STRATEGIC RESPONSES OF PUBLIC DEVELOPMENT FINANCIAL INSTITUTIONS (DFIs) IN KENYA TO CHALLENGES FACING THE SECTOR ''

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DECLARATION

I hereby declare that this management research project is my original work and has not been presented to any other learning institution

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

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DEDICATION

I dedicate this study to my children, Lucy, Kennedy, and Victoria for their inspiration, support and patience. They are my principal motivation to keep on striving higher for excellence.

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LIST OF ABBREVIATIONS

Agricultural Development Corporation

-Bank Restructuring and Privatization Project

Development Financial Institutions

East African Development Bank

European Investment Bank

Development Bank of Kenya

Development Finance Company of Kenya

Industrial and Commercial Development Corporation

Kenya Tourist Development Corporation

Non Governmental Organizations

Preferential Trade Area

—Savings, Co-operative and Credit Societies

Strengths, Weaknesses, Opportunities and Threats

ABSTRACT

Business entities meet various challenges in the course of their lifetime. While most organizations have since adopted the concept of strategic planning as a way of maintaining focus and direction in respect to the business they are engaged in, many are either caught unawares by some of the changes that take place in the environment or even when they are aware of the changes they fail to respond appropriately to these changes and in the process the very survival of these organizations is put in jeopardy.

Public Development organizations in Kenya were mainly established in the early 1960s in order to provide development vehicles to be used as a means to jumpstart the young republic's economy after it attained independence. The DFIs were in most cases fully funded by the government and most of the funds the institutions were lending to the business community were obtained through lines of credit from bilateral bodies, through the goodwill of the government.

Recent trends in the global market have seen bilateral bodies insist on very stringent conditions on governments of the developing world when it comes to releasing any funds to them, whether for development or otherwise. Many of these bodies have maintained the position that governments have no business engaging in commercial business and they have stopped providing funds for the public DFIs to continue on lending to the business community. The main argument, especially following the liberalization of the economy, was that the private sector was better placed to drive the economy and to this end there were other vehicles available, like commercial banks, MFIs and even SACCOS to serve the sectors that Public DFIs were serving.

The key objective of this study was to determine the strategic responses that the public DFIs were employing to the challenges facing them. The study first tried to identify the key strategic challenges facing the sector and then went on to find out the key responses that managements in these organizations were employing in order to stay in business.

The study was a census survey of the seven public DFIs as listed in Appendix III. Responses were received from all the respondents and so the findings could be relied on to represent the entire public DFI sector in the country.

The findings pointed to the lack of adequate capitalization, access to raw materials (funds for on lending to clients), and survival as the key strategic challenges facing these organizations. Findings also found out that management of most of these organizations found government decisions and those of bilateral bodies to impact very heavily on their corporate strategies. For strategic responses, most of them were lobbying for government support, engaging in restructuring and cost cutting among others. It was interesting to note that mergers were not rated highly as a strategic response by the respondents and it may be an interesting subject of study to find out why this was so, considering that this is an option that is highly regarded as a means of strengthening the capital base of an organization in the field of strategy.

It is hoped that findings of this research will go a long way in helping both scholars of strategy as well as managers of public DFIs to understand the dynamics that drive this sector and as a result craft strategies that will not only revive the sector but also take it to greater heights.

CHAPTER ONE: INTRODUCTION

1.1 Background

While there are many books and publications on the subject of strategy, the issue of strategies used by firms in transforming industries is given limited coverage in studies involving strategy. For example, Thompson and Stricler (1996) only cover it under a subtitle, "Strategies for Competing in Mature or Declining Industries". Further more, there does not seem to be any specific study on strategies used by firms within industries that are experiencing radical changes in developing countries.

Corporate strategy development practices have evolved over the years. Since the times of long-range planning, adopted to stimulate expansion during the economic boom experienced after the end of the World War II in 1945, the process has evolved into the more recent Strategic Management as a result of managements' need to keep abreast with turbulent environmental conditions.

1.1.1 The Concept of Strategy

Strategy is about winning (Grant, 1998). While there is no dispute regarding the importance of strategy in business management, there does not appear to be any agreement as to what exactly is strategy or how exactly the 'winning' is achieved. Indeed, there are as many approaches to strategy but none are universally accepted (Stacey, 2003). Likewise, Ansoff, H.I (1987) says that strategy is an elusive and somewhat abstract concept.

The foregoing not withstanding, The subject of strategy has continued to develop as organizations craft new ways of 'surviving' and 'winning' in a business arena where everything is changing on a real-time basis and the rules of the game are not even known to any of the players. Morgan (1988) equates business management to surfing in a turbulent sea and asserts that like surfers, managers and their organizations have to ride on a sea of change that can twist and turn with all the power of the ocean. Managers of the future will have to ride this turbulence with increasing skill, and many more competences will be required (Morgan, 1988)

Since the introduction of long range planning, and later strategic management, most organizations have been developing corporate strategies in one form or the other. Burnes, (2004) follows the trends in strategy development practices since the times of the classical and Human Relations approach up to the development of the Contingency Theory around the 1960s, to the development of new paradigms in the 1980s and 1990s. Burnes argues that rather than managers being prisoners of mathematical models and rational approaches to strategy development, they have considerable freedom of action and a wide range of options to choose from. Although he recognizes the fact that managers are not totally free agents as their freedom of action is constrained or shaped by the unique set of organizational, environmental and societal factors, he argues that these constraints are not immutable. He further argues that it is possible for managers to manipulate the situational variables they face with regard to structure. He goes further to argue that managers can exert some influence over strategic constraints and, potentially at least, they can select the approach to strategy that best suits their preferences.

Burnes' argument that the organizational, environmental, and societal constraints are not immutable and, that managers can select the approach to strategy that best suits their preference is intriguing because it gives an underlying implication that business managers can literally overcome any strategic obstacle placed on their paths.

1.1.2 Strategic Response in Transforming Industries

The strategies for mature and changing industries suggested by Pearce and Robinson (1994) infer that opportunities exist for firms operating in these industries. This includes opportunities to spur growth or improve profits by focusing on segments within the industry that offer a chance for higher growth or a higher return. Growth can also be spurred by emphasizing product innovation and quality improvement. Firms are however cautioned against being overly over optimistic about the prospect for a revival of the industry and getting trapped in a profitless war of attrition.

1.1.3 Development Financial Institutions

Opportunities for the Kenyan DFI industry seem to exist mainly in developmental areas that are in line with the over-all government strategy and in which there is no or limited coverage by the private sector. The presentation by Rotich at the Kenya Institute for Public Policy Research and Analysis (KIPPRA) dissemination workshop on DFIs in Kenya, held at the Kenya school of Monetary Studies on 24th May 2006 identified high priority products as being agricultural loans for development and seasonal crop as well as developmental financing for small industrial enterprise. Lower priority products, but which constitute opportunity areas for the DFI industry none the less, include working capital financing for small industrial enterprises, tourism sector loans, small commercial loans and infrastructural development finance.

Challenges to opportunities in the DFI sector include inadequate capital base, management challenges and increasing private sector competition. In addition, the sector faces competition from regional as well as international DFIs, for example, the PTA Bank, East African Development Bank (EADB) and European Development Bank (EIB).

International development financial institutions played a major role in the industrialization process in Europe. They served as vehicles for mobilizing long-term capital to finance priotised activities (KIPPRA, 2006). In Sub Saharan Africa, most DFI's were established in the initial years following independence in the 1960s and early 1970's, with the primary goal of providing long-term finance that was needed for investment projects .They are mostly joint ventures between governments, donors and other state corporations, and they also rely heavily on donors for their raw materials, which are mainly funds for on lending to investment projects (Whitehead, 2004).

Up to the mid 1980s, DFI's were generally effective in meeting their objectives and they were also profitable. Donor funds continued to flow into these institutions because they played an essential role in helping develop targeted sectors in the economy. In the late 1980s, and 1990s, there were rapid environmental changes that took place and which posed enormous challenges to DFIs (Whitehead, 2004). Other than market liberalization, which brought competition to the doorstep of DFIs, there was a general collapse of developing world commodity markets. Other changes that affected the performance of DFIs included Introduction of Structural Adjustment Programs (SAPS), and liberalization of foreign exchange regimes, which led to losses emanating from unstable exchange rates and volatile interest rates.

All these changes were turbulent in nature and the outcome, by late 1990, included massive financial losses, poor portfolios, donor desertion and lack of government support in form of recapitalization. Whitehead (2004) reports that DFIs in Sub Saharan Africa are currently in a state of dormancy or seeking to re-engineer to ensure relevance and survival, but with mixed results.

