CHALLENGES OF IMPLEMENTING GROWTH STRATEGIES
OF FIRMS IN THE UNIT TRUST INDUSTRY IN KENYA

BY

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Declaration

This Research project is my original work and has not been presented for a degree in any other university

Signed…………………………………   Date…………………………..

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

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Dedication

This Thesis is dedicated to God for giving me the strength, good health and favor throughout my MBA programme.

This Thesis is also dedicated to my mum, Josephine Wangui Kamau for giving me the gift of education and for having shaped my life.
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Abstract

Kenya’s unit trust industry is relatively young having started off at the turn of the 21st century. The number of unit trust providers has grown to 13 since then and the size of the industry has grown to KShs 29 Billion (USD 340 million) as at end of June 2011. This is therefore a small industry presenting a large untapped market given the number of players and contribution to the country’s GDP. Compared to more developed CIS markets the Kenyan Unit Trust Industry is much smaller. For example it is 300 times smaller than the South African CIS Industry pointing to a lot of room for growth. The size of the industry and slow growth is an indication that companies are experiencing challenges implementing their growth strategies. The study objectives were to establish the challenges of implementing Growth Strategies of firms in the Unit Trust Industry in Kenya. The study covered 11 members of the Association of Collective Investment Schemes. Data was collected using questionnaires which were administered using drop and pick method. Data was analysed using descriptive statistics, which involved mean scores used to show the average effect of the factors under investigation, the standard deviation used to check the variability from the mean and the mode was used to evaluate the most popular responses. The study found out that the minimum investment amounts, economic conditions and lack of awareness are the most significant factors affecting the growth of CIS in Kenya followed closely by Distribution network and political and social conditions. The study recommends that Collective Investment firms should consider lowering their minimum investment amounts to make their products affordable to the public. The Collective Investment Industry and the Capital Market Authority should collectively engage in investor education in order to educate the public and create awareness on the opportunities available via the CIS products. The Capital Market Authority as the Industry regulator needs to enlighten the public on the measures it put in place to enhance investor protection since the public is not confident that they are adequately protected.
CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Unit Trusts commonly referred to as Collective Investment Schemes (CIS) have been one of the most significant developments in the capital markets during the past few decades. CIS are private financial arrangements that pool resources of many small savers, generating a large pool of resources which they then invest in a variety of assets like shares, bonds, and property with the sole purpose of generating high returns. Consequently, CIS have been instrumental in raising the financial sophistication of the population. The investments are chosen and managed by professionals usually fund managers appointed by the CIS, according to the stated objectives of the CIS. Investors are therefore not involved in the day to day decisions concerning how their money is invested.

The Kenyan capital markets offer an array of investment products in the form of shares, bonds and unit trusts. The type of products chosen by the investor to commit his capital depends largely on his financial goals, time frame, and amount of capital available. Unit trusts have grown in acceptance and popularity in recent years and this is evidenced by the growth in the number of approved unit trust providers from virtually zero in 2001 to 11 in 2008. Unit trusts are the small investor’s answer to achieving wide investment diversification without the need of prohibitive sums of money. As a market becomes sophisticated and more volatile, unit trusts become safe havens for less, sophisticated and less capitalized, conservative individuals in the market place.
Unit trust has 5 major players that play different roles. These are clients who are referred to as the unit holders, the Fund Managers, Fund Administrator, Custodian and Trustees. An Investor invests into the Unit Trusts funds; the fund manager invests the funds according to Fund Investment Objectives while the fund administrator manages the day to day interaction with the client. Custodian ensures safe custody of title documents, securities & cash amounts of the Unit Trusts and the Trustees is the overseer of the unit holders as they create and cancel units in regards to the investment objective.

CIS exist in several markets, both emerging and developed such as the UK and most of continental Europe, the USA, Australia, China, Japan, Turkey, Greece and several other countries. Their establishment varies, depending on the legal system of the country in which they are established. CIS are commonly referred to as Unit Trusts, save for the USA where they are known as mutual funds. In the USA, total net assets of mutual funds amounted to US$ 13.6 trillion while worldwide assets invested in Unit Trusts were US$ 23.8 Trillion as at end of 2011. In Africa, the largest and most developed CIS industry is in South Africa. In South Africa assets, held in CIS investments amounted to US$ 120 billion as while in Kenya, assets under management amounted to US$ 340 million as at June 2011(Investment Company Fact book, 2012).

1.1.1. Concept of Strategy
Organisations without a strategy may survive but may not thrive. Organisations need to create and implement an effective strategy in order to excel in today’s market place. Strategy is the direction and scope of an organisation over the long-term which achieves advantage for the organisation through its configuration of resources within a challenging
environment, to meet the needs of markets and to fulfil stakeholder expectations, (Johnson & Scholes, 2002). Strategy has been associated with long range planning, a hierarchically structured system of objectives and goals and a selected way of creating a fit between external environment, internal resources and capabilities.

Mintzberg, Ahistrand and Lampell (2005) defined strategy from perspective of five angles called 5 Ps. Plan, ploy, position, pattern and perspective. They stated that a plan provides the roadmap by which a firm intends to achieve its goals. A ploy refers to how the firm will maneuver its resources to attain its objectives and patterns refers to decisions and actions that drive the firm forward over time towards its goal. The position the firm occupies gives it advantages in the access to the markets, clients and services. A perspective refers to the future of the firm and the understanding of its internal strengths and weaknesses to be able to steer towards the intended future state.

Yabs (2010) defined strategic management as the art of mobilizing resources and the science of formulating, implementing and evaluating decisions that enables an organization to realize its objectives. Strategic management focuses on integrating management, marketing, finance, production operations, research and development of a firm to achieve organizational success.

1.1.2. Growth Strategy

Investopedia states that if companies across an industry exhibit solid earnings and revenue figures, that industry may be showing signs that it is in its growth stage. Business growth can be attained through, Organic growth which is by means of opening branches or new lines of business or non-organic growth which involves merging with another
firm or buying another business through acquisition. Barriers to growth are everywhere. A lack of preconditions for growth means that many actions the company undertakes will fail. Miscommunication can lead to a lack of understanding of local market needs and the misalignment of regions and headquarters. Lack of product knowledge can suppress growth as well. A key challenge in implementing a continuous improvement process is identifying and prioritizing the necessary measures and knowing which growth levers to pull and when.

Rothenbuecher, Handschuh and Kickenweiz (2007) to achieve growth targets companies can pursue strategies for pursuing attractive customer segments, shifting sales resources to areas with the greatest market potential, penetrating new regional markets, expanding and professionalizing partnerships, stopping price erosion, exploiting opportunities within existing product portfolios, boosting cross-selling and aligning processes to meet customer needs more effectively. The core of every market-driven growth strategy should be to develop a unique value propositions tailored to meet customer-specific requirements. Unless products or services are customized to meet customers’ needs, up to 25 percent of a company’s growth potential could remain untapped. Determining and articulating the "value" of a new product or technology and what people (or industries) will pay for it is the largest hurdle in meeting customers’ needs and creating solid profits.
1.1.3. Challenges in Implementation of Growth Strategy

Management Study Guide (2011) defines strategy implementation as the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation can also be defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality and customer satisfaction which are the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees; an organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback mechanism on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Excellently formulated strategies will fail if they are not properly implemented. It is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, and resource-allocation process. Implementing strategy has always been a challenge for organizations across an industry. Ability to implement strategy is the deciding factor between success and failure of a company’s strategy.
Musyoka (2011) states that strategy implementation can pose a number of challenges. The challenges can arise from sources that are internal and external to the organization. The particular challenges that will face strategy implementation will depend on the type of strategy, type of organization, and prevailing circumstances. Many challenges in strategy implementation can be avoided if strategy development is coupled with implementation. The lack of understanding of a strategy and the inability to connect strategy formulation and implementation has an impact on successful implementation.

