in performance.

Organizations interact with two dimensions of the environment. The remote environment is made up of political, economic, social and political (PEST) factors. The operating environment encompasses competitors, creditors, customers, labour markets and suppliers (Pearce and Robinson, 2002). The business environment within which the audit firms operate has been very volatile. The political anxieties, competition from new entrants, social reforms, technological advancements and globalization are some of the challenges that have greatly affected the growth of the sector (Leggatt and Martin, 2003). These challenges cannot be ignored because the sector plays a significant role in the economy. The challenges posed have serious strategic threats to existing firms and a good

number of these firms are not able to survive the new turns of events and those that are still surviving have had to adopt urgent measures in form of strategic planning.

Strategic planning gives organization a competitive edge over other firms in a turbulent market environment. Audit firms need a strategic plan to be able to cope with the ever changing environment in order to ensure that they continuously sustain and enhance their competitive advantage. A strategic plan serves as a road map that ensures envisioned changes are planned for and effectively managed and that all stakeholders are involved. Kaufman (1996) viewed strategic planning as a way of creating the future rather than waiting for the reality of changes to overtake the organization.

According to ICPAK there are five hundred and ninety three audit firms in Kenya providing auditing services to organizations in Kenya. These include the big four multinational accounting firms and the bulk are small and medium sized practices. Competition between the firms has been increasing over the years. These organizations usually strive to survive to achieve and maintain sustainable competitive advantage over their rivals. Customers are sometimes well informed and very demanding. The bid to satisfy customers has never been more difficult. ICT has revolutionized the way business is conducted. Faced with all these challenges, auditing firms have resorted to strategic planning.

Various studies have however been undertaken on the strategic planning and management practices in Kenya (Aosa: 1992; Mbayah: 2001; Busolo: 2003; Muriuki:

2005). The researchers concluded that strategic planning is practiced by organizations both in the public and private sectors. There is no best way to implementing strategic planning and organizations adopt various approaches to strategic planning. However the researcher has not come across a research that is specific to the audit firms in Nairobi, Kenya. The main question in this research was: What are the strategic planning practices adopted by audit firms operating in Nairobi for them to remain competitive?

### **1.3 Objective of the Study**

To determine strategic planning practices adopted by audit firms in Nairobi

### **1.4 Significance of the Study**

The results of the study will;

- Stimulate future scholars to further research on strategic planning systems and management of audit firms. This is with a view of developing better understanding of strategic planning systems applied in audit firms in Kenya.
- Audit partners, managers, policymakers and strategic planners will be informed on how different strategic planning systems in audit firms can be used to enable the firms gain a competitive advantage in the market place over competition.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 The Concept of Strategy

The core concept of strategic management is strategy. Strategy is fundamental in the planning process since strategy decisions influence the way organizations respond to their environments.

The concept of strategy can be traced back to the war situations back in history. Strategy in war determines the outcome of the war. Strategy gives an aim to the whole and spells out series of activities which lead to the objectives of the war (Bryson, 1995). Strategy provides a blue print to attain certain objectives under the direct combat. The situation could be that of military conflict or competition in the market place.

The term strategy can be traced from the Greek word *strategia*, which is conceived to be a means of attaining and sustaining competitive advantage in an organization. Mintzberg (1994) noted that many organizations express as intended or broad conceptualization on how they intend to gain competitive advantage in the market place. According to Johnson & Scholes (2002) strategy can be defined as the act of matching of the resources and activities of the organization to the environment it operates in an act known as searching for strategic fit for an organization. Strategy can also be defined as a term concerned with determining the long term direction of the firm and decisions are mainly about trying to



achieve some advantage over competition. According to Ansoff (1984) strategy is viewed as what organization offers to a particular market.

According to Davis and Hughes (1997) the concept of strategy is a relatively old concept which has recently re-emerged, both as a crucial guide to company decision making and as a topic worth of academic investigation on its own merits. The concept of strategy can be best looked at the various definition of strategy as advanced by different scholars. The basic concept of strategy is that of an idea (Kuprenas at all, 2000). Specifically an idea defines a path that responds to the internal and external environment (Collins and Montgomery, 1991). Strategy is about the direction of organizations, most often business firms. Porter (1998) argues that a strategy is the organization's route to competitive advantage that will have a bearing on its performance.

It includes those subjects of primary concern to senior management, or to everyone seeking reasons to success or failure among organizations. Dixit and Nalebuff (2003) argue that interactive decisions in organizations are called strategic and the plan of action appropriate to them is called strategy. According to Hussey (2000) strategy is the means by which organization moves to attain its long-term aims.

According to Thompson and Strickland (1993) strategy is defined as a pattern of organization moves and managerial approaches used to achieve organization objectives and mission. He sees strategy as not only about managers' designing game plans to tackle the markets but also for continuity of prevailing items. According to Chandler (1962)

strategy is defined as the determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and allocation of resources necessary for carrying out these goals. Strategy is one of the most significant concepts in the subject of management. It has emerged as a critical input to organization success and has come in handy as a tool to deal with the uncertainties that most of the organizations face. It has aided thinkers and practitioners to formulate their thoughts in an orderly manner to apply them in practice (Kazmi, 1997)

Strategy is “large scale, future-oriented plans for interacting with the competitive environments to optimize achievements of organizational objectives” (Pearce and Robinson (2002). It is the game plan and the process of deciding the future course of the organization. Strategy is a broad program and goals that helps an organization to achieve success. Strategy is a match between the organization’s resources and skills, the environmental opportunities and risks it faces and the purposes it wishes to accomplish. The external environment of a firm which comprises the whole range of technological, economic, social, political and ecological factors is changing rapidly and it is important for an organization to constantly adopt its activities to reflect the new requirements of the environment. Mintzberg (1985) defines strategy as a pattern in a stream of decisions and actions that may be deliberate at times, emergent at other times, mixed and mostly based on management initiations and creativity. He concludes that though formal strategic planning only gives rise to deliberate strategies, realized strategies is the outcome of both deliberate and emergent strategy.

According to Porter (1990) strategy is defined to be a pattern for an organization to achieve their objectives and goals. The usefulness of strategy was equally entrenched further by Aosa (1992) in his argument that strategy is of value to managers when dealing with problems that are potential to their companies. Pearce and Robinson (2002) conclude that the definition of strategy is a reflection of a company's awareness of how to compete against whom, when, where and for what. The essence of strategy is highlighted by Judge and Zeithaml (1990) who stipulate that strategy is a learning action, a behavioral, holistic and continuous process. In the face of such turbulence and complex environmental conditions brought about by such factors as liberalization, effective strategies and appropriate strategic management process is vital for the organization to survive. The strategies for mature and changing industries suggested by Pearce and Robinson (1997) infer their opportunities exist for firms operating in these industries.

A key element if strategy is to be effective is the long term view. A future and orientation of strategy is important and some argue, it is the most importantly aspect of strategy. A firm must unlearn its past before it can find the future. Strategy is a long term direction and scope of an organization that facilitates the achievement of an advantage for the organization through the mode of arrangement of resources within a changing environment. This would enable the organization to meet the needs of market and fulfill shareholder expectations. Thus strategy is viewed as matching of activities of an organization to the environment in which it operates. The functions of strategy are that it helps to provide the basic long-term direction for the firm and helps companies cope with change.

