

**APPLICATION OF BALANCED SCORECARD AS A TOOL FOR
STRATEGY EVALUATION AND CONTROL BY
PHARMACEUTICAL MANUFACTURING FIRMS IN KENYA**

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DECLARATION

This research project is my original work and has never been presented in any other university or college for a degree or any other award.

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DEDICATION

I dedicate this project to my dear mother, the late Mrs. Mary Njango Wanyutu who passed on during the process of the data collection for this project. Your selfless sacrifice throughout your entire life saw me acquire a university degree which became the platform through which this master's degree became possible. May the Lord rest her soul in eternal peace.

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ABBREVIATIONS AND ACRONYMS

AIDS	- Acquired Immunodeficiency Syndrome
BE	- Bioequivalence studies
BSC	- The Balanced Scorecard
COMESA	- Common Market for Eastern and Southern Africa
GDP	- Gross domestic product
GSK	- GlaxoSmithKline
HIV	- Human Immunodeficiency Virus
IDF	- Import Declaration Fees
KEMSA	- Kenya Medical Supplies agency
MNCs	- Multinational companies
MOH	- Ministry of Health
OTC	- over the counter
PPB	- Pharmacy and Poisons Board of Kenya
RBV	- Resource Based View theory
R&D	- Research and development
SCA	- Sustainable competitive advantage
SWOT	- Strengths, Weaknesses, Opportunities and Threats
WHO	- World health organization
VAT	- Value added tax

ABSTRACT

The Balanced Scorecard (BSC) has evolved from an important tool used to measure the performance of an organization to a strategic performance management framework that allows organizations to manage and measure the delivery of their strategies. In order to determine the effects of strategic management elements on business performance, it is important to carry out evaluation and control on such elements. One cannot control what cannot be measured hence these elements need to be measured. The BSC has evolved into a model that aids organizations in strategy evaluation by harnessing its multiple benefits. The pharmaceutical manufacturing industry in Kenya is operating in a very competitive environment and as such it is important for these firms to apply strategies that will enable them to gain SCA. The research question in this project was to find out to what extent the Pharmaceutical Manufacturing firms in Kenya applies BSC in strategy evaluation and control of strategy. The research was a cross sectional study that aimed to carry out a census of all the nineteen pharmaceutical manufacturing companies registered by PPB. The questionnaire was directed at one senior top level manager, hence the study aimed at getting nineteen respondents out of which fourteen responded. The method of application of the questionnaire was self-administered and was distributed by drop and pick method. Data analysis for the data from the closed ended questions, that is quantitative in nature, was done by use of descriptive statistics. Data obtained from the open ended questions contained qualitative data, same to the secondary data that was reviewed. This qualitative data was analyzed by content analysis. From the findings of the study, it can be concluded that Pharmaceutical Manufacturing firms in Kenya have not fully embraced balanced scorecard as strategy evaluation and control tool, despite the fact that it has effects on their strategy. The study also found that the financial and customer perspectives of BSC were rated as evaluated to a great extent while the innovation and learning and internal business processes perspectives were rated to a moderate extent. Based on the study findings, it is recommended that employees should be involved in the whole process of evaluation of the balanced scorecard. Training should be organized for staff so that they learn more about the concept and fully buy in for the Pharmaceutical Manufacturing firms in Kenya to achieve the full benefits of the balanced scorecard. Effective and open communication with employees on the purpose and use of balanced scorecard as a tool for strategy evaluation and control should be incorporated. Communicating with the employees in the right way will help them understand balanced scorecard and how they can use it to improve their performance and more so boost their strategy. This study focused on the assessment of the effects of balanced scorecard in the evaluation and control of the strategies at Pharmaceutical Manufacturing firms in Kenya, it is therefore recommended that similar research could be replicated in other sectors and the results be compared so as to establish whether there is consistency on the effects of balanced scorecard in the evaluation and control of their strategies.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Balanced Scorecard (BSC) has evolved from an important tool used to measure the performance of an organization to a strategic performance management framework that allows organizations to manage and measure the delivery of their strategy (Kaplan & Norton, 2001). For an organization to maintain sustainability, it is necessary to have proper strategic evaluation and control measures in place in order to continually match the firm's capabilities with the dynamic external environment. BSC as a method for strategy evaluation and control links operational and strategic control. It enables companies to clarify their strategies, translate them into action and provide feedback as to whether strategy is creating value.