1.1.4. Unit Trust Industry in Kenya

According to Collective Investment Schemes (Unit Trusts): What You Should Know (2008), the Unit Trust Industry in Kenya fully took off at the turn of the century growing from virtually 0 in 2001 to 11 companies offering unit trusts as at 2008. The number of unit trust companies and funds on offer witnessed significant growth after inception with entities getting into the market to improve their competitive position. To date there are a total of 13 companies that offer Unit Trusts. The total Net Asset Value of unit trusts in Kenya was Kshs 29 billion as at end of June 2011 as compared to Kshs. 23 billion as at March 2011, and Kshs. 28 billion as at December 2010. The number of funds on offer has grown from 2 in 2001 to around 40 as at December 2011 (CMA Capital Markets Bulletin Q4 2011)

The unit trust industry is regulated by the Capital Markets Authority & the Collective Investment Schemes rules. The Capital Market law enforces the following code of conduct: 80 % of assets to be held in equities listed on an authorized stock exchange; At least 5-10% of the portfolio in liquid assets; unlisted securities are limited to 25 %; Units
may not be sold on credit. Collective Investment Schemes Rules ensure that not more than 25% of fund is invested in a single bank or financial institution; not more than 25% of fund is invested in a single security holding and one investor should not hold more than 12.5% of the total fund. (Collective Investment Schemes (Unit Trusts): What You Should Know 2008)

Requirements on the amount of starting capital and any necessary technology for the mutual Unit Trust are not as demanding as for many other businesses. Moreover, the expected profit from running a Unit Trust is fairly predictable as funds customarily charge a fixed percentage fee out of the value of the assets managed, another incentive for new entrants. As a result of the vast number of mutual funds in operation, funds have to compete on many fronts including product offerings, performances and fees.

There are a total of 13 firms in Kenya that are approved Collective Investment Schemes and are regulated by Capital Markets Authority. These are African Alliance Unit Trust Scheme, Old Mutual Unit Trust Scheme, British American Unit Trust Scheme, CFC-Stanbic Unit Trust Scheme, Commercial Bank of Africa Unit Trust Scheme, Zimele Unit Trusts Scheme, Insurance Company of East Africa Unit Trust Scheme, Madison Unit Trust Scheme, Amana Unit Trust Scheme, CIC Unit Trust Scheme, Standard Investment bank Unit Trust Scheme, Dyer/Blair Unit Trust Scheme and SuntraUnit Trust Scheme. Together these 13 firms manage a total of over 40 funds which are Money Market Funds, Fixed Income funds, Balanced Funds, Equity Funds and Bond Funds. (CMA Approved Collective Schemes, May 2012)
1.2. Research Problem

Firm growth is related to economic expansion due to processes taking place within the firm (Penrose, 1959). The more firms grow the more resources they can access, thus firm growth is considered as a path dependent process. The resource-based view considers a firm’s own set of resources and capabilities as the driver of growth and states that a firm predicts the growth strategies based on its resources and competencies. Strong and successful growth is possible in any industry, in any region, at any time. It’s important for companies to have a framework for distinguishing good from bad growth in generating revenue growth. Good growth not only increases revenues but improves profits, is sustainable over time, and does not use unacceptable levels of capital. It is also primarily organic (internally generated) and based on differentiated products and services that fill new or unmet needs while creating value for customers. (Charan R, 2004)

Shareholders, managers and employees are increasing striving for sustainable profitable growth often without success. Sustaining company growth requires a strategy for increasing revenue without sacrificing earnings or customer satisfaction. Faced with the challenge of competition, increased stakeholder expectations and the need to survive and succeed in the market place the need to pursue growth is inevitable. Well-crafted strategies will fail if not properly executed. Having a sound strategy is only part of the success equation. Putting the strategy into real execution is a whole different matter and is widely considered to be the hardest challenge. Many top executives and their companies fail to plan the execution of strategy due to poor prioritization or ill crafted strategies (Mascarenhas et al, 2002)
The Unit Trust industry environment has undergone many changes and as a result the members of the Association of Collective Investments need to continue assessing its environment and come up with strategies that will enable them respond effectively to the changes. The Unit Trusts industry funds under management have recorded stagnated growth over the last few years, dwindling profits, poor investment returns, decline in uptake of Unit Trust products impacting growth of the Unit Trust Industry.

Few scholars have carried out research on the collective investment schemes of Kenya. Some of these include Wambui (2003), Future of CIS in Kenya, Karingithi (2004), Factors affecting growth of Collective Investment Schemes in Kenya, Kibocha (2011), A survey of challenges to savings mobilization by Unit Trusts in Kenya. Various scholars have carried out research on the Growth strategies within Kenyan organisation. Some of these include Mungai (2010), Growth Strategies applied by the institute of advanced technology, Oketa (2011), Growth challenges faced by local seed companies in Uganda, Mwangi (2011), Factors affecting growth of MSE’s funded by micro finance institutions in Thika.

The Association of collective Investments was formed in 2008 by investment management companies in order to collectively and proactively address common issues facing the Unit Trust industry in Kenya especially Withholding Tax, Legislation, Markets Practises and Ethics issues. The members of the Association will be used for this study as it intends to answer the question, what are challenges affecting the implementation of growth strategy in the Unit Trusts Industry?
1.3. Research Objectives

The objective of this study is to determine the challenges of implementing growth strategies of unit trust firms in Kenya.

1.4. Value of the Study

This study will be important to policy makers and stakeholders who could use this information and find ways in which they can make the market favourable for the Unit Trust industry firms to operate in, improve performance of collective investment schemes and as a result sustain their revenue. The research will contribute to the existing knowledge in the area of collective investment schemes for future use by researchers and students to investigate further the challenges of implementation of growth strategy.

Lastly, this study is anticipated to determine challenges affecting the implementation of the Growth Strategy of firms in the Unit Trusts Industry of Kenya. Based on the understanding of the problem, management could be advised on available scientific alternatives to tackle growth strategy implementation problems in the industry. By creating an understanding of the specific problems, management will be able to devise appropriate actions to address and improve the industry operation.
CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter will cover the relevant literature, which will provide a theoretical foundation to satisfy the purpose of the research. We shall look at the concept of strategy, concept of growth strategy and strategy implementation challenges.

2.2. The Concept of Strategy

According to Johnson and Scholes (2009), strategy is the direction and scope of an organization over the long term which achieves advantage to the organization through its configuration of resources within the changing environment and to fulfill stakeholder’s expectations. The aim is to develop a strategic fit by identifying opportunities in the environment and adapting its resources and competencies to exploit the opportunities. Lynch (1997) concurs that strategy is the matching of resources and activities of an organization to the environment in which it operates. It acts as a link between management of the organisations internal resources and external relationships with customers, suppliers, competitors, economic and social environment in which it operates.