## 2.2 Strategic Management

Strategic management is a decision making process or planning a set of activities related to formulation and implementation of strategies in order to achieve organization objectives. Strategic management is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives and allocating resources so as to implement the plans. It is the highest level of managerial activity, usually overall direction to the whole enterprise. It is concerned with complexity arising out of ambitious and non-routine situations in an organization and management is engaged in a stream of actions and plans in search of a strategy that will drive an organization. Pearce and Robinson (2002) define strategic management as the sets of decisions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization.

Strategic management as a process consists of different phases, which are strategic formulation, strategic implementation and strategic evaluation and control (Johnson and Scholes. 1999). Strategy is intended to frame all the key issues of an organization through a sequential involvement of the corporate, business and functional perspective. The tasks include mission and vision specifications, statement of objectives, identification of SWOT through environmental scanning, internal scrutiny, competitor analysis, industry analysis, market analysis and strategic choice analysis. Strategy implementation is the process of transforming strategies into actions. Management issues to strategy implementation includes establishing annual objectives, devising policies, allocating

resources, altering existing structures, restructuring and reengineering, revising reward and incentives plans, minimizing resistance to change, matching managers with strategy and developing a strategy supportive culture (Aosa, 1992)

Strategy evaluation and control is concerned with monitoring and evaluating the current plan process and then taking corrective action in case of any deviation. Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems and changes in underlying premises and making necessary adjustments. It is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place and while the end result is still several years into the future (Pearce and Robinson, 2002)

### **2.3 Strategic Planning**

According to Pearce and Robinson (2002) strategic planning is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve companies' objectives. Strategy planning is the process of identifying strategies for achieving the organizational objectives that best matches it with the environment. Strategic planning is the process of designing the future. It involves leaving a written record of such a design to guide the behaviour of those who integrate the organization so that the future does not develop arbitrarily but in a way it is planned (Pacios, 2004). There are several definitions of strategic planning that include such terms as 'strategic thrust', 'corporate focus' or 'strategic intent' (Mintzberg 1994; McDonald 1998)

Strategic planning implies an attempt to alter a company's strength relative to that of its competitors in the most efficient and effective way (O'Regan and Ghobadian 2002). The environment is thus a key consideration in strategic planning. McDonald (1998) argues that strategic planning can be simple exercise or comprise of comprehensive and elaborate process. Pearce and Robinson (1997) define strategic planning as management process that blends planning, programming, budgeting and business policy. They observed that this was with the increased emphasis on the environmental forecasting. It is a process that gives internal as well as external consideration in formulating and implementing strategy. Strategic planning is a process that involves review of the market conditions, customer needs, competition and availability of resources leading to specific identification of the opportunities and threats facing an organization. In strategic planning, the future is not necessarily expected to be an improvement of the past neither is it extrapolative (Ansoff and Mc Donnell, 1990).

According to Karger (1991) strategic planning is what sustains strategic management since "its strategic actions must result from strategic planning". Therefore successful strategic management is impossible without strategic planning. Ansoff and McDonnell (1990) envision it as a multifaceted, complex and time consuming process. Most large firms have distinct strategic planning departments dedicated to overseeing such processes.

According to Johnson and Scholes (1999) strategic planning is a sequence of analytical and evaluative procedures meant to evaluate an intended strategy and the means of

implementing it. Strategic planning establishes who you are, what you do, and your strategic market. Johnson and Scholes, (1999) highlighted that in the 1960's and the 1970's, strategic planning was the only way of formulating strategy. However there was no clear evidence that the organizations were performing better than others because of adopting this approach. They appreciate command and logical incremental views as other ways of adopting a strategy. Realized strategy is what was actually put into action on the intended strategy and the emergent strategy.

According to Mintzberg (1994) strategic planning is observed as a means not to create strategy but to programme a strategy already created and also work out its implications formally. It is analytical in nature, based on decomposition while strategy creation is essentially a process of synthesis. He argues this through trying to achieve strategies through formal planning and its role in the organizations. Most common critiques of the strategic planning argue that it is overly concerned with extrapolation of the present and the past as opposed to focusing on how to reinvent in the future. They identified this predisposition to focus on the past and the present rather than the future as one of the signs of knowledge of management. Being too analytical and extrapolative rather than creative and innovative, strategic planning tends to create an illusion of certainty in a rather turbulent environment.

Most definitions have a common thread "the aspects of long term direction of the organization, defining what business the organization should engage in, matching the activities of the business to the environment in order to contain threats and exploit

opportunities as well as matching the organization's activities to the resources available” (McDonald 1998)

The strategic planning process helps to unify corporate directions in driving the same vision and mission. The planning process brings about a unifying trust, which is very hard to achieve without a systematic process. It also helps in improving the segmentation of a firm. The process enhances the discipline for long term thinking. It is an educational device and an opportunity for multiple personal interactions and negotiations at all levels.

Formal strategic planning is widely practiced in organizations today. It helps organizations make better strategic decisions. Johnson and Scholes (1999) observe that it provides a structured means of analysis and thinking. It is a way of involving people in the organizations and communicating the intended strategy. Pearce and Robinson (1997) note that proper strategic planning systems lead to increased profit of a firm. Ansoff and Mc Donnell (1990) observe that though introduction of strategic planning is a much more complex and disturbing process in an organization, when properly installed and accepted by management, strategic planning produces improvement in the performance.

In the earlier days, market environments were relatively stable. Organizations planning systems were based on the extrapolation of current year sales and environmental trends over the last 5-10 years. Over the last few decades, a major shift is believed to have occurred in the way organizations cope with the environment. Researchers assert that



many companies have increasingly adopted different strategic planning systems due to the increasing turbulent environment (Muriuki, 2005).

### **2.3.1 The Strategic Planning Process and Practices**

Strategic planning process is operational but it is not a substitute for basic and innovative strategic thinking. The basic process of strategic planning may cover background assumptions, long term vision and medium term plans and short term plans (Richard, 1997). Strategic planning is conscious systematic process during which decisions are made about mission, goals, strategies, priorities and activities that an organizations, and by extension industry players will pursue if they are to survive and remain relevant in the future, amidst a constantly volatile environment (Johnson and Scholes, 2002). Strategic planning is a process that involves the review of market conditions, customer needs, competitive strategies and weaknesses, social-political, legal and economic conditions; technical developments: and availability of resources that lead to identification of opportunities and threats facing an organization (Pearce and Robinson, 2002).

The process of strategic planning involves situational analysis, development of mission statement, external analysis, internal analysis, development of objectives, development of strategies, and the development of appropriate budgets, reward systems, information systems and policies and procedures. According to Bryson (1995) the strategic planning process consists of several steps. These are development of the initial agreement, identification of mandates, clarification of mission and values, external and internal

environment, assessment, strategic issue identification, strategy development and the preparation of the description of the organization in future.