The need for BSC arose from the view that performance yardstick should be measured from two different types of performances; namely the financial performance and the strategic performance. Good strategic performance outcomes indicate a strengthening of the company's competitive advantage, market standing and future business prospects. Improved strategic performance fosters better financial performance. Regarding strategic outcomes, Thompson, Strickland and Gamble (2007) summarizes that "a company that pursues and achieves strategic outcomes that boosts its competitiveness and strength in the market place is in much better position to improve its financial position."

The pharmaceutical manufacturing firms in Kenya operate under a very competitive environment hence the need to apply proper strategic management tools to enhance their competitive advantage. Strategic evaluation and control is the last phase in the process of strategic management. By application of BSC as a tool for evaluation and control, great benefits can be harnessed by these firms. This will in turn translate into sustainable competitive advantage of these firms. This study aims to determine the application of balanced scorecard approach as a tool for strategy evaluation and control by these firms and how they evaluate and control the four perspectives of the Balanced Scorecard namely; financial, customer, growth and learning and internal business process. The study will aim to contribute to understanding the application of BSC in these firms and also establish the benefits to those firms that are already using the tool.

1.1.1 Concept of Strategy

Strategy, being a multi-dimensional concept has over the years advanced different definitions, views and perspectives from different authors and has found application in all fields of study and life. The concept of strategy in business can be viewed as the bridge that connects the policies and tactics which together forms the means through which the ends are achieved. Strategy therefore refers to how well the ends sought are achieved. It defines an organizations' purpose which includes the goals, objectives and priorities. It aims at positioning a firm in its environment through the SWOT analysis which involves evaluating the Strengths, Weaknesses, Opportunities and Threats of the organization (Pearce & Robinson, 2011). According to Thompson et al. (2007) strategy is an effectively communicated vision and a valuable management tool for enlisting the

commitment of company personnel to actions that get the company moving in the intended direction. They further state that strategic management is an ongoing process in which nothing is final and all prior actions and decisions are subject to future modification.

Strategy is viewed by Jauch and Gueck (1988) as the framework of choices that helps an organization to respond appropriately to environmental requirements to achieve success. Strategy is what defines an organization in terms of its nature, direction and future (Johnson & Scholes, 1993). Strategy is also viewed in different perspectives; referred to as strategy lenses, namely design, experience and ideas (Johnson, Scholes & Whittington, 2002). Strategy as a design whereby strategy is seen as a result of systematic rational analysis and choice, a forward plan that comes before the event it governs. Strategy as experience concerns the long term direction of an organization which develops in an adaptive fashion from existing strategy. Strategy as ideas views strategy as the emergence of innovation and order from the ideas existing around the organization.

Strategy, according to Mintzberg (1987) can be viewed from different approaches. These are namely strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan means planned in advance of the actions it governs and specifies an intended course of actions. Strategy as a ploy means that aim is to outsmart a competitor's threat. Strategy as a pattern implies emergent strategy that develops after the events it governs. Strategy as a position indicates how the organization was located in its environment with a view of maintaining a competitive advantage. Strategy as a perspective shows how an

organization perceives the outside world and gives it an identity. Lambert and Knemeyer (2004) stated that strategies are developed by managers to serve as a guide in how they will conduct businesses to achieve the organizational objectives. The process of strategic management mainly involves three phases; namely the formulation phase, the implementation phase and the evaluation and control phase. These three should be looked at as three continuous phases that are interlinked; and not as three separate steps in the process.

1.1.2 Strategy Evaluation and Control

Strategic evaluation and control is the management's efforts to track a strategy as it is being implemented, detect problems or changes in its underlying premises, establish whether they are still valid and make necessary adjustments (Pearce, Robinson & Mittal, 2010). Strategy evaluation and control, which is the final stage in strategic management, involves getting information on whether the strategies are performing as per the plans. This will involve reviewing the external and internal factors which formed the basis of the current strategies in view of the current performance. All strategies are subject to future modification because internal and external factors are constantly changing. In this stage managers determine whether the chosen strategy is achieving the organizations objective.