According to Thompson (1989) a strategy consists of a pattern of moves and approaches defined by management to produce successful organization performance in simpler terms its terms it’s the managerial game plan.

Superior strategy enables the firm to gain competitive advantage and hence become successful. According to Markides (1999), superior strategy is all about finding and exploiting a unique strategic position in the company business while at the same time
searching for new strategic positions on a continuous basis. In every day industry there are several viable positions that a company can occupy. A strategic position is about finding answers to the following 3 questions, who should I target as customer? What products or services should I offer them and how should I do this? (Markides 1999)

Despite the obvious importance of a superior strategy to the success of an organization and despite the decades academic research on the subject has been done, there is little agreement among academics as to what strategy really is (Markides 1999). An organisations strategy consists of a pattern of moves and approaches defined by management to produce successful organization performance; in simper terms it’s the managerial game plan (Thompson 1989). According to Markides (1999), superior strategy is all about finding and exploiting a unique strategic position in the company’s business while at the same time searching for new appropriateness of a firm’s activities that can contribute to its performance such as innovations, cohesive culture or good implementation.

2.3. Growth Strategies

According to Thompson and Strickland (1989), within the corporate sector, where enterprises are complex to consist of several distinct business units, companies seem to have developed by following a fairly standard strategic path. Majority begin as small single business serving a local or utmost regional market. During the early years product lines tends to be limited, capital base thin and the companies competitive advantage tends to be weak.
Nearly always the strategic theme during the early years is to expand and grow with chief strategic thrust aimed at increasing sales volumes, market share and cultivating customer loyalty. Opportunities for geographical market expansion may be pursued next moving from local to regional. This may stop short of global as a result of fierce competition in the global arena scarcity of resources or market unattractiveness. (Thompson and Strickland 1989),

Aaker (1998) on the other hand contends that many firms focus on improving results by downsizing, restructuring, redeploying assets and reducing costs. There is however a limit as to how much you can improve performance using efficiency programs. There is therefore a realization that the road to improved performance must involve renewed emphasis on growth. Growth not only provides the potential for enhanced profitability but also introduces vitality in the business by providing challenges and rewards. According to Grant (1998) the key challenge of contemporary executives is maintaining the momentum that has been built up over the years. He contends that in the past the principal sources of profitability have been cost cutting, divesting from underperforming assets and process re-engineering but there are no longer available. The simple answer is to shift from cost cutting mode to revenue growth.

Howe (1986) argues that incentives for growth include the need for survival. A firm that does not attempt to grow will not merely stand still but also stagnate and eventually die. On the other hand well planned expansion is not stimulating but also present to the executive a challenge similar to the one of difficult climbs in mountaineering. In addition to the managerial stimulus, growth confers tangible financial benefits to the firm. In the
short run the productivity of the firm is likely to rise as rate of output increases. As the size of the firm increases, it’s likely to reap economies of scale at both production and managerial level. According to Johnson and Scholes (2004), apart from fitting the organization into the changing business environment, organizations pursue growth in order to stretch and exploit the existing competencies and resources as well as meet the expectations created by regulatory and governance frameworks as well as powerful stakeholders. Growth may also be driven by the need to respond to the environment by fitting the business into the environment. Business growth however is not without challenges and constraints.

In her analysis of the growth of the firm, Penrose (1959) contends that while the size of the firm is not determinate, the rate of growth is dependent upon the capability of the existing management team and rate at which this capacity could be expanded. She argues that if a firm deliberately or inadvertently expands its organization more rapidly than the individuals in the organization can obtain the experience, the efficiency and effectiveness of the firm might suffer. Other constraints include scarcity of financial resources and non-managerial inputs in raw materials.

Some of the approaches to growth include licensing where a company is allowed to manufacture a product or service which has been designed by someone else and is protected by a patent (Thompson 1993). One of the arguments in favor of this arrangement is that production and labor relations problems are avoided enabling the business to concentrate on the areas it has an expertise and competitive advantage.
Acquisition of an existing business is probably the most popular approach to corporate growth. An established organization has the advantage of a much quicker growth and entry into a new market while at the same time a way to overcome barriers such as technology, patents, inexperience, and access to reliable suppliers. According to Crosby (2002), acquiring an existing business has an advantage because there is already an infrastructure in place as well as goodwill and reputation. Johnson and Scholes (2002) concurs that acquisition is attractive because of the speed with which it allows the company to enter the new product or market areas. In cases where the markets are static and market shares are relatively steady, acquisition is a preferred strategy to grow the market share.

A firm can also pursue organic growth whereby the organization grows by developing internally. This involves identifying opportunities in the market, raising finances, setting up another operational base, developing new products, marketing and expanding the existing product lines. Compelling factors include; products that are highly technical in design or method of manufacturing, companies may also choose to develop new products since the process of development is a way of acquiring skills and knowledge to exploit the product and compete successfully. Resources available in the short line may also constrain a firm to develop in any other way. (Johnson and Scholes 2002)

According to Banerjee (1998), franchising is one of the alternative strategies for growth which is also perhaps the least risky way of expanding a business into new market. This is mainly because no capital is tied up in production or market development work, and the profit comes in through royalties.
According to Lynch (1997), it is the form of licensing agreement in which the contractor provides the licensee with a preformed package of activity such as brand name, technical service expertise or patent. According to Johnson and Scholes (2004), joint venture is an arrangement where two or more organisations share resources and activities to pursue strategy. Such resources may include skills, materials, innovation, finances, and access to markets. Joint ventures take advantage of complimentary of the two organizations and the synergic advantage of the joint effort. McCarthy (1996) indicates that joint ventures have become increasingly important due to the changing technological changes, high costs of projects hence the cost of failure is also high. Joint ventures are common in the oil industry and usually cooperation between a local and foreign company.

Ignor A (1987) created a matrix that identified directions for strategic development. The matrix presents four different growth strategies that focus on the firm’s present and potential products and markets by considering whether the strategy direction is in new or existing markets with new or existing products. Ansoff’s product/market growth matrix suggests that a business’ attempts to grow depend on whether it markets new or existing products in new or existing markets. Market penetration is the growth strategy whereby the firm seeks growth by increasing the market share of the present product-markets. This is the least risky strategy for expansion.

In Market development the firm aims to increase profit by selling its existing products to new market segments while Product development is where the firm develops new products to its existing customers. Diversification is the name given to the growth strategy where a business markets new products in new markets. This is an inherently
more risk strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

**Table 1: Ignor Ansoff Matrix.**

<table>
<thead>
<tr>
<th>Markets</th>
<th>Existing Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Markets</td>
<td>Market Penetration</td>
<td>Product Development</td>
</tr>
<tr>
<td>New Markets</td>
<td>Market Development</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

**Source:** [www.QuickMBA.com: 1999-2010](http://www.QuickMBA.com)

2.4. **Strategy Implementation Challenges**

The implementation of strategy is more challenging and delicate than its formulation. Strategy implementation is one of the most difficult business challenges facing today’s managers (Meldrum and Atkinson, 1998). Things are always easier said than done and putting a chosen strategy into action is not easy. Stoner and Freeman (1989) contend that there are certain barriers to effective strategy implementation and some result from changes in a complex environment while others stem from internal obstacles. Internal constraints could be; resistance to change, financial constraints, inflexibility, executive obsolesce, values, traditions, styles and power. The environmental constraints include scarcity of natural resources, changes in political stability, technology and so on.