Another view of the strategic planning process includes crafting a mission statement, objectives setting, situation analysis, strategy formulation, implementation and control. Several views have been advanced regarding strategic planning. Mintzberg & Waters (1985) views strategic planning as a pattern in a stream of decisions. This view is similar to that of Johnson and Scholes (2002) who identified three approaches to strategy development as a deliberate and planned managerial process. These are the planning view, the command view and the logical incremental view. The logical incremental view sees strategy to develop through small stepwise responses to a gradually changing environment. Mintzberg (1994) on the other hand advanced the view of logical instrumentalism whereby strategy making is characterized by economic and behavioural factors. The behaviour of the managers is important in strategy development.

Mintzberg (1994) views planned strategy as precise intentions that are formulated and anticipated by central leadership and backed by formal controls to ensure their surprise free implementation in an environment that is controllable or predictable. In planning view, strategies are proposed to develop through a rational and formalized sequence of analytical and evaluative procedures. The command view is where strategy develops through the direction of an individual or group but does not necessarily develop through formal planning. The strategy would be an outcome of an autocratic leader or dominant leader who becomes personally associated with strategy development of the organization.

Such individuals may be the owner or the cofounder or a political appointee of the organization. Usually such organizations are small enterprises or public sector organizations.

Strategic planning could be formal and informal. Formality of strategic planning refers to the degree to which participants, responsibilities, authority and discretion in decision making are specified (Pearce and Robinson, 2002). The informal approaches to strategy are characterized by executive bargaining and negotiation, building of coalition and practices of muddling through (Hax and Majluf, 1991). Informal planning is usually intuitive and under the influence of a visionary future.

Strategy should be managed through planning process as in the form of a sequence of steps. This is supported by among them Ansoff (1984), Andrew (1987) and recently in the later 1980s Michael Porter. The view assumes some degree of consensus among decision makers. According to Johnson and Scholes (2003), this involves objective setting, analysis of environmental trends and resource capabilities, evaluation of different options and careful planning of implementation of the strategy. Strategy is then communicated to the organization and implanted through successful organization layers.

Identification of the institution's vision and mission is the first step of any strategic planning process. What is our business and what will it be? This helps in infusing the organization with the sense of purpose and direction and giving it a mission. A mission is a statement that broadly outlines the organization future course and serves as a guiding

concept. Once the vision and mission is clearly identified the organization must analyze its external and internal environment. The environmental analysis is performed with the framework of the SWOT analysis information about organization's external environment (economic, social, demographic, political, legal, technological and internal organizational factors).

Strategic evaluation and control involves not only evaluating strategy for deviations from intended course but also for flexibility towards responding to new challenges and determining the effectiveness and the pace of the implementation (Johnson and Scholes, 2003). The institutions should measure current performance against previously set expectations and consider any changes or events that may have impacted the desired course of actions. The revised plan should take into consideration emergent strategies and changes affecting the organization's intended course. The ongoing trends of new and revised strategic moves and approaches some big in scope and some little some applying to one part means that an organization's prevailing strategy is almost never the result of a single strategizing effort rather that the pattern of moves, approaches and decisions that establish an organization's strategy assumes its shape over a period of time.

### **2.3.2 Strategic Planning Systems**

Strategic planning systems represent the methodology and approaches employed by organizations to realize the strategic plans. These systems vary from one organization to

the next. Various factors influence the choice of the strategic planning systems. There is no one strategic planning system that can be said to be the best.

O'Regan and Ghobadian, (2002) acknowledge the existence of formal and informal strategic planning systems. The former being popular with large organizations while the latter is predominantly preferred by small organizations. Formal and informal planning systems can also be categorized as structured and unstructured. Hewlett, (1999) argue that formal strategic planning systems tend to be more deliberate and systematic.

Strategic planning systems are the mechanisms or arrangements put in place by the organizations for strategically managing the implementation of agreed upon strategies. The systems themselves, a kind of organization strategy for implementing policies and plans. The systems characteristically embody procedures and occasions for routinely reassessing those strategies (Bryson 1995)

Johnson and Scholes (2002) views strategic planning approaches in three format namely the top-down, bottom up and the negotiation approaches. The top down approach is highly structured, prescribed and detailed in documentation in management structure. This is often referred to as the classic bureaucracy mostly practiced in large organizations. The bottom up approach is confined to bringing managerial core competencies. The management team on the ground owns the process. The third approach is the negotiation approach, where strategic planning is a combination of the

first two. The centre carries the core role through agreeing plans by divisions and departments with some set central guidelines (Johnson and Scholes 2002).

### **2.3.3 Evolution of Strategic Planning**

The word strategy may have arisen from the Greek word strategy meaning 'to plan' the destruction of one's enemy through the effective use of resources (Chandler 1962). The idea of strategic planning has historical roots in the military concept of strategy and to the end of victory in war after which it found its way into the business circles. According to Webster's new world dictionary, strategy is the science of planning and directing large scale military operations of maneuvering forces onto the most advantageous position prior to actual engagement with the enemy (Guralnik 1986). Modern concept of strategy bears little resemblance to military strategy and the origins of business strategy largely untraceable. Also this can be viewed in the early literature of strategic planning for organization emerged in the 1960's through writers like Chandler (1962) and Ansoff (1984).

From the 1950's, the post effects of the war brought with it an expansion of business forcing many companies particularly in America, to reconsider their business planning systems. This led to long range planning techniques which basically involved putting trends and planning the action required to achieve the identified growth targets as formulated, while reducing the gap between the levels of demand as expected and the actual demand finally realized and observed.

In the 1960s, Companies found it could be dangerous to plan their future based on extrapolation of the past trends. They began to take into account threats and opportunities. Strategic planning until then was very much cut off from operations. Organizations adopted strategic planning after realization that the environment was not stable any longer.

From the 1970, companies realized that the environment was not stable and therefore they could not plan their future based on extrapolation of past trends. They need to adapt these changes and deal effectively with everything that affects the growth, profitability and survival. This led managers to employ a management process that they felt will position the organizations optimally in the competitive environment by maximizing the anticipation of changes (Mintzberg, 1994)

For the first 30 years of the 19<sup>th</sup> century, success for the organization was based on the lowest price. Business environment were fairly stable and planning was based on the past actions and trends to decide future strategic direction of organization. In the early 1930s there was saturation of consumer goods in the market and consumers started looking for differentiation. This saw the shift from product orientation to market orientation. The tools used during this period include long range planning, long term financial and budgetary planning, capital budgeting and financial control (Ansoff and Mc Donnell, 1990)

In the mid 1950's organizations were increasingly being confronted with moves of unexpected discontinuity an era was referred to as 'age of discontinuity' the solution as seen to be in strategic management and planning. The 1960s and 1970s saw the practice of strategic planning fully embedded in the western countries and United States of America.

### **2.3.4 Levels of Strategic Planning**

The levels of strategic planning can be looked at from different perspectives of strategy in a company, that is, corporate, business and functional planning (Ansoff, 1984). Corporate strategy concerns itself with defining the overall mission of the organization. Business strategy gives attention to how each of the firm's business will compete. The functional level addresses the efficient utilization of the allocated resources.