1.1.4 Public Development Financial Institutions in Kenya

a) Composition, Ownership and Regulation

The K.IPPRA presentation titled, "Development Financial Institutions In Kenya: Situational Analysis" made to the participants of the May 24th 2006 Workshop reported that the DFI industry in Kenya comprises of seven institutions as follows : -

Industrial and Commercial Development Corporation (ICDC) was incorporated in 1954 with its major activities being medium and large scale industrial and commercial projects as well as loans for small scale projects; Development Finance Company of Kenya (DFCK was incorporated in 1964 as a pure DFI. Its major activities were financing of medium and small-scale projects, mostly manufacturing. The institution has since converted into a commercial bank and has had its name changed to Development Bank of Kenya (DBK);Agricultural Development Corporation (ADC) was incorporated in 1965 and its mandate was management of state and private farms as well as financing of agro-industrial enterprises; Kenya Tourist Development Corporation (KTDC) was incorporated in 1965, its main activities being tourism projects and hotel management; Kenya Industrial estates (KIE) was incorporated in 1967, its mandate being development of industrial estates; Agricultural Finance Corporation (AFC was formed in 1969, its mandate being development of agriculture; Industrial Development Bank (IDB) was incorporated in 1973, its major activities being financing of medium and large-scale industrial projects. The institution has also had its name changed to IDB Capital Limited.

The DFIs mainly rely on donors and the government for their funding. Kenyan DFIs are mostly joint ventures between the government and other state corporations. Thus, they are generally public or quasi public institutions. This has made them susceptible to political interference in both management and investment decisions. As a result, this has become a major constraint in these institutions' achieving their objectives and because of this they lost their international funding (KIPPRA, 2006). Kenyan DFIs were established under various Acts of parliament. In addition, the DFIs are regulated by the State Corporation Act and are answerable to their parent ministries.

b)Pcrformance

As a group, the Kenyan DFIs have, in the past, made important contributions in increasing access to credit for various target groups but their over all financial performance has been disappointing (Murgatroyd and Gachuba, 2004). The

Murgatroyd and Gachuba report describe the portfolios of Kenyan DFIs as being of extremely poor quality and that all of them were incurring financial losses (at least in 2003). The DFIs were also reported to be performing poorly in terms of disbursements. The writers report that most of the DFIs are in a state of crisis.

Rotich, H.K (May, 2006), in his presentation to the workshop on DFIs, reported that the DFIs were generally performing poorly financially, that few were making marginal profits through non-core activities, and that most of them had been accumulating losses in recent years. In respect to the industry loan portfolio, he reported that 80% of it was none performing, and that the performing portfolio was too small to sustain operations.

c) Challenges

Other than the conventional competitive pressure that is experienced by all organizations at one point or another, Kenyan DFIs face serious challenges, virtually from every facet of the macro and micro environment. Legally, the industry is constrained in that it is governed by the state corporations Act and its members' actions are directed by the relevant ministers, who are political appointees of the day (KIPPRA, 2006). This curtails their flexibility in terms of strategies adopted to direct business or even to mobilize resources. Section 5 (2) of the Act, for example states that the power of a state corporation to borrow in Kenya or elsewhere shall be exercised only with the consent of the Minister and subject to such limitations and conditions as may be imposed by the Treasury in respect to state corporations generally or specifically with respect to a particular state corporation.

With respect to competition, the industry's domain of financing industrial projects and other development concerns has been invaded by commercial banks, following the introduction of the universal banking concept. Strategically, the relevance of DFIs is being increasingly questioned as evidenced by reports like the one by Murgatroyd and Gachuba (2006) of First Initiative and of which they claim to be an output from the Kenya Strategy for Development Finance and increasing Access to Rural Financial services.

The Industry's primary source of raw materials, Donors and external lenders seem to have dried up as donors are opposed to government's participation in commercial enterprises and this has led to a cessation of even government guarantees to DFIs that raise funds by borrowing externally. Raising the requisite capital for growth or even restructuring is a challenge since the government is the major shareholder, and even decisions to privatize are subject to lengthy bureaucratic procedures. An example is the government Bank Restructuring and Privatization Project (B.R.P.P) which was set up by Treasury in January 2006 with the task of assessing the relevance of DFIs in terms of meeting government objectives but which had not completed its Findings as of the time this study was being conducted.

d) Strategic Plans

The strategic plans of the Kenyan DFIs have been reported to be generally very ambitious and require heavy financing. For example, the combined industry support required from the Government of Kenya over the next five years is Kshs. 44 billion. Needless to say, this must be assessed within the government's fiscal framework (Rotich, 2006).

1.1.5 Micro-Finance Institutions (MFIs)

In their frequently Asked Questions (FAQs) page, the Microfinance Gateway Website defines a microfinance institution (MFI) as an organization that offers financial services to low income populations. They indicate that although micro credit came to prominence in the 1980s, early experiments date back 30 years in Bangladesh, Brazil and other countries, the important difference of micro credit being that it avoided the pitfalls of an earlier generation of targeted development lending by insisting on repayment by charging interest rates could cover the costs of credit delivery and by focusing on groups whose alternative source of credit was the informal sector. Thus emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors towards the building up of local, sustainable institutions to serve the poor.

Omino (2005) states that over 100 organizations, including about 50 NGOs practice some form of microfinance business in Kenya, with about 20 of them practicing pure micro financing, while the rest practice micro financing along social welfare activities. According to Omino, the Government of Kenya recognizes that the greater access to, and sustainable flow of financial services, particularly credit to low income households and Micro-sector economies is critical to poverty alleviation. To this end, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of microfinance in the country has been developed through the proposed Deposit taking Microfinance Bill.

The leap in the prominence of microfinance development in Kenya has been highlighted by Rosengard et al (2000) in their study of K-Rep's complex transition from NGO to Diversified Holding and commercial Bank. The study provides institutional recommendations in respect with savings, efficiency and quality as well as sustainability.

1.2 Research Problem

Although there are numerous scholarly works existing on the subject of strategy, most of them have concentrated on competitive strategies of individual organizations. The researcher's extensive review of the literature showed no study on the subject, particularly in the context of publicly owned organizations. Although some writings exist on strategies of firms in mature or declining industries, they are mainly in respect to normal growth curve whereby a firm has to develop strategies to survive in a mature market. The case of the Kenyan Public DFIs is unique in that a whole sector is failing and the challenges are not only on the market and supply ends but are also on every environmental front ever experienced. The sector is not accessing their primary raw material, that is, funds for onward lending to projects, no injection of capital is forthcoming from the government, there is poor performance financially and the relevance of its very existence is being questioned. This is obviously a major challenge to these organizations. This problem is compounded by competitive pressure from the mushrooming of microfinance institutions that are targeting the same sources of supply of development funds. Yet no studies appear to have been done to find out what strategies, if any, they have put in place to position themselves for the competitive environment. This was the gap this study was intended to fill. The problem statement of this study was "To find out the Strategic Responses of Firms operating within the DFI Sector in Kenya to challenges facing them"

1.3 Research Objective

To determine the strategic responses of Public Development Finance organizations in Kenya to challenges facing the sector

1.4 Importance of the Study

The study will be of practical value to managers of declining organizations that are faced with seemingly insurmountable environmental challenges. To the government, it will bring to light the government related aspects that might be frustrating workable strategies for DFls and it will also shed some light to the much sought after relevance of DFls in the country. The study will be useful to consultants involved in change management programs for failing organizations and to scholars in the field of strategy, the study will give an insight into the strategies used by firms in an industry that is in the brink of failure.

1.5 Scope of the Study

The study will cover the list of the original seven Development financial institutions in Kenya identified by the Kenya Institute for public Policy Research and Analysis (KIPPRA) and subject to any subsequent change of names. The list is outlined in Appendix III.

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategic Management

A study of strategy would be incomplete without an understanding of the background of strategic management since strategy is a component within the discipline of strategic management. Burns (2004) has dedicated a whole chapter on the origins of strategy and the various writers that have contributed to the subject. His analysis suggest that strategy has its roots in the military in the 19th century and that strategic management first developed as a quantitative and mathematical approach, whereby the techniques of record keeping and analysis were developed at West Point in order to measure the performance and suitability for military life of the US army's future officer class. This approach to strategic management was adopted by the business world especially since many graduates of the military academy joined the business world.