There are four problems areas associated with successful implementation of strategies namely, Strategy and structure, information and communication systems, leadership skills
and management systems such as compensation schemes. Institutional problems such as culture, structure, leadership, policies, capabilities and capacity also affect strategy implementation. Management is also faced with the problem of generating an organization wide understanding on the part of the employees to carry out the chosen strategy effectively and efficiently. Circumstances are always cropping up that make corrective adjustments desirable. Long term direction may need to be altered, the business redefined and management vision narrowed or broadened. Industry changes and competitive conditions, emergence of new opportunities or threats, the appointment of new executives and a host of other circumstances can prompt the use of a different strategy. (Owen 1982)

Strategy implementation becomes a challenge because it involves the full range of managerial activities associated with putting a chosen strategy in place, supervising its pursuit and achieving targeted results (Thompson and Strickland 2003). These two point out that implementing strategy poses the tougher, more time consuming management challenge. This is because there is a wide array of activities that have to be attended to. Strategies may take years to implement (Mocker, 1993). This is because strategy implementation depends on individual situations factors like the strategies themselves, business processes, culture, structure, staff and systems. The challenge is to create a series of tight fits. Fits between strategy and organization competencies, capabilities and structure, strategy and budget allocations, strategy and policy, strategy and internal support systems, strategy and reward structures and strategy and corporate culture. Sterling (2003) points out that strategies fail because of un anticipated market changes, lack of senior management support, lack of strategy understanding and communication,
lack of timeliness and distinctiveness, lack of focus and poorly conceived business models. Freeman (2003) also gives a number of strategy implementation pitfalls which include; lack of stakeholder commitment, strategic drift, strategic dilution, initiative fatigue, impatience and not celebrating success. Many strategies tend to undergo only brief periods of popularity. Many strategies tend either to be too narrow in focus to build a complete corporate strategy or too general and abstract to be applicable to specific situations. Hamel (2000), for example coined the term strategic convergence to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones are imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation.

Chafee (1985) pointed out that some of the challenges encountered while implementing strategies are due to failure to understand the customers, inadequate or incorrect marketing research and inability to predict environment reactions. Another challenge is on overestimation of resources competence i.e. can the staff, equipment and processes handle the new strategy. The other challenge is when one fails to develop new employees and manage skills, while also failing to adequately coordinate reporting and control relationships. Inflexible organization structures will also dissuade the implementation process. It is also quite challenging to get the senior management commitment which leads to lack of sufficient company resources to accomplish tasks. Employees commitment and use of incentives to embrace the new strategy is also quite essential if strategy implementation process is to succeed, time is also a critical factor and should never be under estimated, (David, 1989)
CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

The research design, population, data collection and data analysis procedures will be highlighted in this chapter. This will help the researcher to meet the study objectives.

3.2. Research Design

The research design that was used was a cross sectional survey. Tull and Hawkins (2002) define survey research as a systematic gathering of information from respondents with the purpose of understanding and / or predicting some behavioral aspect in a given population.

This method enabled the researcher to ascertain and describe the challenges affecting the implementation of Growth Strategy of firms in the Unit Trust Industry in Kenya.

3.3. Population

According to Cooper and Schinder (2003), a population element is the subject such as a person, organization, customer database, or the amount of quantitative data on which measurement is being taken.

A census was conducted for this study. A census is undertaken when the population of the study is small and it will be feasible in terms of cost, time and accuracy. The population of the study were all firms in the Unit Trust Industry in Kenya. This data was as at June 2012.
3.4. Data Collection

Primary data was collected through the use of a questionnaire. A questionnaire is a series of questions asked to individuals to obtain statistical information on a topic. When properly constructed and responsibly administered it is a vital instrument by which statements can be made about people, groups or a population.

The target respondents were the CEO’s of the organizations or Senior Managers with thorough understanding of the organizations. The “drop and pick later” method was used to collect data from the Unit Trust industry firms. This was followed up with telephone calls to ensure that the questionnaires had been received.

3.5. Data Analysis

The data was analysed by use of descriptive statistics to summarize and related variables that were obtained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures e.g. mean, percentages and frequency distribution tables while graphs and tables will be used for presentation of findings.

Screening of data before final analysis was done to eliminate any discrepancies, thereafter classified based on similarity, and then tabulated. This method of analysis was most desirable as it allowed the researcher to have an insight of the challenges affecting the implementation of growth strategy of firms in the Unit Trust Industry of Kenya.

In accomplishing all analysis details with efficiency and effectiveness, the researcher made use of spread sheet packages. It was most preferred because of its ability to cover a wide range of most statistical and graphical data analysis and is systematic
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1. Introduction

This chapter presents the analysis and findings of the study.

4.1.1 Response rate

The questionnaire was distributed to 13 companies out of which 11 companies fully completed the questionnaire. This gives a response rate of 85 percent.

4.2 Industry profile

This section covered the general overall picture of the Unit Trust industry. 18 percent of the firms have been in operation in Kenya for 1-3 years, 36 percent have been in operation between 4-7 years and 45 percent have been in operation at least 8 years. This shows that this has not been a long serving industry.

Table 2: Years of Operation

<table>
<thead>
<tr>
<th>Years in Operation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 3 years</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>4 - 7 years</td>
<td>4</td>
<td>36%</td>
</tr>
<tr>
<td>At least 8 years</td>
<td>5</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 3: Funds offered

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Frequency-Number of Companies Offering the Fund</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>10</td>
<td>91%</td>
</tr>
<tr>
<td>Money Market</td>
<td>10</td>
<td>91%</td>
</tr>
<tr>
<td>Balanced</td>
<td>9</td>
<td>82%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7</td>
<td>64%</td>
</tr>
<tr>
<td>Regional</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 shows the funds offered in the industry. The Equity Funds and Money Market Funds are the most popular funds across the industry with 10 companies offering these funds. This is followed by the Balanced Fund with 9 firms offering this fund to clients. The Regional Fund covering investments in the East African Region is only offered by 1 firm.

4.3 Ability to meet client needs

This section covered the extent to which the various products on offer in the industry met client needs and any other additions that would further improve the unit trust offering in Kenya. Respondents were also requested to provide an indication of the extent to which they felt their products met their clients’ investment objectives.
4.3.1. Client Objectives

In this section respondents were asked to indicate the extent to which various investment objectives were important to the company’s current and potential clients. Companies that were able to meet the client’s objectives would have a strategic advantage. Various objectives were listed and respondents were asked to rank the extent to which these were important to their clients with 5 being very important and 1 being least important.