Many organizations carry out strategic planning at the three levels, which are corporate, business and functional levels. At corporate level, decisions tend to be value oriented more conceptual and less concrete than in the other levels (Pearce and Robinson 1997). At the business level, it is all about how to compete in a particular market and how to have superior financial advantage over the competitor (Johnson and Scholes 2002)

Functionally, as the name suggests focus on key functions of the business to achieve the overall company strategy (Pearce and Robinson 1997). At this level it is about implementing the overall strategy formulated at the corporate and business levels. Such



functional areas include research and development, sales and marketing, human resource and finance. Different organizations place more weight to different departments depending on the business they are in.

## **2.4 Strategic Planning in Kenya**

Most studies on strategic planning have concentrated in the developing country context. Little has been done on strategic planning practices in the less developed countries as a whole and more so on Africa (Juach and Glueck, 1984). Examples of studies on strategic management practices in Kenya include Aosa E. (1992), Mbayah P. (2001) and Busolo G. (2003) and commonly focus on strategic practices in the industrial and private sector firms. Studies done on public sector in Kenya include Kangoro (1998) and Otete (2003)

Aosa (1992) studied on aspects of strategy formulation and implementation within the large, private manufacturing companies in Kenya and found out that there were variations in the degree of strategic management practices by the companies with foreign companies being more involved in strategy development than the indigenous ones. Companies which maintained links between strategies and budgets were significantly more successful in implementing strategy than those not maintaining such links. Busolo (2003) studied on the corporate strategic planning among motor vehicle franchise holders in Nairobi and found out that they all engaged in corporate strategic planning and that top management had active interests in planning overseeing implementation of the planned activities. Mbayah (2001) studied on the strategy practices within commercial ISPs in Kenya and

noted that ISPs practiced some form of strategic management in that they had written mission statements, set organizational plans and objectives and were involved in some forms of competitor analysis and environmental planning.

In his study on the strategic planning in the public sector in Kenya, Kangoro (1998) concluded that there existed established missions, objectives and strategic in the public sector but there as lack of top management and employee commitment towards their implementation. Otete (2003) found that strategic planning is practiced in public sector with top down communication channels being used while the government influenced strategic planning process.

## **2.5 Scenario Planning**

Bani and Banerjee (2001) define scenario planning as conceptualizing a range of different futures, which organization might have to deal with to ensure that the less likely possibilities, opportunities and threats are not overlooked. It encourages a high level flair and creativity in strategic thinking.

Scenario planning refers to the identification of major influences and drivers then using this information for construction of scenarios as a way of considering environmental influences. Scenario planning is useful in circumstances where it is important to take a long-term view of strategy, at a minimum of five years (Johnson and Scholes, 1999). This type of planning works well where there are a limited number of factors influencing the

success of that strategy, but where there is a high level of uncertainty about such influences. The Royal Dutch Shell Company Limited developed two global scenarios in the oil industry environment. This was an attempt to develop a milestone strategy for 2020. These are *baarcades* and *new frontier*.

*Baarcades* type of scenario planning visualized restricted liberalization due to fear of losing what people value most. Markets would be difficult for outsiders and oil prices would drop due to the instability. The company saw marginalized poor countries and coalition of countries in the west.

A *new frontier* is a scenario that sees economic and political liberalization increase wealth creation in the societies that adopt them. The company was visualizing sustainable growth by the comparative wealth by the developed countries. Due to breakage of barriers and *cheaper capital*, big organizations find themselves increasingly challenged. This would lead to increased competition and innovation. The company saw a scenario of high level of oil demand and sustainable resource development (Bani and Banerjee, 2001).

## **2.6 Auditing Profession in Kenya**

The colonial government had no major commitment on the development of any professions in general and professional auditing in particular. However, soon after independence on 1963 the Kenya government saw the need to encourage Kenyans to

pursue professional studies leading towards producing internationally recognized professionals in any discipline. Thus it was that the University of Nairobi, the Kenya Polytechnic, the Kenya Institute of Administration (all government bodies) and indeed many other private institutions like Strathmore College, began to train accountants and auditors but being examined by overseas bodies, mainly from United Kingdom, and awarded certificates as qualified accountants and auditors.

This led to rapid growth in this profession with all and sundry claiming to be accountants, auditors and tax consultants and it is thus that the Accountants Act of 1977 was passed by Kenya Parliament to effectively regulate the accounting and auditing Profession. This Act detailed professional education and the requirements that one must possess before practicing as an auditor and the professional ethics and etiquettes that must be complied with.

The auditing profession has undergone a tremendous change over the years. The real growth and prominence of the auditing profession started after Kenya became independent in 1963 and in 1977 saw the enactment of the Accountants Act. Prior to this Act, it was free to practice as an auditor in Nairobi, the qualifications of such persons notwithstanding.

With the passing of the Act, it was established an examining body, KASNEB, which awards internationally recognized certificates after passing all the prescribed subjects, and the regulatory body, ICPAK, which controls and manages all practicing auditors.

This body ensures global and local compliance with the IASs, ISAs, Companies Act, CMA Rules, NSE rules and any other, and thus ensuring that companies (especially public ones or those with public interest) get to publish financial statements that comply with local and international regulations.

According to ICPAK there are currently five hundred and ninety three audit firms providing professional auditing services to business and organizations in Kenya. These include the four multi-national firms, and the bulk is small to medium size firms. The auditing profession in Kenya is dominated by four of the largest audit firms in the country, all of which have international backgrounds. These four firms are the auditors of practically all the publicly traded companies in Kenya. The partners of these firms, both local and expatriates actively participate in various committees of the local professional accounting body, ICPAK. Of the rest two, other major firm is the big five international audit firm country of origin and the other is an East African based regional audit firm.

The bulk of the audit firms however are according to Githae (2004) small to medium sized audit firms, who due to their small size find it difficult to keep up to date with new developments in auditing. These practitioners state that, because of the downturn in the economy during the past several years, they are continuously struggling to earn enough to just stay afloat and cannot therefore afford to spend money and time on training programmes. Small and medium size practitioners in Kenya are also handicapped by the lack of access to appropriate literature on the application of established accounting and auditing standards. Sheikh (2007) also noted examples of failure by auditors to ensure

compliance with IASs and ISAs. This may be due to capacity constraints among the smaller audit firms. The large professional firms with relatively better trained staff have heavy clients' lists, which may and does sometimes affect quality of service. Small and medium firms, on the other hand struggle to own clients, and have difficulty in raising funds to invest either in upgrading the skills of existing partners and staff or in recruiting new qualified staff.

According to Sheikh (2007), whilst large audit firms are able to carry out community related activities like sports, thereby giving themselves marketing leverage; it is not easy for the small and medium sized firms to do this as a competitive strategy. According to Leggatt and Martin (2003), global standards like Enron, WorldCom and more recently Parmalat have caused serious harm to the audit profession, not only legally but also morally and ethically. The public now claims to have serious grounds for mistrusting any auditor anywhere to do his or her job properly (Sheikh, 2007)

According to Githae (2004), many audit firms in Kenya are quick to affirm that doing business is more difficult than was the case in the past eras. They cite numerous factors like increased competition, undercutting and increased need for more legislation is enacted. This is aggravated by inadequate government support among other reasons. The business environment in which audit firms operate has been very volatile. The political anxiety, competition from new entrants, social reforms, technological advancement and the global challenges are some of the challenges that have greatly affected the growth of this industry. These challenges cannot be ignored because the industry plays a significant

role in the economy. According to Kombo (1996), the challenges have posed serious strategic threats to existing firms and have a good number of these firms are not able to survive the new turns of events and those, which are still surviving have had to adopt measures in form of competitive strategies.