In 1945, after the Second World War, companies began to abandon the short-term one year budgeting cycles in favor of more long range planning techniques, mainly to justify and implement capacity expansion necessary to cope with the economic boom that America experienced after the end of the Second World War. In the 1960's, the relatively comfortable conditions of high market growth give way to lower levels of growth, as competition intensified.

In the 1970's, volatile markets, overcapacity and resource constraints took over as dominant management considerations. Because of the changing environmental turbulence, long range planning could no longer be a sufficient strategic management tool. Since competition in many cases led to formation of multinationals through mergers, the need for portfolio management became apparent since the multinationals were operating in a wide range of industries and competing markets. The concept of strategic management then started to emerge in the 1960's.

Writers such as Ansoff began to develop corporate strategy concepts that would continue into the 1970's. Other notable contributors to the subject include Henry Mintzberg with his planning and design Schools approach to strategy, Igor Ansoff, who was the chief proponent of the planning school, Kenneth R Andrews with the now famous SWOT Analysis, Alfred Chandler, a main contributor to the design school view of strategy and Michael Porter with his positioning school, among others.Strategic management is part and parcel of almost all successful business enterprises existing in the modern world today.

2.1.1 The Nature of Strategic Management

"As managers, you think strategically whenever there are interactions between your decisions and other people's decisions" (Macmillan, 1992). The nature of strategic management is such that it is a complex discipline since it deals with managing strategy, which in itself is complex due to the fact that it deals not only with an organization's internal factors but also with an ever changing external environment and all the intricacies that come with it. Strategic management has been equated to playing a game whereby you not only plan your own moves but you also anticipate your competitors' moves and how they will react to your own moves.

Comerfood and Callaghan (1985) define strategic management as a way of running an organization that recognizes the complexity of its environment. He goes further to say that it is a process by which the manager can transform environmental factors, along with various internal personal and political considerations into decisions that result in strategies (goals and plans of action for reaching them) to help guide the organization into the future.

On the other hand. Pearce and Robinson (2002) define strategic management as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization. They point out that modem executives' responsibilities involve not only managing activities internal to the organization but also responding to challenges posed by the organization's immediate and remote external environments.

Thomson and Strickland (1996) have identified five tasks of strategic management. The first task is deciding what business the company will be in and forming a strategic vision of where the organization needs to be headed- in effect, infusing the organization with a sense of purpose, providing long-term direction and establishing a clear mission to be accomplished.

The second task converting strategic vision and mission into measurable objectives and performance targets. Crafting strategy to achieve the desired results is the third task, followed by implementing and executing the chosen strategy efficiently and effectively. The fifth task involves evaluating performance and reviewing new developments, initiating corrective adjustments in long-term direction, objectives and strategy or implementation in light of actual experience, changing conditions, new ideas and new opportunities.

Pears and Robinson (2003) summarize the tasks of strategic management as being the planning, directing, organizing and controlling of a company's strategy-related decisions and actions.

2.1.2 The Concept of Strategy

There is no single, universally accepted definition of strategy. Different authors and managers use the term differently (Mintsberg et al, 1999). Quinn defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. He goes further to state that a well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Newman et al (1989), on the other hand define strategy as the major instrument that senior managers use to shape the future course of their business. They give its role as being three fold; to identify how the company will cope with its ever changing environment, to prescribe initiatives and other actions that the company will take to win its desired position in that turbulent setting and to articulate a dominant mission that will be the focus around which diverse company activities can be integrated.

In their definition, Thomson and Strickland (1989) give strategy to be the managerial game plan for achieving the chosen objectives. Thus, strategy is mirrored in the pattern of moves and approaches devised by management to produce the desired performance. Strategy is therefore the how of pursuing the mission and reaching target objectives. The writers then define a strategic plan as a comprehensive statement about the organization's Mission and future direction, near-term and long-term performance targets and how management intends to produce the desired results and fulfill the Mission, given the organizations over all situations.

2.1.3 Views on Strategy

There are many views that have developed about strategy. Henry Minzberg, for example, views strategy as a plan, ploy, pattern, position or a perspective. In viewing strategy as a plan, strategy is seen as specifying a consciously intended course of action. It is defined in advance of actions, and it is developed deliberately or purposefully although it can be general or specific.

In viewing strategy as a ploy, strategy is seen as a specific maneuver intended to outwit a competitor, while. The view of strategy as a pattern sees strategy as a pattern that emerges in a stream of actions whereby strategy develops in the absence of intentions and without preconception. Strategy is thus visualized only after the events it governs (emergent strategy).

The view of strategy as a position sees strategy as a means of locating an organization in its environment (achieving a fit). The view of strategy as a perspective sees strategy as a phenomenon that gives the organization an identity and perspective. It reveals the way an organization perceives the outside world. In this case, strategy may be an abstraction, which exists only in the mind of some interested parties, for example, the Chief Executive Officer.

Hax and Majluf (1996), with their Content and Process View of Strategy point out that the challenge to provide a definition of strategy is not straight forward. There are some elements of strategy that have universal validity and can be applied to any institution regardless of its nature while others seem to be heavily dependent not only on the nature of the firm but also on its constituencies, structure and culture. To break this impasse, the writers suggest an approach that seeks to separate the concept of strategy from the process of strategy formation. While they easily define the concept of strategy as its content and substance they point out that the process of strategy formation is more elusive and difficult to grasp.

All these and other concepts of strategy point out to one thing; that strategy is a multidimensional concept, a unifying (integrating) pattern of decisions (common trend) which defines an organization's purpose, objectives, goals and priorities and which deals with its competitive advantage and positioning in the external environment.

2.2 Strategic Response

Pearce and Robinson (1991) define strategic response as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Mpungu (2005) sees it as a reaction to what is happening to the environment of the organization. Aosa (1992) asserts that modem approach to strategic planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. When firms are faced with unfamiliar changes, they should revise their strategies to match the turbulence level (Ansoff and MasDonnel, 1990). Some of the strategic responses firms use in different competitive situations are the generic strategies reviewed below.

2.2.1 Generic Strategies

Pearce and Robinson (1991) have outlined three generic strategies that firms usually employ in order to compete effectively in the market. These are over all cost leadership, differentiation and focus. Over all cost leadership aims at achieving over all cost leadership in an industry through a set of functional policies aimed at this basic objective. It requires aggressive construction of efficient scale facilities, vigorous pursuit of cost control, avoidance of marginal customer accounts and cost minimization in areas like research and development, service, sales force, advertising and so on. Differentiation involves differentiating the product or service offering of the firm, creating something that is perceived industry wide as being unique. Focus, on the other hand, involves focusing on a particular buyer group, segment of the product line, or geographic market. Focus strategy is build around serving a particular target very well and each functional policy is developed with this in mind.

A firm that fails to develop its strategy in at least one of the three directions mentioned above is said to be 'stuck in the middle'. According to Porter, such a firm will be in an extremely poor strategic position in that it lacks the market share, capital investment and resolve to play the low cost game, the industry wide differentiation necessary to obviate the need for leadership cost position or the focus to create differentiation or a low cost position in a more limited sphere.

2.3 Strategic Choices

A strategic choice is a decision both at the corporate and business levels that determines the future strategy of the firm. After alternative strategies have been examined, a strategic choice, that is, decision to adopt one of those strategies is made. If the identified strategy is clearly superior in terms of meeting future company objectives, the decision will be relatively simple but if after a comprehensive strategy examination there emerges several viable alternatives, the decision will often be judgmental and difficult. Pearce and Robinson (1994) give the more important factors that influence strategic choice in such circumstances as role of past strategy, degree of the firm's external dependence, attitudes toward risk, internal political consideration, timing and competitive reaction.

Role of past strategy; Mintzberg (1972) suggests that past strategy strongly influences current strategic choice. Thus, the older and more successful a strategy has been, the harder it is to replace. Similarly, once a strategy has been initiated, it is very difficult to change because organizational momentum keeps it going. Mintzberg's work and research by Staw (1976) found that, even as a strategy begins to fail due to changing conditions, strategists often increase their commitment to it. This is often the reason why firms replace top executives, when performance had been unsatisfactory for an extended period, because this lessens the influence of unsuccessful past strategy on future strategic choice.

Degree of the firm's external dependence; A comprehensive strategy is meant to effectively guide a firm's performance in its external environment, whose elements include shareholders, suppliers, customers government competitors and even workers unions. A major constraint on strategic choice is the power of environmental elements over this decision. If a firm is highly dependent on one or more environmental elements, its strategic alternatives and ultimate strategic choice must accommodate that dependence (Pearce & Robinson, 1994).