Table 4: Client Objectives

<table>
<thead>
<tr>
<th>Importance of the following objectives to clients</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise</td>
<td>5</td>
</tr>
<tr>
<td>Safety</td>
<td>5</td>
</tr>
<tr>
<td>Liquidity</td>
<td>5</td>
</tr>
<tr>
<td>High Returns</td>
<td>5</td>
</tr>
<tr>
<td>Regular Savings</td>
<td>4</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>3</td>
</tr>
<tr>
<td>Regular Income</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 4 shows that the need for expert advice, safety of investments, investments that offer liquidity and the need for high returns were identified as very important objectives as indicated by a mode of 5. The need for the product to allow for regular savings was also identified as a relatively important objective as indicated by a mode of 4.
4.3.2 Companies Ability to Meet Client Objectives

In this section companies were asked to compare how well their products met these objectives by scoring their products between 1 and 5 where 1 meant the company strongly disagreed that their products met client’s objectives and 5 meant companies strongly rated their products as meeting client needs.

Table 5: Companies Ability to Meet Client Objectives

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>Agree</td>
<td>5</td>
<td>45%</td>
</tr>
<tr>
<td>Can't tell</td>
<td>3</td>
<td>27%</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 5 shows that 2 out of 11 companies representing 18 percent of respondents strongly agreed that their products met client needs. A further 45 percent agreed that their products met client objectives. 27 percent of firms were not able to rank how well their products met client needs. Only 9 percent of firms indicated that their products did not meet client objectives.
4.3.3 Securities invested by funds offered

In this section companies were asked to indicate whether their products covered the entire universe of securities potential CIS clients in Kenya would like to invest in. Possible choices were identified as strongly agree, agree, can’t tell or strongly disagree.

Table 6: Securities Invested by Funds Offered

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>4</td>
<td>36%</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 6 shows that only 36 percent of companies felt their products covered the entire universe of securities that would be attractive to clients. 55 percent of respondents disagreed with 9 percent strongly disagreeing that their products met this. Companies were also asked to suggest which new funds they felt if offered would enable them reach untapped segments of their potential market.

Table 7: Proposed new products

<table>
<thead>
<tr>
<th>Proposed new products</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Investment Trusts</td>
<td>7</td>
</tr>
<tr>
<td>Shariah Compliant Funds</td>
<td>2</td>
</tr>
<tr>
<td>Fund Type</td>
<td>Count</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Active Strategy Fund</td>
<td>1</td>
</tr>
<tr>
<td>Africa Fund</td>
<td>1</td>
</tr>
<tr>
<td>Balanced fund</td>
<td>1</td>
</tr>
<tr>
<td>Bond Funds</td>
<td>1</td>
</tr>
<tr>
<td>Commodity Linked Funds</td>
<td>1</td>
</tr>
<tr>
<td>Exchange Traded Funds</td>
<td>1</td>
</tr>
<tr>
<td>Forex Margins</td>
<td>1</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>1</td>
</tr>
</tbody>
</table>

7 companies indicated that funds that Real Estate investments would enable them reach new clients. 2 Companies indicated that Shariah compliant funds would enable them achieve this objective.

### 4.4. Competitors

In this section industry participants were asked to indicate which entities or products posed the biggest competition threat to companies in the unit trust industry.

Figure 1 below shows that 73 percent of respondents indicated that direct investment in the stock market by potential clients posed the biggest competition. This was followed by government securities such as Treasury Bills and Bonds at 64 percent, Banks and Property Investments at 55 percent and Insurance products at 18 percent.
Competitors to the CIS Industry

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Investment in the Stock Market</td>
<td>73%</td>
</tr>
<tr>
<td>Government Securities</td>
<td>64%</td>
</tr>
<tr>
<td>Banks</td>
<td>55%</td>
</tr>
<tr>
<td>Property</td>
<td>55%</td>
</tr>
<tr>
<td>Insurance Products</td>
<td>18%</td>
</tr>
</tbody>
</table>

Figure 1: Competitors to the CIS Industry

4.5 Factors Impacting Growth in the Number of Market Players

In this section various factors that have impacted growth in the number of market players and the number of new funds introduced to the market were analysed. The factors were listed and the respondents were asked to rank the extent to which they agree on the magnitude of each of the factors where ‘1’ was taken to indicate ‘no extent’ while ‘5’ ‘a very large extent’

Figure 2 below focuses on the factors that have impacted the entry of new market players or the creation of new funds by existing market players. The results show that the factor with the highest mean is past performance and performance persistence with a mean of 3.8.

Business Potential (i.e. profit potential) and Collective Investment Schemes trading requirements also impact entry of new entrants and creation of new funds by a moderate to a large extent as evidenced by their mean score of 3.6. Respondents also indicated that
the availability of securities and scarcity of skilled human personnel also served to a moderate extent to preventing new entrants or introduction of new funds as evidenced by their mean scores of 3. The Minimum Capital required to set up a new fund had minimal impact.

![Figure 2: Factors Impacting Growth in the Number of Market Players and New Funds](image)

4.5 Factors Impacting the Uptake of CIS products by Kenyans

In this section various factors that have impacted the uptake of existing collective investment scheme products were analysed. These included the minimum investment amount and whether this was affordable to all potential clients and whether Kenyans preferred to save rather than invest. Additional factors such as availability of information on products, disposable incomes, convenience in accessing CIS products amongst others were also considered.
4.5.1. Minimum Investment Amount

In this section respondents were asked to list the current minimum investment amounts for the products offered by their firms and comment on whether they felt this minimum amounts charged by their firms was affordable to all potential investors.

Table 8: Minimum Investment Amounts

<table>
<thead>
<tr>
<th>Minimum Investment Amount</th>
<th>Frequency</th>
<th>Percentage who identified the minimum amount as being too high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1000</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>1,001 - 4,999</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>5,000 - 9,999</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td>10,001 - 49,999</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>At least 50,000</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 8 shows that 4 out of the 11 companies surveyed charged at least KShs 50,000 as a minimum investment amount. This represents about 36 percent of the respondents. 3 out of the 11 companies surveyed representing 27 percent of the respondents had their minimum investment amounts falling between Kshs 10,001 and KShs 49,999. Only 1 company out of the companies surveyed had investment amounts below KShs 1,000.
Table 8 further shows that the companies whose minimum investment amounts are less than KShs 4,999 felt that their minimum investment amounts are affordable to all potential CIS clients as evidenced by 0 percent of these companies indicating their minimum investment amounts were too high.

4.5.2 Saving versus Investing

In this section companies were asked to indicate the extent to which they felt Kenyans preferred saving to investing.

Table 9: Kenyans desire to save rather than invest

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>Can't tell</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 9 shows the extent to which respondents felt Kenyans would rather save than invest. 18% of respondents strongly agreed with this with 55% agreeing with the statement. 18% disagreed with the notion that Kenyans would rather save than invest.

Some of the reasons given for this phenomenon were identified as: Ignorance on the CIS opportunities available.. Potential clients prefer saving as opposed to investing as saving did not expose them to market fluctuations and thus they could avoid the risks associated with investing.
4.5.3 Additional Factors Impacting the Uptake of CIS products by Kenyans

In this section additional factors other than the products minimum investment amount and a saving versus investing culture that have impacted the uptake of existing collective investment scheme products were considered. A list of factors was provided and the respondents were asked to rank the extent to which they agreed on the magnitude of each of the factors affecting uptake of products where ‘1’ was taken to indicate ‘no extent’ while ‘5’ ‘a very large extent’.