According to Ogot (2006) the members of the auditing profession should always evaluate the consequences of their actions and particularly their effect on the reputation of the auditing profession. The code of ethics for the members of ICPAK section 150.1 states “the principle of professional auditors to comply with relevant laws and regulations to avoid action which may bring discredit to the profession” (Ogot, 2006). Firms that maintain strict professionally ethical business practices not only give the profession a good name but also are likely to remain more competitive in the long run.

An audit firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles, necessary to perform its engagements in accordance with professional standards and in line with regulatory and ethical requirements enabling the firm or engagement partners to issue opinions that are appropriate (Ogot, 2006). Ogot, 2006 advises that auditors must critically review the firm’s recruitment process. The aim here should be to source suitable employees not only on the basis of the skills required to perform the job but also on the cultural fit of the organization. The auditors should also put in place a staff evaluation mechanism. They must make regular assessments of the

staff needs and come up with guidelines that cover employee career development and compensation needs.

According to Sheikh, 2007 computer technology is crucial to Accounting Information systems (AIS) and the auditors for many reasons. One is that computer technology must be compatible with, and support, the other components of the AIS. Secondly, in trying to expand their services, audit firms are moving into the provision of outsourced accounting and/ or internal audit services which require mastery of computer accounting packages. Auditors are also becoming certified information technology practitioners. A third reason is perhaps, because auditors are often asked to help clients make hardware and software purchases (Sheikh, 2007).

As the role performed by professional auditors change and the expectations for reliability and transparency increases, IFAC need to consider its role in assisting professional auditors in further developing their knowledge base and reflecting these changing roles in the educations requirements. Auditors have realized the importance of engaging in continuing professional education both for member bodies in terms of implementing a regime in line with the recent approved International education standard for individual professional auditors in terms of their need to commit to ongoing education to maintain high level of competence.

In summary, organizations are open systems existing in fairly turbulent market environments depending on the industry they operate in. Various studies conducted in



organizations reveal that for organizations to remain competitive, they apply different types of strategic planning systems. In order to make a choice on what type of strategic planning to adopt an organization must review certain factors such as its complexity, geographical scope, size and kinds of environment it's operating in.

However, a good strategic planning system cannot be singled out as the only factor that ensures organizations are competitive. Strategic planning systems have evolved from being extrapolative in nature to being means of facing up a challenge. This is by turning external changes impacting an organization into innovations.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

A descriptive research design was used in the study. The design was considered appropriate for this study since it involved a description of what and how of the strategic planning practices adopted by audit firms in Nairobi.

#### **3.2 Population**

The population of interest consisted of all audit firms operating in Nairobi. According to ICPAK there were five hundred and ninety three registered audit firms in Kenya as at the beginning of 2008 of which three hundred and thirty are located in Nairobi.

#### **3.3 Sample Design**

Since the population covers different audit firms, random sampling technique was used to ensure that the sample is representative of the audit firms. The sample included sixty audit firms operating in Nairobi. This represented 18% of the target population.

### **3.4 Data Collection**

Data collection was carried out thorough the use of a structured questionnaire (See appendix III). Most of the questions were closed ended; a few open ended. The open ended questions allowed the respondents to give answers in their own way. The questionnaire was divided into two: Part A was used to collect general information on firm's demographic profiles while part B was used to collect data on the strategic planning practices.

The target respondents were the Managing Partners of the audit firms since they have a better understanding of strategy developments of their firms. A letter of introduction to the respondents was issued to them. The drop and pick method were used to deliver questionnaires to audit firms within the Central Business District because it was considered convenient. This gave the respondents a chance to fill the questionnaire during their free time. Envelopes were provided for confidentially purposes. The sealed envelopes were then picked one week after delivery.

### **3.5 Data Analysis**

The questionnaire was edited for completeness and consistency. The data was then coded and tabulated. Descriptive data analysis tools such as the frequencies, percentages, mean scores and standard deviation were used to summarize, organize and simplify the findings

and derive meanings. Tables, graphs and charts were used for presentation and interpretation of data.

Open ended questions analysis was done using content analysis techniques, as the interviewer sought in-depth information on the strategic planning practices adopted by the audit firms. Statistical package for Social Sciences (SPSS) was used in analysis of quantitative data.

## CHAPTER FOUR

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction

The study utilized a combination of both quantitative and qualitative techniques in the collection of data. The study covered audit firms operating in Nairobi, Kenya. The Managing Partners and Senior Managers responsible for shaping the strategic direction of the audit firms gave their responses and the relevant documentation relating to the operations of the audit firms were collected. Out of the sixty questionnaires sent out, thirty two were returned completed, 53% response rate. The high response rate could be attributed to the personal efforts of the researcher, who made a follow-up of every questionnaire sent out.

The data was analyzed through the use of descriptive statistics such as the percentages, frequencies and scales. Statistical Package for Social Science (SPSS) was used to aid in the analysis and was preferred because of its ability to cover a wide range of the common statistical and graphical data analysis in a systematic way. Computation of frequencies in tables, charts and bar graphs was used in data presentation. The information is presented and discussed as per the objective and research question of the study.

## 4.2 Profile of Respondents

### 4.2.1 Number of Respondent Firms

The respondents were requested to indicate the names of the respective firms. The researcher intended to establish the firm that responded, their respective strategic planning practices and the influence they had on responses related to the study. Table 4.1 presents a summary of the number of firms that responded to the study.

**Table 4.1 Respondent audit firms**

Number of firms	Frequency	Percentage
Firms that responded	32	53
Firms that did not respond	28	47
Total	60	100

### 4.2.2 Period of Operation of Audit Firms

The respondents were requested to indicate when their respective firm commenced business. The longer the firm operation, the more experienced it had in implementing various strategic planning practices in response to environmental changes in the business environment.

**Table 4.2 Period of operation of the audit firms.**

Period of operation	Frequency	Percentage
Less than 1 year	2	6
1 to 5 years	5	16
6 to 10 years	11	34
10 years and above	14	44
Total	32	100

The study findings indicate that audit firms that have been operating for a long time have been involved in implementation of various strategic planning practices to meet the needs of the clients in response to many changes in the business environment.

#### **4.2.3 Number of Full Time Employees in the Audit Firms**

The respondents were requested to indicate the number of full time employees in the firm. The researcher related the number of employees to the size of the firm. The size of the audit firm too would determine the number of clients served and to some extent give an indication of the capacity of the firm in undertaking varying audit assignments.

**Table 4.3 Number of full time employees in the audit firms**

Number of employees	Frequency	Percentage
Less than 5	5	16
6 to 10	11	34
11 to 15	9	28
15 and above	7	22
Total	32	100

**4.2.4 Number of Partners in the Audit Firms**

The respondents were requested to indicate the number of Partners in the firm. The researcher related the number of partners to the size of the firm. The size of the audit firms too would determine the number of clients served and to some extent give an indication of the capacity of the firm in undertaking varying audit assignments.