Attitudes toward risk; These play a considerable influence on strategic choice in that where attitudes favor risk, the range of strategic choices expands and high- risk strategies are acceptable but if management is risk averse the range of strategic choices is limited because high risk alternatives are eliminated before strategic choices are made. Past strategy exerts far more influence on the strategic choices of risk-averse managers. Risk oriented managers lean toward opportunistic strategies with higher pay offs. They are drawn to strategies based on innovation, company strengths and operating potential. On the other hand risk adverse managers lean towards safe, conservative strategies with reasonable, highly probable returns. They are drawn to defensive strategies that minimize a firm's weaknesses, external threats and the uncertainty associated with innovation based strategies (Pearce & Robinson, 1994).

Internal political considerations; Power and political factors influence strategic choice in that the use of power to further individual or group interest is common in organizational life. Chief Executive Officers, for example are a considerably dominant force in strategic choice, especially in small firms. The coalition phenomenon, particularly in large firms is another source of influence in strategic choice. This is the case where sub units and key managers have reason to support some strategic alternatives over others. Mutual interests will then draw certain groups together in coalitions to enhance their position on major strategic issues, which will in turn influence the eventual strategic choices made for the firm.

Timing; Timing is a major influence on strategic decision in that a good strategy may be disastrous if it is undertaken at the wrong time.

Competitive reaction; Top management frequently incorporates perceptions of likely competitor reactions to strategic choices when weighing alternatives. If for example, an organization chooses an aggressive strategy directly challenging a key competitor, that competitor can be expected to mount an aggressive counter strategy. Thus top management has to consider the probable impact of competitor reactions on the success of their chosen strategy before making the choice.

2.4 Strategies for Competing in Mature or Declining Industries

Thompson and Strickler (1989) describe a mature or declining industry as one where demand is growing slower than the economic wide average or is even reducing. They suggest that harvesting, selling out and closing down are candidate strategies for weaker competitors with dim survival prospects. They however go on to say that selling out may or may not be practical and closing down operations is always a last resort. For businesses in slow growth or declining industries, cash flow and return on investment criterion are considered more appropriate measures of performance than growth-oriented performance measures although sales and market share are by no means ruled out. The writers outline three themes that characterize the strategies of Firms that have succeeded in stagnant industries. These are, pursuing a focus strategy by identifying, creating and exploiting the growth segments within the industry, emphasizing quality improvement and product innovation, which may create an important new growth segment by attracting buyers to trade, and working diligently and persistently to improve production and distribution efficiency, that is, reducing operation costs to improve profit margins and return on investments. To operationalize the last strategy, the writers suggest the following; Improve manufacturing process via automation and increased specialization, consolidate under-utilized production facilities, add more distribution channels to ensure the unit-volume needed for low-cost production and close down low-volume, high-cost distribution channels. The strategies are, however, not mutually exclusive

On the other hand, Pearce and Robinson (2003) suggest that firms in a declining industry should choose strategies that emphasize on one or more of the themes they identified as follows:

They can, focus on segments within the industry that offer a chance for higher growth or a higher return, emphasize product innovation and quality improvement where this can be done cost effectively, emphasize production and distribution efficiency by streamlining production, closing down marginal productions and costly distribution facilities while adding effective new facilities and outlets at the same time and lastly they can gradually harvest the business, thus generating cash by cutting down on maintenance, reducing models and shrinking channels by making no new investments.

2.5 Organizational Decline Process

According to Weitzel and Johnson (1995), organizations enter a state of decline when they fail to anticipate, recognize, avoid, neutralize or adapt to external or internal pressures that threaten the organizations' long-term survival. The writers identify five stages of organization decline which are the blinded stage, the inaction stage, the faulty action stage, the crisis stage and dissolution stage.

The blinded stage is the early stage of decline during which the organization fails to recognize negative pressures, for example, inadequate information about and control of its internal operations and its external environment. Decision makers fail to recognize the internal changes that ultimately will lead to diminished performance if the changes are not confronted and addressed, which inevitably means that the organization has entered the inaction stage where by, although organizational members may begin to see performance problems or threats that need to be addressed, no action to counteract the problems takes place, mainly because the negative changes have not reached crisis proportions. This is when the organization enters the faulty action stage. At this stage of decline, financial indicators of deteriorating performance become clear, though creative accounting may mask the impact of rising costs and decreasing profits. Management may resort to plausible, even clever rationalization and institute major belt-tightening with an emphasis on efficiency. A sense of urgency finally emerges as it becomes clear that actions are needed to cure declines in financial performance ratios, yet conditions may not be favorable for making quality decisions or implementing decisions once made.

If a major reorganization does not take place after the faulty action stage, dissolution or bankruptcy proceedings are likely, hence, the crisis stage. In this stage, Chief Executive Officers (CEOs) are sometimes brought in. However, there are serious constraints to effective reorganization, namely erosion of credibility among lenders and suppliers, diminishing market share, diminishing resources, exodus of qualified personnel as layoffs and cutbacks destroy morale, strong pressure for a new CEO to develop quickly a loyal and competent management team committed to the new organizational direction and lack of time as time required for organizational changes may be longer than resources or the current bureaucratic structure will permit. At this stage, the company image must be changed.

The failure of the organization to overcome its problems leads to an erosion of managements' credibility. The diminishing resources require that management take steps to give the stakeholders a reason to believe that the organization can be successfully redirected. Changes in key personnel are sometimes necessary to indicate that management is serious about change; otherwise the organization goes into the dissolution stage. By the time the organization enters the dissolution stage, it has proved unsuccessful in solving its problems. By this time, the banks and creditors are interested in its business affairs. Again, new managers may be brought in to turn the organization around but it is too late because there are insufficient resources. Finally the decision to dissolve the organization is made and managers are found to accomplish closing and sale of assets.

2.5.1 Avoiding failure And Sustaining Competitive Strategy'

Hill and Jones (2001) suggest the following measures if an organization is to avoid failure and sustain competitive strategy:

The first is to focus on the building blocks of competitive advantage that is efficiency, quality, innovation and customer responsiveness. Next, the company must institute continuous improvement and learning. The most successful companies are not those that stand still, resting on their laurels. They are those that continuously seek out ways of improving their operations and in the process are constantly upgrading the value of their distinctive competences or creating new competences (Hill & Jones, 2001). The company must also track best industry practices and use benchmarking. This means that the organization has to try and identify best industrial practice and adopt it. Finally, the company has to try and overcome organizational inertia by overcoming barriers to change. This is achieved by identifying barriers to change and implementing changes. This requires good leadership, judicious use of power and appropriate changes in organizational structure and control systems.

While the existing studies give useful insights into strategy responses of organizations operating in mature and declining industries, they are mostly of a generic nature. None of them is a comprehensive survey of strategies used by organizations in the same industry that has seemingly insurmountable challenges. This study seeks to fill that gap by undertaking a comprehensive survey of the Public DFI sub sector in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a census study, which was meant to establish the strategic responses of firms in a transforming industry- in this case, the DFI industry in Kenya. Both Day (1990) and Churchill (1991) agree that this is an appropriate form of study, especially when the objective of the research is to gain insights into ideas, which is applicable in this case. The research was a census survey of the Public DFls in Kenya. A census study is most appropriate whenever the population is small. It was particularly appropriate in this case because in addition to being small, the population of study was fully accessible to the researcher.

3.2 Population of the Study

The population of interest in this study was all the seven public DFI Institutions in Kenya, which comprises of the list identified by the Kenya Institute for Public Policy Research and Analysis (KIPPRA).

3.3 Data Collection Method

The study used primary data, which was collected using a questionnaire containing both structured and unstructured questions. The basic data collection method was through the "drop and pick later" technique for those without time and personal interviews for those with time, in order to reduce the non-response rate. This is an approach that was successively used by Abdullahi (2000). Responses were sought from senior managers and officers who have been in the industry for at least five years. Where possible, these were mainly heads of departments or other senior officers in the organization. The length of time was important in that it ensured that the respondents were well versed with their organizations and the changes in the industry.

Out of the seven respondents involved in the survey, five of them were available for personal interviews by the researcher and only two completed the questionnaire on their own for the researcher to pick up later. Thus, all of them answered the questionnaire in full there by rendering credibility to the findings of the research.

The questionnaire was divided into three parts. Part one captured information about general characteristics of the firm. Part two addressed the critical challenges facing the organization while part three dealt with the strategic responses of the organization in dealing with the challenges.