Table 10: Factors Impacting the Uptake of CIS Products by Kenyans

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of information on CIS products</td>
<td>4.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Impact of economic conditions on disposable income</td>
<td>4.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Investment returns on CIS</td>
<td>4.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Convenience in accessing CIS services</td>
<td>3.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Distribution channels employed by CIS providers</td>
<td>3.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Complexity of CIS products and processes e.g application forms</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Minimum Investment amount</td>
<td>3.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Fees charged on CIS investments</td>
<td>3.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Uncertainty around with-holding tax Issues</td>
<td>2.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Lack of tax Benefits on CIS funds</td>
<td>2.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Table 10 focuses on the factors that have impacted uptake of CIS products by Kenyans. The results show that the factor with the highest mean is the availability of information on CIS products that seems to affect the uptake of products to a very great extent. The
Impact of economic conditions on disposable incomes and Investment returns on CIS products also seem to affect the uptake of CIS products by a moderate to large extent as evidenced by their mean scores of 4.1 each. Convenience in accessing CIS products and Distribution channels used also significantly affect the uptake of CIS products as evidenced by their mean response scores of 3.9 and 3.6 respectively.

4.6 Regulation

In this section companies were asked to indicate how strongly they felt current unit trust regulations were adequate in guaranteeing investor protection, and whether the requirements placed on providers for the approval of funds further enhanced the protection of investors interests. Respondents were also asked to indicate whether they felt that the public was confident that CIS regulatory requirements ensured their protection. Possible choices were identified as strongly agreeing, agreeing to strongly disagreeing.

Figure 3: Regulation of CIS Industry
The results show that 64 percent of respondents felt that unit trust regulations were adequate to ensure investor protection. 27 percent strongly agreed with this statement. 9 percent of respondents disagreed with this statement indicating that they did not feel that unit trust regulations were adequate to ensure investor protection. The results further showed that 73 percent of respondents felt that the requirements for the approval of licenses were adequate in ensuring that investors were protected. A further 27 percent strongly agreed with this statement. None of the respondents disagreed with this.

The results also showed that 45 percent of the respondents agreed that the public were confident that the CIS requirements ensured their protection. A further 9 percent of the respondents felt that this was strongly the case. 18 percent of the respondents disagreed with this. Some of the respondents who disagreed with this indicated that there was need for the industry to collectively engage in investor education and awareness campaigns to enlighten consumers of the regulations in place and the role of the CMA in ensuring that their interests were protected.

### 4.7 Distribution Channels Used

In this section companies were asked to select the distribution channels they employed as well as which of these they predominantly got most of their business from.

**Table 11: Distribution Channels employed by CIS Providers in Kenya**

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Sales Agents</td>
<td>8</td>
<td>73%</td>
</tr>
<tr>
<td>Tied Sales Agent</td>
<td>6</td>
<td>55%</td>
</tr>
</tbody>
</table>
Direct Marketing(Internet) | 6 | 55%
---|---|---
Corporate Advisors | 5 | 45%
Brokers | 1 | 9%

Table 11 shows the main distribution channels employed by CIS providers to distribute their products. The results show that 73% of the companies used Independent Sales Agents. A large majority also used tied agents and direct marketing (e.g., the internet) as a distribution channel. Corporate advisors were the 3rd most popular distribution channel with 5 of the 11 companies surveyed indicating that they used this channel. Only 1 company of the 11 interviewed used brokers to distribute their products.

Table 12: Channels contributing to the company’s sales

<table>
<thead>
<tr>
<th>Channel</th>
<th>Companies that use the channel</th>
<th>Between 40% -60%</th>
<th>Over 60%</th>
<th>Percentage contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied Sales Agent</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate Advisors</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>Independent Agents</td>
<td>8</td>
<td>0</td>
<td>1</td>
<td>13%</td>
</tr>
</tbody>
</table>

In this section companies were asked to indicate based on the channels they used which ones over the period 2003 to 2011 were the most dominant and what contribution of the firms total business could be attributed directly to the channel. Companies were asked to only provide the channels that had contributed between 40-60 percent of their business or at least 60 percent of the firms total business in this period.
The results show that of the companies that used tied agents, 3 of them representing 50 percent of the firms, had this channel contributing at least 60 percent of their total business and 2 indicated this channel had contributed between 40 – 60 percent of the firms’ total business over this period. The results also showed that 60% of the firms that made use of the corporate advisors channel had this channel contributing at least 60% of the firm’s sales.

4.8 Dissemination of Information

In this section companies were asked to select the information mediums they used to inform potential clients about their products.

![Client Contact Channels](image)

**Figure 4: Means of reaching potential clients**

Figure 4 shows the percentage of respondents who indicated they used a particular medium of communication to reach potential clients. The results show that most of the firms used a mixture of the available modes of communication to reach their clients. 64 percent used print media while another 64 percent of respondents made use of pamphlets.
and fliers as an advertising medium. 55 percent of respondents indicated they used e-marketing as a tool to reach clients. 27 percent of the firms surveyed indicated they used road shows to reach potential clients.

4.9 Summary of Factors Affecting the Growth of CIS in Kenya

In this section respondents were asked to rank the factors affecting the implementation of growth strategies by CIS firms in Kenya in order of impact. A list of 7 factors was provided and respondents asked to rank these using a scale of 1 to 7 where 1 was very important and 7 least important.

Table 13: Summary of Factors affecting the growth of CIS in Kenya

<table>
<thead>
<tr>
<th>Summary of Factors</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>7</td>
</tr>
<tr>
<td>Management Fees</td>
<td>5</td>
</tr>
<tr>
<td>Minimum Investment Amount</td>
<td>1</td>
</tr>
<tr>
<td>Political and Social Conditions</td>
<td>3</td>
</tr>
<tr>
<td>Economic Conditions</td>
<td>1</td>
</tr>
<tr>
<td>Distribution Network</td>
<td>2</td>
</tr>
<tr>
<td>Lack of awareness</td>
<td>1</td>
</tr>
</tbody>
</table>

The results show that most respondents identified the minimum investment amounts, economic conditions and lack of awareness as the most significant factors affecting the growth of the CIS in Kenya as evidenced by the modes of 1.
Distribution networks and political & social conditions were also identified as relatively significant factors affecting the growth of CIS in Kenya as evidenced by the modes of 2 and 3 respectively. This indicates that CIS growth has significantly been impacted by economic conditions that have made minimum investment amounts charged by companies unaffordable to most Kenyans. Improved awareness and increasing points of contact with clients by improving distribution networks should help companies more effectively execute their growth strategies.

**Discussion**

Firms develop strategies with an aim of finding a strategic fit by identifying opportunities in the environment and adapting its resources and competencies to exploit the opportunities. From the findings of this study, collective investment firms in Kenya need to develop strategies that will exploit available opportunities to enable them grow.

The collective investment firms need to move away from focusing on cost cutting mode to revenue growth strategies because firms that do not attempt to grow will not merely stand still but will stagnate and eventually die. Firms can opt to acquire existing business within the industry due to the advantages this bring such as the speed with which it allows the company to enter the new product or market areas.

Strategy implementation is harder than its formulation. Barriers to effective strategy implementation result from changes in a complex environment while others stem from internal constraints. CIS firms need to develop effective ways to overcome these challenges in order for them to effectively implement their growth strategies.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of findings and conclusions drawn from the study. Limitations of the study and recommendations for further research are addressed.