**Table 4.4 Number of Partner's in the audit firms**

Number of Partners	Frequency	Percentage
1	8	25
2	12	38
3	8	25
More than 3	4	12
Total	32	100



#### 4.2.5 Size of the Annual Turnover

The respondents were requested to indicate the amount of sales turnover in the firm. The researcher related amount of annual turnover to the size of the firm.

**Table 4.5 Size of the annual sales turnover**

Annual sales turnover ( Shs)	Frequency	Percentage
Less than 5 million	12	38
5 to 10 million	10	31
10 to 15 million	6	19
15 and above	4	12
Total	32	100

#### 4.2.6 Ownership of Audit Firms

The respondents were requested to indicate ownership of their respective audit firms by ticking as appropriate against the alternative forms of ownership. Foreign owned audit firms, which many a time are subsidiaries of multinational organizations tend to adopt strategic planning practices of their parent firms.

**Table 4.6 Ownership of audit firms**

Type of ownership	Frequency	Percentage
Local	18	56
Foreign	4	13
Joint ownership (Local and foreign)	10	31
Total	32	100

### **4.3 Analysis of Strategic Planning Practices**

The objective of the study was to establish the strategic planning practices of the audit firms operating in Nairobi, Kenya. Various questions were posed to the respondents in order to achieve the objective of the study.

#### **4.3.1 Vision Statement**

The researcher sought responses on whether the audit firms had developed a vision statement. The responses indicated that all the 32 audit firms that were selected for the purpose of the study had developed a vision statement. However, one of the firms had not documented the vision statement and as such the respondent could not remember the

statement. The documented vision statement was displayed by the firms in strategic positions in their office premises.

#### **4.3.2 Mission Statement**

The respondents were requested to indicate whether they had developed mission statement. All the respondents had developed mission statements, which were documented. The same were displayed by the firms in strategic positions in their premises.

#### **4.3.3 Organizational Objectives**

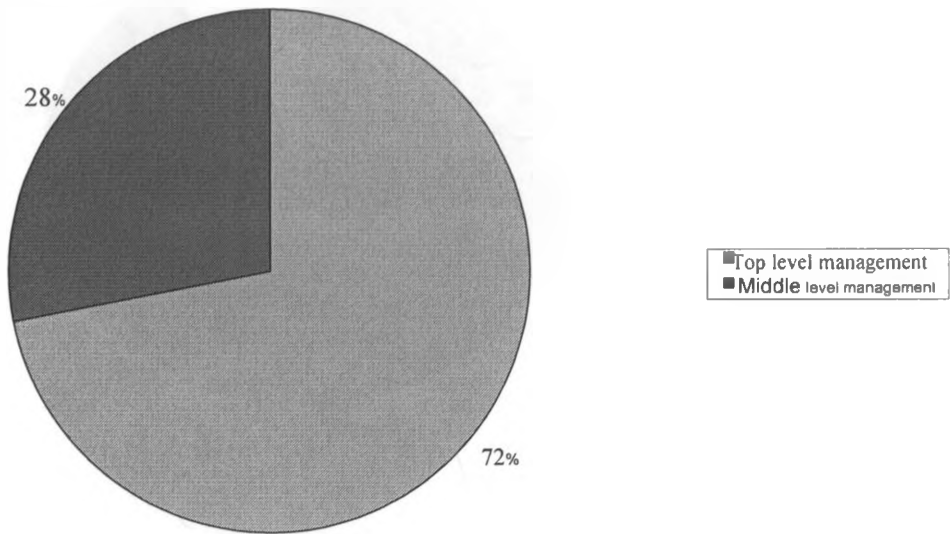
The respondents were requested to indicate whether the firms had set objectives. All the respondents indicated that they had set objectives, which were documented in their respective profiles. Further, the various firms have sets of objectives that varied from firm to firm.

#### **4.3.4 Setting of Objectives**

The respondents were requested to indicate at what level the objectives are set. 23 respondents indicated that the objectives are set at the top level of management while 9 indicated that the objectives are set at the middle level of management. This represents

72% and 28% respectively. It is therefore concluded that the organizational objectives are set largely by the top management of the audit firms.

**Chart 4.1 Objectives setting**

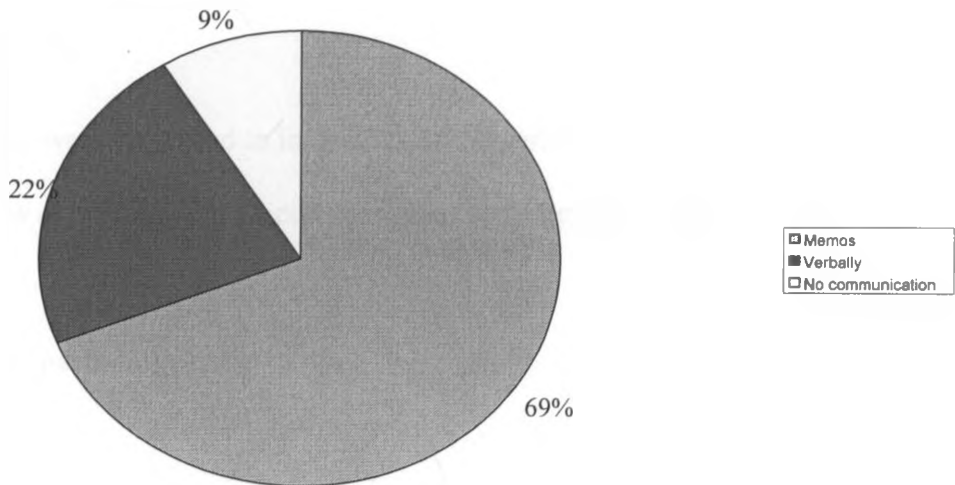


#### **4.3.5 Communication of Plans to Staff**

The respondents were requested to indicate the mode of communication adopted by the various firms when sharing the plans with all the staff. Plans must be understood and supported by staff in the organization if positive results are to be realized from their implementation. This calls for effective methods of communication of the plans to the staff. Findings of the study indicated that out of the 32 respondent firms 22 communicate their plans to all staff through memos, 7 of them communicate verbally while 3 did not

communicate the plans to the rest of the staff. This represents 69%, 22% and 9% respectively.

**Chart 4.2 Communication of plans**



#### **4.3.6 Acceptability of Planning as a Philosophy**

The respondents were requested to indicate whether planning was accepted as philosophy in their respective firms. All respondents indicated that firms embrace planning as a philosophy.

#### **4.3.7 Types of Organizational Plans**

The respondents were requested to indicate the type of plans their respective firms had in place. All the respondents had corporate plans in place. 60% of the respondents had

business, financial and marketing plans in place but only 30% of them had the plans in writing. A deficiency was therefore found in documentation of organizational plans.