3.4 Data Analysis

Data obtained in the study was analyzed using descriptive statistics. These included proportions, percentages and frequencies. The analyzed data was presented in tables. These techniques have been successively used in past studies by Gekonge (1999), Abdullahi (2000) and Chepkwony (2000). The techniques were particularly appropriate in this case because they assisted the researcher to present issues that were rather abstract and complex in a manner that is more understandable to the reader.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The main objective of this study was to determine the strategic responses of Public Development Finance organizations in Kenya to challenges facing the industry they were operating in. This chapter dealt with data analysis, findings and interpretation of the research. Data analysis was aided by use of descriptive statistics and results were summarized and presented in the form of tables, frequencies, proportions, percentages and charts. A semi-structured questionnaire was used to collect the data. The questionnaire was administered through personal interviews by the researcher for five of the respondents and through the 'drop and pick later' method for the remaining two due to lack of time for an interview on the part of the respondents. A total of 7 questionnaires were sent out and all of them were received back., to represent a 100% response rate.

The following are the findings of the research for the various aspects for which questions were posed to the respondents.

4.2 Respondent Companies

fhis part sought to find out the name of the company in which the respondents worked.

Table 1: Respondent Companies

Name	Frequency	Percent
Agricultural Development Corporation	1	14.3
Agriculture Finance Corporation	1	14.3
Development Bank of Kenya Ltd	1	14.3
IDB CAPITAL LTD	1	14.3
Industrial and Commercial Development corporation	1	14.3
Kenya Tourist Dev. Corporation	1	14.3
Kenya Industrial Estates	1	14.3
Total	7	100.0

I able 1 shows the companies that were involved in the survey. These are the companies that constitute public development financial institutions in Kenya as per the KIPRA list given in Appendix 3. All the respondents gave the names of their organizations, a fact that renders credibility to the results of the survey.

4.3 Year of Establishment

This part was to find out the year of establishment of the company that the respondent worked.

Table 2: Distribution of Companies by Year of Establishment

Year	Frequency	Percent
1953	1	14.3
1963	2	28.6
1965	2	28.6
1967	1	14.3
1973	1	14.3
Total	7	100.0

The DFI's involved in the survey were formed between 1953 to 1973. Majority of these DFI's, (5 out of seven) were formed in the 1960's. Only one was formed in the 1950s and another one in the 1970s.

4.4 Position of the Respondents in their respective companies

In this category, the main objective was to identify the position of the respondent in the company.

Table 3: Position held by the Respondents

Position	Frequency	Percentage
Business Development Officer	1	14.3
Credit officer	1	14.3
Head of planning and administration	1	14.3
ICT Manager	1	14.3
Planning and research officer	1	14.3
Principal project officer	1	14.3
Senior Planning Officer	1	14.3
Total	7	100.0

Table3 shows that the respondents consisted of business development officer, credit officer, head of planning and administration, ICT manager, planning and research officer, principal project officer and senior planning officer. This shows that the researcher was in a position to get response from people in senior positions; hence more reliability can be placed on the data.

4.5 Length of Time in the Organization

This part sought to find out the length of time the respondents had stayed in the organization.

Table 4: Length of Time in the Organization

Time	Frequency	Percent
5 years and below	1	14.3
10-15 years	2	28.6
Over 15 years	4	57.1
Total	7	100.0

It can be seen from table 4, majority of the respondents comprising of 57.1% of the total population had stayed with the organization for over 15 years, while 28.6% had stayed with the organization for 10-15 years while the remaining population of 14.3% (comprising of one respondent) had been in the organization for 5 years and below. Thus, with 6 out of the seven respondents having stayed with their organizations for more than 5 years, more credibility can be placed on the data they provided due to the vast company knowledge they may have gained over the years.

4.6 Ownership of the Organization

This part sought to find who owned the organization in which the respondents worked. The results are presented in table 5.

Table 5: Firm Ownership

Ownership	Frequency	Percent
Wholly owned by government	5	71.4
Owned Partly by the government and partly privately	1	14.3
Partly owned by the government and partly by state corporation	1	14.3
Total	7	100.0

Table 5 shows that majority of the respondents worked in companies which were wholly owned by the government, this comprised of 71.4% of the companies involved in the survey, those partly owned by the government and partly privately owned consisted of 14.3% of the companies involved in the survey. Those partly owned by the government and state corporations comprised of 12.5% of total population. This confirmed the status of the organizations in the survey, that they were in deed public DFIs.

4.7 Strategic Challenges

Findings in this section served to establish the main challenges facing the organizations in the population of interest. The list of challenge areas included in the research were those commonly experienced in the field of strategic management as well as those considered to be more unique to public corporations as identified in the literature and background review sections of the research project.

4.7.1 Level of Competition

This part was set to find out the level of competition the company was facing in the market. Respondents were asked to rate the level of competition that their organizations were facing on a scale of three parameter, that is, very high, fairly high and moderate. The results are shown in table 6 below.

Table 6: Level of Competition

Level	Frequency	Percent
Very High	1	14.3
Fairly High	3	42.9
Moderate	3	42.9
Total	7	100.0

It can be seen from the results presented in table 6, only one out of the seven respondent organizations representing 14.3% reported the level of competition to be very high. The rest of the respondents viewed the level of competition to be either fairly high (42.9%) or moderate (42.9%). The fact that majority of the DFIs did not view the competition they faced to be very high was attributed by one respondent to the fact that the DFIs considered themselves to be serving uniquely defined interests to further the economic development of the country.

4.7.2 Major Competitors

This part sought to find from respondents the main competitors that they considered were a threat to their organizations.

Table 7: Major Competitors

Organizations	**Very great extent**		**Great extent**		**Moderate extent**		**Less extent**		**No extent**	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Investment Banks	0	0	0	0	1	14.3	3	42.9	2	28.6
Foreign DFIs	1	14.3	0	0	1	14.3	1	14.3	3	42.9
Commercial Banks	1	14.3	0	0	4	57.1	0	0	1	14.3
Local DFIs	1	14.3	1	14.3	1	14.3	2	28.6	1	14.3
Microfinance organizations	1	14.3	1	14.3	1	14.3	3	42.9	0	0
Others (SACCOS, government agencies)	0	0	2	40.0	2	40.0	0	0	1	20.0

It is evident from table 7 that the organizations faced major competition from Microfinance organizations, Foreign DFIs, Local DFIs and commercial banks to a very great extent indicated by 14.3% each of the population surveyed. Most of the institutions listed in the survey offered competition only to a moderate extent to the public DFIs.

4.7.3 Importance of Factors affecting operations of the Organization

This part set to find out how important factors were to the operation of the organization. This was to help identify the factors that posed the highest strategic challenges to organizations in the population of study. The results are indicated below:

Table 8: Factors that are important to Operations of the Firm

Factors	Very great extent		Great extent		Moderate extent		Less extent		No extent	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Survival	3	42.9	1	14.3	1	14.3	2	28.6	0	0
Staff training	1	14.3	4	57.1	2	28.6	0	0	0	0
Customer satisfaction	3	42.9	3	42.9	1	14.3	0	0	0	0
Market share	1	14.3	1	14.3	3	42.9	1	14.3	1	14.3
Competitive position	2	28.6	2	28.6	2	28.6	1	14.3	0	0
Technological advancement	2	28.6	3	42.9	2	28.6	0	0	0	0
Profitability	1	14.3	3	42.9	3	42.9	0	0	0	0
Increasing shareholder value	2	28.6	2	28.6	1	14.3	1	14.3	1	14.3
Raising capital	5	71.4	1	14.3	1	14.3	0	0	0	0
Accessing raw materials	3	42.9	2	28.6	0	0	0	0	2	28.6

The above table show that various factors that the researcher considered important in identifying the strategic challenges the public DFIs might have been facing. The list was derived from those common in the field of strategic management and also those identified at the background and literature review stages of the research project. Of the factors listed, raising capital was reported by 5 out of the 7 respondents in the survey or 71.4 %

of the population of study to affect the organization to very great extent. Other factors reported to have affected the organizations to very great extent included survival (42.9%), customer satisfaction (42.9%), accessing raw materials (42.9%), competitive position (28.6%), Technological advancement (28.6%), increasing share holder value (28.6%), staff training (14.3%), market share (14.3%), and profitability (14.35).

4.7.4 Factors that impacted negatively on the Success of corporate strategies

This part was intended to find out the extent of the following factors in impacting negatively on the success of the companies' corporate strategies. Respondents were asked to rate, on a scale of 5, the extent to which listed factors had impacted negatively on the success of the companies' corporate strategies. The results are shown in table 10 below.