5.2 Summary and Conclusions

The objective of this study was to determine the challenges affecting the implementation of growth strategies of firms in the unit trust industry in Kenya. From the general findings the CIS industry is a relatively young industry with only 45 percent of firms having been in operation for at least 8 years. 36 percent of firms have been in operation for a period of 4 to 7 years while 18 percent of firms have been in operation for a period of 1 to 3 years.

Most clients invest in Collective Investment Schemes for expert advice, safety of investment, need for higher returns and investments that offer liquidity. Companies need to tailor their products to meet these needs in order to remain competitive.

Driven by the need to offer clients a wide array of choices to meet their investment objectives most firms offer Equity and Money Market Funds. Firms need to differentiate their products as they all seem to offer similar solutions to gain market share. Most firms are confident that the funds offered are able to meet their client’s objectives; however the funds on offer do not cover the entire universe of products that are attractive to clients. Investments in Real Estate and Sharia compliant funds would enable the firms reach a
wider client base and give the firms a competitive edge. Direct investment in the stock market and investment in government securities by potential clients are the biggest competition to the CIS industry. There is a need for the industry through the Association of Collective Investment Schemes to collectively engage in investor education and awareness campaigns to enlighten consumers on opportunities available via CIS products.

Past performance, Business potential and licence requirements are some of the significant factors that impact entry of new entrants and creation of new funds in the CIS industry. Availability of securities due to markets not being fully developed and scarcity of skilled human resources also impacted to a large extent.

Kenyans would rather save than invest and this is mostly due to ignorance on the CIS opportunities available. There is need to create awareness so that the public is enlightened of the existence of this opportunities. Capital preservation of funds invested would help increase the penetration of CIS in Kenya. Potential clients also prefer to save as opposed to investing as savings do not expose them to market fluctuations and thus avoid the risks that are associated with investing. The minimum investment amount on CIS products is also a prohibiting factor to a large number of potential clients. Companies should consider lowering this to affordable levels.

Lack of availability of information on products, impact of economic conditions on disposable incomes and poor investment returns are also significant hindrances on the uptake of CIS products in Kenya. CIS products are also not easily accessible. Companies need to make more use of TV advertisement, Social Media and road shows amongst
other innovative advertising mediums to create awareness of the products on offer and where these can be accessed. The industry relies on just a few traditional distribution channels notably the tied sales force, independent sales agents and corporate advisors to bring in new business. Companies should consider employing innovative and cost effective distribution channels e. g mobile distribution to reach wider clientele.

The laws and regulations governing CIS afford a reasonable degree of protection to investors through provisions regarding separation of assets from management, the oversight function, ensuring professional management of the funds, diversification of investments and full disclosure. The public is however not confident that they are adequately protected. There is need for the regulator to enlighten the general public of its role and the protection mechanisms that are in place.

In conclusion Minimum investment amounts, economic conditions and lack of awareness are the most significant factors affecting the growth of CIS in Kenya followed closely by Distribution network and political and social conditions. Taxation is the least significant factor. Firms that will manage to address these challenges will be able to execute their growth strategies.

5.3. Recommendations

The recommendations are based on the findings of challenges of implementing Growth Strategies of firms in the Unit Trust Industry in Kenya. It mainly touches on ways that the Collective Investment Schemes can adopt to enable them to grow.
Collective Investment firms should tailor make their products to meet the needs of clients as most clients seek the firms for expert advice on investment, safety and need for higher returns. Firms should consider investing in real estate and Sharia compliant funds in order to give clients a wide variety of funds to choose from. Firms should also consider lowering the Minimum Investment Amounts of CIS products since the amounts required are not affordable to most Kenyans.

The Collective Investment Schemes Industry and the Capital Market Authority should collectively engage in investor education in order to educate the public and create awareness on the opportunities available via the CIS products. Firms should consider using TV, Social Media and road shows amongst other innovative advertising mediums to create awareness of products on offer and where they can be accessed. Firms should also consider employing other distribution channels so as to reach a wider clientele.

The Capital Market Authority as the Industry regulator needs to enlighten the public on the measures it put in place to enhance investor protection since the public is not confident that they are adequately protected.

5.4 Limitations of the Study

Time constraint was one of the limitations encountered while carrying out the study. It was therefore not possible to get in-depth information on all factors as one on one interviews could not be conducted with the respondents to get a better understanding of their views. Another limitation was unavailability of some of the respondents even after several follow ups; since the industry is small it would have been good to get the views of the industry as a whole.
An additional limitation is that the study only focused on industry participants thus is a one-sided account of the factors. It would be useful to get additional insights from clients, industry competitors and the regulator.

5.5 Suggestions for Further Studies

This research was based on firms that offer CIS products in Kenya. A study targeting client’s industry competitors and the regulator should be conducted to compare their views with those of the industry participants with the aim of understanding why the public is not taking up unit trust products.

Research companies should be encouraged to conduct a formal research on all the industry players as this will lead to accurate and balanced information that could be useful in policy making.

Further, the industry players should fully utilize the association as a lobbying organ to help create awareness in Kenya on the opportunities available in the CIS as well as provide information that would enable the public make informed decisions.

5.6 Implications on Policy, Theory and Practice

The Capital Markets Authority is a major stakeholder in the collective investment schemes industry in Kenya and plays a key role in regulation, policy formulation and implementation. The findings of this study are of importance to the regulator because they clearly outline the challenges impacting the growth of firms in this Industry. The regulator should create and implement policies that will address these challenges. The Capital Markets Authority needs to conduct Investor Education to the general public to
enhance awareness on the opportunities available in the Collective Investment Schemes as well as assure the public that the regulations that govern the CIS are effective enough to protect their Investments.

The findings of this study will enhance the existing knowledge in the area of Collective Investment Schemes in Kenya and will be used by other students and researchers investigating this Industry.

To the Collective Investment firms in Kenya, these study findings are of great importance because it will assist them in choosing the best strategies to deal with the factors affecting growth of the Industry in Kenya. Firms that are able to deal with these factors will gain a competitive edge and achieve the desired growth in Kenya and the region.
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APPENDICES

Appendix 1. Letter of Introduction

TO WHOM IT MAY CONCERN

The bearer of this letter ...........................................

Judith Ajeri ..........................................................

Registration No..................................................

N6117287212009 ..........................................

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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 your assistance to enable him/her collect data in your organization.

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.

IMMACULATE OMANGI
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE
Appendix 2. Questionnaire

CHALLENGES AFFECTING THE IMPLEMENTATION OF GROWTH STRATEGY OF FIRMS IN THE UNIT TRUST INDUSTRY IN KENYA

Instructions

Please give answers in the spaces provided and tick (✓) in the box that matches your response to the questions where applicable.