#### 4.3.8 Time Period of Plans

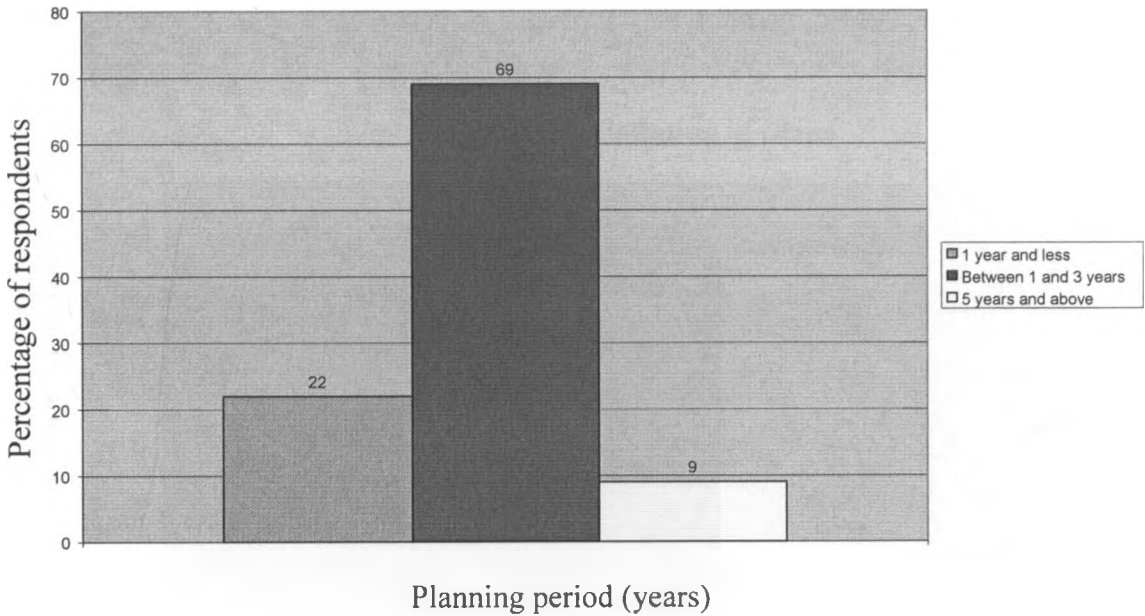
The respondents were requested to indicate the time periods that their plans covered. This was with a view of establishing whether the plans are long term or short term.

**Table 4.7 Time period of plans**

Planning period	Frequency	Percentage
1 Year	7	22
1-3 Years	22	69
5 Years and above	3	9
Total	32	100

Most of the firms set short term and medium term objectives

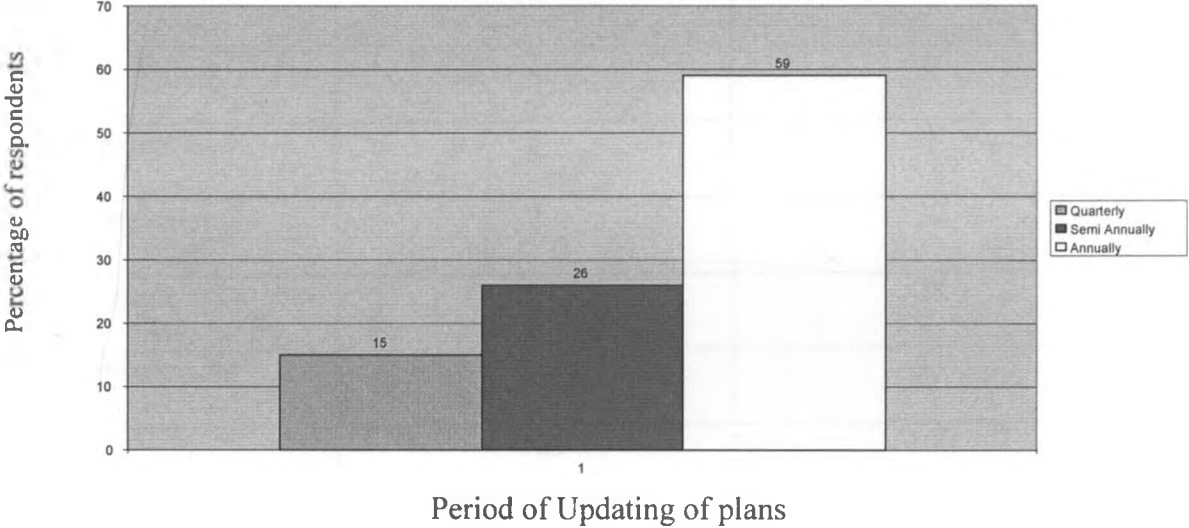
**Graph 4.1 Planning period**



#### **4.3.9 Review and Update of Organizational Plans**

The respondents were requested to indicate whether the organizational plans are reviewed and updated periodically. All the respondents indicated that the plans are reviewed and updated but the review period varied. 15% of the respondents update their plans quarterly, 26% update semi annually while 59% update their plans annually. This is an indication what the firms monitor changes in the environmental variables and the same are updated in their organizational plans.

**Graph 4.2 Updating of plans**



**4.4 Strategic Planning Adoption Indicators**

**4.4.1 Stakeholders Involvement in Strategic Planning**

The respondents were requested to indicate the extent to which all the stakeholders were involved in strategic planning process in their firms. The responses are summarized below;



**Table 4.8 Stakeholders' involvement in strategic planning process**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
To no extent	2	6
To a small extent	3	9
To a moderate extent	7	22
To a great extent	9	28
To a very great extent	11	35
Total	32	100

At least 93% of the respondents firms (30 out of 32 firms) involved all stakeholders in strategic planning process.

#### **4.4.2 Impact of Strategic Planning on Firm's Performance**

The respondents were requested to indicate the extent to which strategic planning has an impact on the performance of the firm. The responses are summarized below;

**Table 4.9 Impact of Strategic Planning on Firm's Performance**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
To no extent	0	0
To a small extent	0	0
To a moderate extent	8	25
To a great extent	11	34
To a very great extent	13	41
Total	32	100

All the respondent firms indicated that strategic planning had a positive effect on the performance of their firms. It is expected that the more effective the plans, the better the firm is expected to perform.

#### **4.4.3 Flexibility of the Plans**

The respondents were requested to indicate the extent to which their strategic plans are flexible to allow accommodation of changes in the environmental conditions. The responses are summarized below;

**Table 4.10 Extent of flexibility of plans**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
To no extent	0	0
To a small extent	3	9
To a moderate extent	5	16
To a great extent	10	31
To a very great extent	14	44
Total	32	100

91% of the respondent firms indicated that their strategic plans were flexible enough to allow for changes in the environment. It is expected that the more flexible the plans, the better the firm is expected to be able to respond to the changes in the environmental variables.

#### **4.4.4 Features Charactering Planning Process**

The respondents were requested to indicate the extent to which the following features characterized their respective firm's planning process. The responses are summarized below;

**Table 4.11 Features characterizing planning process**

<b>Extent of factors</b>	<b>Average Score</b>	<b>Standard Deviation</b>
Informal Interactions	0.732	1.464
Formal Planning Meetings	0.476	0.952
Having a planning department with assigned responsibilities for planning	0.498	0.996
Time tables for planning	0.845	1.690
Total= 32		

Based from the analysis, formal planning meetings were the most influential in charactering the strategic planning processes. The other characteristics listed based on influence on strategic planning are having a planning department with assigned responsibilities for planning, informal interactions and having time tables for planning.