Table 9: Factors that Influence Success of Company's Strategies

Factors	Very great extent		Great extent		Moderate extent		Less extent		No extent	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Government Policies	4	57.1	2	28.6	0	0	0	0	1	14.3
Logistics	1	14.3	1	14.3	4	57.1	0	0	1	14.3
Bilateral bodies' policies	3	42.9	1	14.3	1	14.3	2	28.6	0	0

From table 9, appears that government policies were considered to have the greatest impact on the success of the corporate strategies of the firms in the survey. For example, 4 out of the 7 respondents or (57.1%) indicated that success of their companies was greatly affected by the said factors. The remaining 2 respondents (28.6%) reported government policies to have the greatest impact on their companies.

In respect to bilateral bodies' policies, 3 out of seven or 42.9% of the respondents reported that bilateral policies impacted them more negatively. The rest were affected to a moderate extent (14.3%) and to a less extent (28.6%). As for logistics, majority of them, comprising of 4 out of seven or 57.1% reported that it impacted them negatively to moderate extent. One or 14.3% of the respondents reported logistics to be impacting on them negatively to very great extent, one (14.3%) to great extent and one (14.3%) to no extent.

4.7.5 **Parameters Affecting Operations of the Company**

Respondents were asked to indicate how some selected parameters were affecting the operations of their organizations, especially after the liberalization of the market. Their responses are presented in table 10 below.

Table10: Effect of Economic Parameters

Parameters	Very great extent		Great extent		Moderate extent		Less extent		No extent	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Decline in profits	4	57.1	1	14.3	1	14.3	1	14.3	0	0
Decline in portfolio	3	42.9	0	0	2	28.6	2	28.6	0	0
Increase in non performing assets	3	42.9	1	14.3	1	14.3	2	28.6	0	0
Loss of market share	1	14.3	3	42.9	1	14.3	2	28.6	0	0
Loss of customers	1	14.3	2	28.6	3	42.9	1	14.3	0	0

The increase in non performing assets, decline in profits and decline in portfolio affected the firms involved in the survey to a very great extent as indicated by a majority of the respondents. As shown in table 10, 4 out of 7 or 57.1% of the respondents reported decline in profits to have affected them to very great extent, one or 14.3% reported that it

4.7.6 The Company's Current Ability to Compete

This part sought to find the companies current ability to compete in the market.

Figure 1: Current Ability to Compete

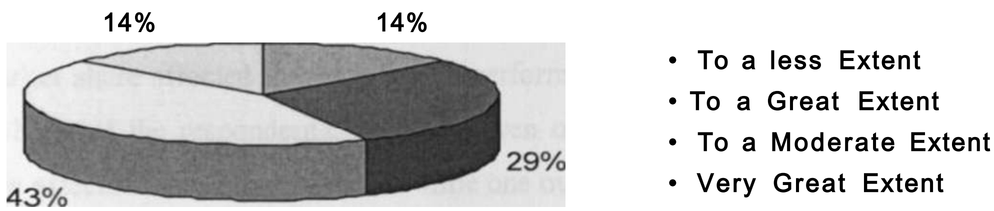


Figure 1 shows that majority of the companies involved in the survey were in a position to compete to a moderate extent as shown by 43% of the respondents, 29% indicated they were in a position to compete to great extent, 14% said they were able to compete to less extent while another 14% indicated that they were in a position to compete to a very great extent.

4.8. Strategic Responses

The data in this section was intended to give an indication of the strategic responses adopted by respondent organizations to the challenges facing them.

affected them to great extent, 14.3% or one out of seven to moderate extent and only one or 14.3% reported it to have affected them to less extent.

Increase in non-performing assets was reported to have affected the organizations to very great extent by 42.9% of the respondents, to great extent by 14.3%, to moderate extent by 14.3% and to less extent by 28.6%. As for decline in portfolio, 42.9% of the respondents reported that the decline affected their organizations to very great extent, 28.6% to moderate extent and 28.6% to less extent.

Loss of market share affected the companies' performance mostly to a great extent as shown by 42.9% of the respondents. 2 out of seven or 28.6% reported loss of market share to have affected them to a less extent while one out of seven or 14.3% reported it to have affected them to very great extent. One or 14.3% were affected by loss of market share to moderate extent. With respect to loss of customers, 42.9% of the respondents or 3 out of seven reported that it affected them to a moderate extent, 14.3% to very great extent, and 28.6% to great extent.

4.8.1 Change of Company Name

The respondents were asked whether their company had changed its name. Responses are in table 11 below.

Tablell: Change of Name

Response rate	Frequency	Percent
Yes	2	28.6
No	5	71.4
Total	7	100.0

As shown in the table, majority of the companies involved in the survey comprising of 71.4% had not changed their company name while 28.6% had changed their name since inception.

4.8.2 Company's Strategic Plan

This part sought to find out if the companies had a strategic plan in place. The results are presented in table 12.

Table 12: Presence of a Strategic Plan

Response rate	Frequency	Percent
No	0	0.0
Yes	7	100.0
Total	7	100.0

All the companies involved in the survey indicated that they had a strategic plan in place. This confirmed existing strategic thinking that organizations need to have strategic plans to guide their operations.

4.8.3 Period Covered By Strategic Plan

This section was to find out the length of time strategic plans covered for the companies involved in the survey.

Table 13: Period Covered By Strategic Plan

Time	Frequency	Percent
Five years	7	100.0
Total	7	100.0

All the companies involved in the survey indicated that the companies' strategic plans covered a period of 5 years as indicated in table 13. Thus the long term plans for this sector favor a period of five years.

4.8.4 Company's Mission

The respondents were asked to indicate if the company had a mission statement.

Table 14: Presence of a Mission Statement

Response rate	Frequency	Percent
No	0	0.0
Yes	7	100.0
Total	7	100.0

All the companies involved in the study had a mission statement in place, again confirming existing strategic thinking that organizations need a mission statement to define the business they were in.

4. 8.5 Change in Company Objectives

The respondents were required to indicate if there had been changes in the objectives of the company in the parameters listed in table 15.

Tablels: Changes in Objectives of Parameters

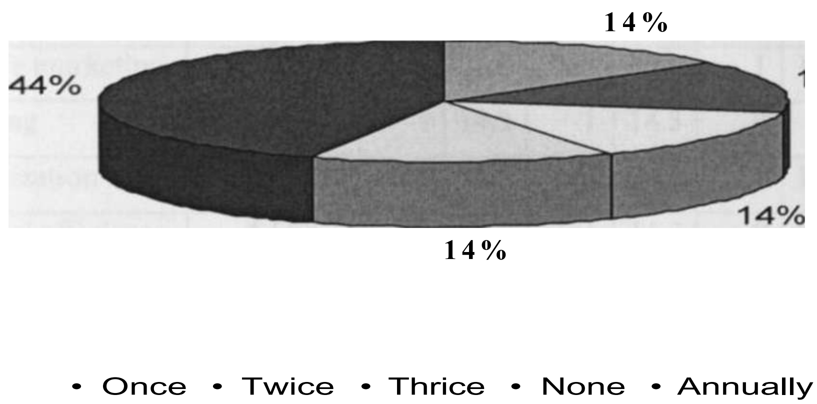
Changes	Yes		No	
	Freq	%	Freq	%
Corporate mission	4	57.1	3	42.9
Structure	6	85.7	1	14.3
Range of products and services	5	71.4	2	28.6
Market segments	6	85.7	1	14.3
Staffing	7	100.0	0	0
Planning	5	71.4	2	28.6

All the respondents (100%) indicated that the company had made changes in the staffing objectives. 85.7% of the respondents indicated that there had been changes in the structure and market segment objectives. Only 14.3% of the companies in the survey had not made changes in these areas. 71.4% of the respondent companies changed the objectives in respect to the range of products and services as well as planning. On the other hand, 57.1% of the respondents indicated that the corporate mission had changed while only 42.9% indicated that it had not changed. The high level of changes reported in majority of the areas targeted by the survey was an indication that the organizations in the survey were undergoing turbulent times and the changes were attempts to respond to the challenges posed by the turbulence.

4.8.6 Review Of Company's Corporate Plan

This part sought to find out the number of times the company's corporate plan had been reviewed.

Figure 2: Review of Company's Corporate Plan in the last 5 Years



As shown in figure 2, majority (44%) of the respondents indicated that the corporate plan had been reviewed annually. Those who reported to have reviewed their corporate plan once, twice, thrice and not at all for the last 5 years comprised 14% respectively. The high frequency of reviews made by majority of the respondent organizations is, again, a confirmation that the organizations were facing great strategic challenges and the reviews were necessary to keep responding in a timely manner. This again confirms existing strategic thinking that strategic plans are not fixed and inflexible documents; rather, they are flexible roadmaps that should be reviewed as often as is necessary.