1. Companies Name: ______________________________

2. Department you work in the organization: ______________________________

3. Position in the Organization ______________________________

4. Number of years that your organization has been in operation (please tick the appropriate)
   □ Less than 1 Year    □ 1-3 year’s    □ 4-7 year’s    □ At least 8 years

5. Please list all the type(s) of CIS fund(s) that your firm offers or manages and write the year each of those funds were initiated and the current size of each of the funds

<table>
<thead>
<tr>
<th>Type of CIS Fund</th>
<th>Year started</th>
<th>Current Assets under Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>April 2005</td>
<td></td>
</tr>
</tbody>
</table>
6. In Your Opinion do the Funds offered by your organization cover the entire universe of securities potential CIS clients in Kenya would like to invest in:

□ Strongly Agree  □ Agree  □ Can’t tell  □ Disagree  □ Strongly Disagree

7. Which new funds do you feel if your company offered would enable it reach untapped segments of the market.

___________________________________________________
___________________________________________________
___________________________________________________

8. In your opinion which are competitors to the CIS industry

□ Banks,  □ Insurance Products  □ Property  □ Direct Investment in the stock market,  □ Government securities,  □ Any other please specify

9. Please indicate the extent to which you think the following factors have impacted growth in the number of market players and the number of new funds where 5=very great extent, 4=great extent, 3=moderate extent, 2=little extent, and 1 = no extent;

<table>
<thead>
<tr>
<th>Factor affecting set up of CIS and New Funds</th>
<th>Very great extent (5)</th>
<th>Great extent (4)</th>
<th>Moderate extent (3)</th>
<th>Little extent (2)</th>
<th>None (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum capital required to set up a CIS fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS trading license requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past Performance and Performance Persistence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scarcity of skilled human personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. Every investor has one or more objectives behind their investments in CIS. In your opinion how important are the factors below to your clients:

<table>
<thead>
<tr>
<th>Expertise</th>
<th>Very Important</th>
<th>Relatively Important</th>
<th>Important</th>
<th>Less Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. On a scale of 1 to 5, where 1 means strongly disagree and 5 means you strongly agree how you would rate your company’s current products in meeting these objectives:

| 1 | 2 | 3 | 4 | 5 |

12. Please indicate the extent to which you think the following factors have impacted the uptake of CIS products by Kenyans where 5=very great extent, 4=great extent, 3=moderate extent, 2=little extent, and 1 = no extent;
<table>
<thead>
<tr>
<th>Factor affecting uptake of CIS products by Kenyans</th>
<th>Very great extent (5)</th>
<th>Great extent (4)</th>
<th>Moderate extent (3)</th>
<th>Little extent (2)</th>
<th>None (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Investment amount required to open a CIS account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of tax Benefits on CIS funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertainty around With Holding Tax Issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees charged on CIS investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of economic conditions on disposable income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment returns on CIS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complexity of CIS products and processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution channels employed by CIS providers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of information and investor knowledge on CIS products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convenience in accessing CIS services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. What is the lowest amount a new Investor can pay to access a CIS product in your organization

- □ Less than KES 1,000  □ KES 1,001 –KES 4,999  □ KES 5,000- KES 9,999
- □ KES 5,000- KES 9,999  □ KES 10,001 –KES 49,999 □ At least KES 50,000

14. In your opinion, is the current minimum amount required to open a CIS account in your organization affordable to all potential investors who would like to invest in CIS?

- □ Yes  □ No
15. It has been said that Kenyans would rather save than invest. How true do you think this statement is?

□ Strongly Agree  □ Agree  □ Can’t tell  □ Disagree  □ Strongly Disagree

If you agree, to what extent do you think this has impacted the growth of CIS industry in Kenya

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

16. In your view is the fund management fee charged by your organization to provide CIS services to your clients sufficient to cover the necessary operating expenses of your company?

□ Yes  □ No

Please explain your answer

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

17. The Capital Markets Authority (CMA) is the regulatory body responsible for the development of the capital markets industry in Kenya including the Unit Trust Industry. One of the primary objectives of the CMA is investor protection. Do you think the current unit trust regulations are adequate enough to guarantee investor protection?

□ Strongly Agree  □ Agree  □ Can’t tell  □ Disagree  □ Strongly Disagree

18. The Capital Markets Authority is also in charge of the regulation of service providers to the Unit Trust Industry. Do you think the requirements for the approval of funds, fund management companies, trustees and other service providers are adequate to ensure that investors are protected?

□ Strongly Agree  □ Agree  □ Can’t tell  □ Disagree  □ Strongly Disagree
19. In your opinion do you think the public is confident that the CIS regulatory framework can ensure their protection?

☐ Strongly Agree  ☐ Agree  ☐ Can’t tell  ☐ Disagree  ☐ Strongly Disagree

What can be done to improve this confidence?

________________________________________________________________________
________________________________________________________________________

20. Which distribution channels does your company employ to reach new clients

☐ Tied Sales Agents

☐ Independent Sales Agents

☐ Brokers

☐ Corporate Advisors (Salaried Employees)

☐ Direct Marketing (Internet)

☐ Other (Please specify)

21. Based on your answers above, which channel over the periods below have you predominantly used and how much of your organization's total business would you attribute directly to have been received through this channel in the period:

<table>
<thead>
<tr>
<th>Channel</th>
<th>Year 2003-2005</th>
<th>Year 2006-2008</th>
<th>Year 2009-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 40%-60%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 60%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. How do you inform potential clients about your products? Is it through?
<table>
<thead>
<tr>
<th>Source</th>
<th>Tick</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print Media Advertisements</td>
<td></td>
</tr>
<tr>
<td>Television advertisements</td>
<td></td>
</tr>
<tr>
<td>Pamphlets/Fliers</td>
<td></td>
</tr>
<tr>
<td>Road shows</td>
<td></td>
</tr>
<tr>
<td>E-marketing</td>
<td></td>
</tr>
<tr>
<td>Other(Please specify)</td>
<td></td>
</tr>
</tbody>
</table>

23. Below are some factors that affect the growth of CIS in Kenya. Please rank them in the order of importance using a scale of 1 - 7 where 1 is very important and 7 is least important.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td></td>
</tr>
<tr>
<td>Management Fees</td>
<td></td>
</tr>
<tr>
<td>Minimum Investment Amount</td>
<td></td>
</tr>
<tr>
<td>Political and Social Conditions</td>
<td></td>
</tr>
<tr>
<td>Economic Conditions</td>
<td></td>
</tr>
<tr>
<td>Distribution Network</td>
<td></td>
</tr>
<tr>
<td>Lack of Awareness</td>
<td></td>
</tr>
</tbody>
</table>

Thank You
Appendix 3. List of Collective Investment Firms in Kenya

1. Old Mutual Investment Services
2. Amana Capital
3. Dyer & Blair Investment Bank
4. Commercial Bank of Africa
5. British American Asset Managers
6. Stanbic Investment Management Services
7. CIC Asset Management Services Limited
8. ICEA LION Asset Management
9. Zimele Asset Management
10. Suntra Investment Management
11. Standard Investment Bank
12. Madison Asset Management
13. African Alliance Unit Trust Schemes

Source: http://www.cma.or.ke: 2012
Appendix 4. Letter of Correction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
PROPOSAL CORRECTION FORM

Student Name: JUDITH NSERI
Registration Number: D61/72872/2009
Department: BUSINESS ADMINISTRATION
Specialization: STRATEGIC MANAGEMENT

Title of Project Proposal: CHALLENGES OF IMPLEMENTING GROWTH STRATEGIES OF FIRMS IN THE UNIT TRUST INDUSTRY IN KENYA

The student has done all the corrections as suggested during the Proposal Presentation and can now proceed to collect data.

Name of Supervisor: DR. ZB AMINO

Signature: [Signature]
Date: [Date]