#### **4.4.5 Factors Considered in the Strategic Planning Process**

The respondents were requested to indicate the extent to which the listed factors were considered in the strategic planning process. The responses are summarized below;

**Table 4.12 Factors considered in the strategic planning process**

<b>Extent of factors</b>	<b>Average Score</b>	<b>Standard Deviation</b>
Political and legal factors	0.767	1.534
Technological trends	0.513	1.026
Social cultural factors	0.564	1.128
Competitor analysis	0.476	0.952
Industry analysis	0.875	1.750
Internal analysis	0.856	1.712
External environmental scanning	0.476	0.952
Others	0	0
Total= 32		

Based from the analysis, all the factors listed above have were considered by the respondent firms in the strategic planning process. The degree of influence on the strategic planning process deferred from factor to factor.

The respondents were requested to give overall comments on the strategic planning practices of audit firms.

### **Strategic response to the changes in the environment:**

The findings of the study indicate that the respondent firms had embraced various strategic planning practices to respond to changes in the business environment. As the environment changes, firms must change strategies to survive.

### **Business risks:**

Strategies determine which business premises are necessary to meet management objectives and which processes require controls to mitigate risks.

## **CHAPTER FIVE**

### **SUMMARY, DISCUSSIONS AND CONCLUSIONS**

#### **5.1 Introduction**

The research objective was to establish strategic planning practices in audit firms in Nairobi, Kenya. The main areas assessed were vision, mission, environmental analysis, objectives and strategic choice. There are three hundred and thirty audit firms operating in Nairobi. A sample of sixty firms was selected for the purpose of the study.

#### **5.2 Limitations of the Study**

Some respondents viewed some of the information sought as confidential and either deliberately refused to divulge or did not have access to the information. In addition the time allocated to data collection was not sufficient to enable the respondents complete the questionnaire as accurately as possible, considering that they were at the same time carrying their daily duties. This may have resulted to some respondents' failure to complete and return the questionnaire on time.

Though the researcher would have wished to administer the data collection tools to only the Managing Partners of the audit firms, this was not possible hence some of them had to delegate to their juniors as they themselves were either busy or away on official duties.

It was therefore assumed that the respondents were able to give similar information as would have been provided by the Managing Partners themselves.

### **5.3 Suggestions for Further Research**

It is hoped that the findings of the study will contribute to the existing body of knowledge and form basis for future research. Whereas the current study focused on responses from the audit firms, future studies could focus on responses from the clients. This will shed light on the impression the clients of audit firms have about strategic planning practices of the firms.

Further research could also be done on the impact of strategic planning to the performance of the audit firms. Similar studies should be replicated to other sectors of the economy that are not well understood. All sectors of the economy are affected by the changes in the business environment. It would thus be important to know more about their strategic planning practices.

### **5.4 Recommendations for Policy and Practice**

Based on the findings of the research, it is expected that the shareholders who include the partners of the audit firms will gain a better understanding of the strategic planning practices employed and possible responses to remain competitive in the business



environment. Well developed strategic planning practices are ways that can lead audit firms to acquire and sustain a competitive advantage.

Understanding of the impact of environmental changes to the organization could help practitioners in the field to ensure that the firms develop rational strategies to effectively respond.

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## APPENDIX 1

### LETTER TO THE RESPONDENT

Scott Boro Karanja

P.O. Box 24555-00100

Nairobi

28<sup>th</sup> August 2008

To the Managing Partner

.....

Dear Sir/ Madam,

#### **RE: REQUEST FOR COMPLETION OF RESEARCH QUESTIONNAIRE**

I am a post graduate student currently studying for MBA at the School of Business, University of Nairobi. In partial fulfillment of the MBA degree, I am conducting a study with the aim of determining strategic planning practices by audit firms in Nairobi, Kenya. Your firm has been selected as a sample for the purpose of this study. For this exercise to be successful, I kindly request your independent opinion by completing the attached questionnaire.

The information obtained will be treated with high degree of confidentiality and is for academic purposes only.

Yours faithfully,

Scott Boro Karanja

Researcher

Eliud O. Mududa

Project Supervisor

APPENDIX 11



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAM - LOWER KABETE CAMPUS**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE.....28th..August..2008.....

**TO WHOM IT MAY CONCERN**

The bearer of this letter .....SCOTT B. KARANJA.....

Registration No: .....D6.1/E/8679/05.....

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA OFFICE

**DR. W.N. TRAKI**  
CO-ORDINATOR, MBA PROGRAM



**APPENDIX III**  
**QUESTIONNAIRE**

Questionnaire No -----

**A RESEARCH TO DETERMINE STRATEGIC PLANNING PRACTICES IN  
AUDIT FIRMS IN NAIROBI, KENYA**

**PART ONE: GENERAL BACKGROUND**

1. What is the name of your firm? -----
2. When was the firm started? -----
3. How many audit staff does your firm have? -----
4. How many partners does your firm have? -----
5. What is your organization size in terms of annual turnover?-----Million  
Shillings
6. Ownership (Please tick as appropriate)
  - Local ( )
  - Foreign ( )
  - Joint ownership (Local and foreign) ( )

**PART TWO: STRATEGIC PLANNING PRACTICES**

7. Does your firm have a vision for the future?  
Yes ( ) No ( )

8. Does your firm have a mission statement?

Yes ( )      No ( )

9. Did you have to change the mission of your firm?

Yes ( )      No ( )

10. Are the vision and mission statement in written form?

Yes ( )      No ( )

11. Do you have any set of objectives for your firm?

Yes ( )      No ( )

12. At what level are the objectives set?

Top ( )      Middle level ( )

13. Are all employees aware of these objectives?

Yes ( )      No ( )

14. Is planning accepted as a philosophy to the organization?

Yes ( )      No ( )

15. What types of plans does your organization have?

- Corporate ( )
- Business ( )
- Financial ( )
- Marketing ( )
- Other (Please specify)-----

16. What types of strategic plans do you have?

Formal ( )      Written ( )      Unwritten ( )

17. What time periods do the plans cover?

- 0-1 year ( )
- 1-3 years ( )
- 5 years and above ( )

18. Are the plans reviewed and updated periodically?

Yes ( ) No ( )

19. How are the plans communicated to all staff?

- Written memos ( )
- Verbally ( )
- Other (Please specify)-----

### STRATEGIC PLANNING ADOPTION INDICATORS

For the following questions, please use the 5 point rating scale below:

1 = to no extent

2 = to a small extent

3 = to a moderate extent

4 = to a great extent

5 = to a very great extent

20. To what extent are all stakeholders involved in strategic planning?

1	2	3	4	5

21. To what extent would you say that strategic planning has an impact on performance in your firm?

1	2	3	4	5

22. To what extent would you say that your plans are flexible enough to allow adjustments with changes in environmental parameters?

1	2	3	4	5

23. To what extent do the following features characterize your planning process?

		1	2	3	4	5
	Informal interactions					
	Formal planning meetings					
	Having a planning department with assigned responsibilities for planning					
	Time tables for plan preparation					

24. To what extent are the following factors considered in the planning process?

	1	2	3	4	5
Political and legal factors					
Technological trends					
Social cultural factors					
Competitor analysis					
Industry analysis					
Internal resources					
External environmental scanning					
Other (Please specify)					

*Thank you for completing this questionnaire*