4.8.7 Strategic Response Parameters

In this section, respondents were asked to indicate the importance of the following strategic responses to their organization in dealing with challenges facing the firm.

Table 16: Importance of Strategic Responses

Parameters	Most important		More important		Important		Less important		Least important	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Aggressive marketing	0	0	2	28.6	3	42.9	1	14.3	1	14.3
Cost cutting	5	71.4	1	14.3	1	14.3	0	0	0	0
Asset realization	3	42.9	1	14.3	2	28.6	1	14.3	0	0
Operational efficiency	4	57.1	2	28.6	1	14.3	0	0	0	0
Strategic alliance	1	14.3	3	42.9	2	28.6	1	14.3	0	0
Diversification	0	0	4	57.1	2	28.6	1	14.3	0	0
New product development	1	14.3	3	42.9	1	14.3	2	28.6	0	0
Privatization	1	14.3	0	0	1	14.3	2	28.6	3	42.9
Government support	4	57.1	2	28.6	0	0	1	14.3	0	0
Image change	1	14.3	3	42.9	3	42.9	0	0	0	0

Cost cutting was considered by majority (71.4%) of the respondents to be the most important strategic response, to challenges facing their firm. Other strategic responses indicated to be most important by the respondents were operational efficiency (57.1%) and government support (57.1%). Diversification (57.1%), image change (42.9%), new product development (42.9%) and strategic alliance (42.9%) were considered more important strategic responses. Aggressive marketing was considered an important strategic response (42.9%) while privatization was considered least important strategic response by a majority of the respondents (42.9%).

4.8.8 Strategic Responses to Competition

The respondents were asked to indicate the importance their companies attached to certain strategic responses to competition. The results are presented in table 17.

Table 17: Strategic Responses to Competition

Parameters	Most important		More important		Important		Less important		Least important	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Product differentiation	1	14.3	3	42.9	2	28.6	1	14.3	0	0
Improve customer service	4	57.1	3	42.9	0	0	0	0	0	0
Community involvement	1	14.3	0	0	2	28.6	3	42.9	1	14.3
Training staff	3	42.9	3	42.9	1	14.3	0	0	0	0
Outsourcing of non core services	1	14.3	3	42.9	2	28.6	1	14.3	0	0
Use of technology	3	42.9	3	42.9	0	0	1	14.3	0	0
Packaging of products	0	0	3	42.9	1	14.3	1	14.3	2	28.6
Branding	0	0	1	14.3	2	28.6	1	14.3	3	42.9
Interest rates that are Attractive	5	71.4	1	14.3	1	14.3	0	0	0	0
Opening up offices in remote areas	0	0	1	14.3	2	28.6	1	14.3	3	42.9
Efficient management offunds	2	28.6	3	42.9	2	28.6	0	0	0	0
Reliability from credible workers	1	14.3	2	28.6	4	57.1	0	0	0	0
Government lobbying	4	57.1	1	14.3	1	14.3	1	14.3	0	0
Mergers	0	0	1	14.3	0	0	6	85.7	0	0
Competent error handling services	0	0	1	14.3	2	28.6	3	42.9	1	14.3
Image improvement	2	28.6	2	28.6	2	28.6	1	14.3	0	0
Cost cutting	3	42.9	2	28.6	2	28.6	0	0	0	0
Selling off non performing business	0	0	3	42.9	1	14.3	1	14.3	2	28.6
Non traditional fundraising initiatives	0	0	0	0	2	28.6	3	42.9	2	28.6

Out of all the strategies listed, interest rates that are attractive was reported by the majority of respondents (71.4%) to be the most important, followed by Government lobbying (57.1%) and improving customer service (57.1%). Other strategies shown as most important in responding to challenges facing the organizations in the survey included use of Technology (42.9%), staff training (42.9%), cost cutting (42.9%), image improvement (28.6%), efficient management of funds (28.6%), outsourcing of non core services(14.3%) as well as product differentiation (14.3%).

CHAPTER FIVE: SUMMARY AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary of the findings, conclusions, recommendations and Limitations of the research into the strategic response of public development Financial institutions in Kenya to challenges facing the sector. It also has a section of recommended further studies into the subject area.

5.2 Summary of the Findings

The findings indicate that majority of the public DFIs in Kenya were established in the 1960s as 5 out of the 7 respondents fell within this category. Only one was established in the 1950s and another in the 1970s. Majority of the institutions were also wholly owned by the government with only one having partial ownership between the government and other state corporations and one being owned partly privately and partly by the government. The government, thus, had a stake in all the organizations that were subject of the research.

Majority of the corporations in the survey had faced fairly high and moderate level of competition, mainly from commercial banks. The sectors that were reported to offer Competition to the Public DFIs to a very great extent included foreign DFIs, Microfinance organizations, Other local DFIs and also commercial banks.

In respect with factors affecting operations of the firm, raising capital was the most critical as 71.4% of the respondents reported it to be affecting them to a very great extent. Survival and customer satisfaction were also reported among the critical factors affecting the organizations by 42.9% of the respondents. Other challenges affecting the DFIs to a very great extent included accessing raw materials, increasing shareholder value, technological advancement, maintaining competitive position, profitability, retaining market share and staff training.

Majority of the respondents reported government policies and bilateral bodies' policies to be impacting negatively on the success of the companies' strategies to a very great extent, giving the impression that they were among the factors posing the greatest strategic challenge to public DFIs in Kenya.

With the onset of liberalization, the areas revealed by the research to have been affected most included decline in profits as reported by 57.1% of the respondents, decline in portfolio (42.9%), loss of market share (14.3%) and loss of customers (14.3%).

Only 14 % of the respondents reported that they were able to compete to a very great extent. Majority (43%) reported that they could compete to a moderate extent and 29% could compete to a great extent, leaving 14%to compete only to a less extent.

In the area of strategic responses, the research revealed a number of strategies that the respondent organizations had employed to deal with the various challenges facing them. Two out of seven or 28.6% had attempted to change their image by changing their names while the rest (71.4%) had retained their original names. All the organizations in the survey had a strategic plan covering a period of five years and they all had a mission statement in place. Majority had responded to challenges facing them by changing objectives in respect with staffing (100%), structure (85.7%), Planning (71.4%), range of products and services (71.4%) and corporate mission (71.4%). Majority of the organizations (44%) had taken to reviewing their corporate plan yearly while the others were doing it either once or thrice in the course of the five year planning period.

Other factors considered by the respondent to be most important in responding to challenges facing them included cost cutting (71.4%), government support (57.1%), operational efficiency (57.1%), asset realization(42.9%), image change(14.3%), privatization (14.3%) and forming strategic alliances (14.3%). In terms of ranking the importance of some of the strategic response options that were available to the DFIS, the most important were found to be, offering interest rates that were attractive to the customer (71.4%), lobbying for government support (57.1%), improving customer service (57.1%), cost cutting (42.9%), use of technology (42.9%), training staff (42.9%), image improvement (28.6%) and efficient management of funds (28.6%) among others.

5.3 Conclusions

Organizations face different strategic challenges at different times as they struggle to remain relevant in their fields of operation. The environment keeps on throwing various challenges to them in form of an ever-changing state of affairs in terms of parameters that need to be adjusted if the organization has to not only survive but also be successful in the market place.

The public DFIs, just like organizations in any other sector in Kenya have faced various strategic challenges due to the various changes that have taken place in the country as well as internationally. The primary objective of this research was to determine the main strategic challenges facing the public DFIs in Kenya and also the strategic responses they were employing to deal with them.

The findings of this research indicate that the greatest strategic challenge that Public DFIs in Kenya face is raising capital. This could be attributed to the fact that most of them are wholly owned by the government. Unless the DFIs are able to raise capital internally through retained profits, they would only be left to depend on the good will of the government to raise new capital. This is rendered credible by the findings of the research in that government policies were ranked very highly by respondents as impacting highly on the success of the organizations' corporate strategies. The respondents also considered lobbying government support to be a key strategic response to challenges facing them.

Bilateral bodies' policies were also found to rank highly among the strategic challenges facing the organizations in the survey. This could be attributed to the fact that most of them relied on external lines of credit as their primary source of raw materials in form of funds to on-lend to their chosen segments of the market. Again lobbying for government support came out as the key strategic response because procurement of any external lines of credit would require the full support of the government.

Other challenges that were revealed by the research as key in the public DF1 sector included survival, customer satisfaction, accessing raw materials, increasing shareholder value, technological advancement, maintaining competitive position, profitability and maintaining market share.

The above challenges seem to have led to further challenges in form of decline in profits, decline in portfolio as well as increase in non performing assets. Competition from other financial sectors like commercial banks, foreign DFIs, Microfinance Institutions as well as SACCOs also seem to be offering substantial strategic challenges to the sector, as only 29% of the DFIs indicated that they were currently able to compete effectively. This fact was in spite of the DFIs underlying perception that they were serving unique developmental interests in the country where competition was expected to be minimal.

The public DFIs have employed various strategies in their Endeavour to deal with the challenges facing them. The major responses as revealed by the research included; Cost cutting, as revealed by 71.4% of the respondents. This, coupled with improvement on operational efficiency would have a positive impact on profitability; Lobbying for government support, as reported by 57.1% of the respondents. This would have a direct impact on the challenge of capitalization because government is the key shareholder in the organizations; Offering interest rates that are attractive, as reported by 71.4% of the respondents. This would have a positive impact on market share and the organizations' ability to compete in the market place; improving customer service, as reported by 57.1% of the respondents. This would impact on many areas like profitability, competitiveness and market share among others, thereby confirming existing strategic thinking that customer satisfaction is important to the success of any organization.

Other key strategic responses by public DFIs as revealed by the research included reviews in the objectives of the organization in respect to staffing, structure, market segments, planning as well as the range of products and services. A few of the organizations considered an image change to be important by changing their names. It is worthy noting that none of the respondent rated highly the option of mergers as a viable strategic response to overcoming the capitalization problem and only one out of the seven respondent organizations considered privatization a viable strategic response to the challenge of raising capital.

5.4 Recommendations

The findings of this research show that managers of public DFIs were aware of the key strategic challenges facing their organizations. While some of the challenges were common with those found in other business scctors, some were found to be more unique to the sector. The key challenge facing this sector was capitalization. Government decisions and that of bilateral bodies were identified as being key to the long-term success of organizations in this sector. While it was clear from the research findings that management of these organizations were doing everything possible to get the government and by extension other bilateral bodies to support them, the research however, revealed an underlying strategic complacency in respect of the perception of competition facing the sector. There appeared to be a general undervaluing of the level of competition and also the sources of this competition. Most of the organizations in the survey were still found to act as though their markets were secure and nobody could encroach on them. Most of them also did not seem to place much emphasis on profitability. This kind of approach could lead to the eventual closing down of some of these institutions if the current strategies, especially those geared at raising capital funds do not succeed. Managers of DFIs would do well to appraise competition more objectively and also to aim at improving on profitability as success in these areas could help them raise capital funds internally. They should further consider other strategic options like mergers and privatization as these have been historically proven to be successful in the objective of raising capital necessary for organizations to survive and compete effectively.

5.5 Limitations of the Study

Care must be taken not to generalize the results of this study as there were some limitations. First, this study was done only on public DFIs and not all financial institutions or even the entire DFI industry. The results can therefore be taken to be representative only of the public DFIs in the country and not all financial institutions or other public corporations.

5.6 Further Study

While this research succeeded in its primary objective of determining the key strategic challenges facing public DFIs and their response to the challenges, it did not go further to determine the extent to which these responses have been successful in their objectives. For example, a further study should be carried out after a period of say, three years to find out which of the institutions in the survey succeeded in improving their capital position, or in any of the other areas found to offer strategic challenges and also the strategic responses that were instrumental to the success. This will go a long way in helping managers of public DFIs identify the most appropriate strategies to employ in ensuring that their organizations remained not only relevant but also successful in their areas of operation.

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APPENDIX I

Letter of Introduction

Dear Respondent,

This questionnaire is designed to gather information on **"STRATEGIC RESPONSE OF PUBLIC DEVELOPMENT FINANCIAL INSTITUTIONS DFIs IN KENYA".** The study is being carried out for a management project paper as a partial fulfillment of the degree of School of Business University of Nairobi.

The information in the questionnaire will be treated with confidentiality and in no instance will your name be mentioned in this research. Also, the information will not be used for any other purpose other than for this research.

Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours sincerely,

DOROTHY KARARI NJIRITHIA	**PROF. K'OBONYO**
MBA Student	**Supervisor**

APPENDIX II

Questionnaire Section A

1. Name of the company:

2. Year of Establishment:

3. Position of the respondent in the organization

4. How long have you been with the organization?

- 16-25 years [ ]
- 26-35 years [ ]
- 36-45 years [ ]
- 45-55 years [ ]

5. Ownership (kindly tick one below):

- Wholly owned by the government []
- Owned partly by the government and partly privately []
- Partly owned by the government and partly by other state corporations []
- Partly owned by the government, partly by other state corporations and partly privately owned []

  Other (kindly elaborate) []

SECTION B

6. Please indicate the level of competition your company is facing now

Very high []

Fairly high []

Moderate []

Low []

Extremely low []

7. To what extent do you consider the following organizations a threat to your organization? (Kindly tick the relevant box for each).

Organization	**1**	**2**	**3**	**4**	**5**
Investment Banks					
Foreign DFIs					
Commercial Banks					
Local DFIs					
Microfinance Organizations					
Other specify					

8. Please indicate the extent to which the following factors are important to your organization.

Factors	**1**	**2**	**3**	**4**	**5**
Survival					
Staff training					
Customer					
Satisfaction					
Market share					
Competitive					
Position					
Technological					
Advancement					
Profitability					
Increasing Share holder					
Value					
Raising Capital					
Accessing Raw materials					

9. To what extent have the following negatively impacted on the success of your corporate strategies?

Factors	**1**	**2**	**3**	**4**	**5**
Government Policies					
Logistics					
Bilateral Bodies' policies					
Other specify					

10. Following the liberalization of the market, to what extent has your organization been affected in the following parameters?

Parameters	**1**	**2**	**3**	**4**	**5**
Decline in Profits					
Decline in Portfolio					
Increase in None performing Assets					
Loss of Market share					
Loss of Customers					
Any other effects (please specify)					

11. How well are you currently able to compete in your given market? (Please tick one)

5.	4.	3.	2.	1.
To a very Great extent	To a great extent	To moderate extent	To a lesser extent	To no extent
[ ]	**[ ]**	**[ ]**	**M**	**[ ]**

SECTION C

12. Has your company changed its name within the last ten years?

- Yes • No o

13. Does your company have a strategic plan? (Please tick one below):

- Yes • No •

14. What period does the strategic plan cover?

- One year [ ]
- Two years [ ]
- Three years [ ]
- Five years [ ]
- Other (please specify)

15. What is the company's Mission?

16. Has there been a change in the following company objectives? (Please tick one as appropriate)

- Corporate mission Yes • No •
- Structure Yes • No •
- Range of products and services Yes • No •
- Market segments served Yes • No •
- Staffing Yes • No •
- Planning Yes • No •
- Any other changes (Please specify)_

17. How many times has the company's corporate plan been reviewed within the last five years?

Once •

Twice D

Thrice •

None •

Other (please specify}

18. How important has each of the following strategic responses been to your firm in dealing with challenges facing the firm (Please rank them in order of importance: 5 being the most important and 1 being the least important)

Strategic responses	1	2	3	4	5
Aggressive marketing					
Cost cutting					
Asset realization					
Operational efficiency					
Strategic alliance					
Diversification					
New product Development					
Privatization					
government support					
Image change					
Other (please specify)					

19. How important has each of the following strategic responses been to your firm in dealing with challenges you are facing from competitors such as Microfinance institutions (Please rank them in order of importance: 5 being the most important and 1 being the least important).

Strategic responses	1	2	3	4	5
Product differentiation					
Improve customer					
Community involvement					
Training staff					
Outsourcing of non core service					
Use of technology					
Our packaging is the besting the market					
We regularly review the performance of our brands					
Interest rates that are Attractiveness					
Opening up offices in remote area					
Efficient management of funds					
Reliability from credible workers					
Customers visit facilities accessible					
Affordable mode of payment					
Competent error handling services					

APPENDIX III

List of Kenyan Public Development Finance Institutions

1. Industrial and Commercial Development Corporation (ICDC)
2. Development Bank of Kenya (DBK) (Formerly Development Finance Company of Kenya (DFCK)
3. Agricultural Development Corporation (ADC)
4. Kenya Tourist Development Corporation (KTDC)
5. Kenya Industrial estates (KIE)
6. Agricultural Finance Corporation (AFC).
7. IDB Capital Limited (Formerly Industrial Development Bank Limited)