The main steps involved in evaluation include first determining what to measure, establishing standards of measurement then measuring the actual performance. External and internal factors that form the basis for current strategies are reviewed. Performance is

compared to standards and variance noted. If performance is not as per standard, then corrective action is taken. Characteristics of a good evaluation system are that it should be economical, information timely, meaningful and relating to the objectives and should provide a picture of what is happening. The test of a useful evaluation system is its usefulness and not its complexity.

Controlling is the action taken to correct the variance between actual results and set standards. It can focus on three main issues depending on the stage at which it is exercised; feed forward control involves the control of inputs that are required in the action; concurrent steering or real-time control involves control at different stages of action process and feedback control involves post action control based on feedback from the completed action. Managers undertake the control function to ensure that actual results conform to plan.

Evaluation and control is vital to an organizations well being since it helps avoid erroneous strategies that can have severe impact to the organization. Proper evaluation alerts management to problems in a timely manner before a situation becomes critical. It pinpoints the strengths and weaknesses on which useful control strategy must focus. This ensures that strategy does not become obsolete but instead will resonate with the environment which is dynamic. Thus evaluation should not only look at formulated strategies, but should also address the issues that are emerging as the implementation takes place. This is what is referred to as emergent strategies.

1.1.3 Balanced Scorecard (BSC) and its Application

The Concept of BSC was advanced by Robert S. Kaplan and David P. Norton in 1992. The BSC aimed at evaluating four perspectives that include Financial, Customer, Internal business process and Learning and growth. By going beyond the traditional measures of financial performance, the BSC concept revolutionized the conventional thinking about performance metrics (Kaplan & Norton, 1996). The financial perspective aims to answer the question; “to succeed financially; how should we appear to our shareholders?” The customer perspective aims to look at how the customer sees the firm; the internal business process perspective aims to look at which processes the firm should excel in and finally the learning and growth perspective looks at how the firm sustains its ability to change and how to improve.

For the BSC to be put into practice, it relies on four processes namely; Translating the vision, Communicating and linking, Business planning and Feedback and learning. Translating the vision involves clarifying the vision and gaining consensus. Communicating and linking involves setting goals, educating and linking rewards to performance measures. Business planning is about looking at targets, aligning strategic objectives and establishing milestones. Feedback and learning articulates the shared vision, supplies strategic feedback and facilitates review and learning (Kaplan & Norton, 1992). The company’s ability to exploit and mobilize its intangible resources as stated by Kaplan and Norton (1996), has gained importance than just managing tangible resources. The challenge with BSC is to determine the most relevant information to include. BSC aims to communicate strategic intent throughout the organization and tracks performance

against established strategic and operational goals. It translates an organization's strategic themes and objectives and aligns strategic goals with operational activity.

BSC being multidimensional incorporates financial and non- financial measures enabling both reporting and predictive value. Thus by looking at three non financial areas, the BSC augmented the traditional financial measures. This gives a broader perspective of the company's activities and health and also serves as an organizing framework. It allows the short, medium and long term objectives to be determined at a glance. BSC is applied in operational control and also strategic control. In operational control, it enables managers to monitor and control the delivery of a pre-defined set of activities to achieve "best practice" performance levels. In strategic control it enables managers to monitor activities required for achievement of strategy. It enables support in decision making regarding interventions needed to ensure that strategic goals are achieved.

However, BSC is not without its challenges, the main one being the need to carefully look through the goals and determine which information metrics are needed. This requires managerial meetings to plan out which set of measures will relate to the performance of the organization. If information does not match to these needs, it will end up being meaningless. Also the four areas of BSC still do not completely give the whole picture of the organization and further perspectives still need to be employed.

1.1.4 Pharmaceutical Industry in Kenya

Pharmaceutical industry in Kenya involves many different stakeholders among them; manufacturers, distributors, wholesalers and retailers. The manufacturers are mainly

involved with manufacture of the pharmaceuticals, though some also do marketing and distribution. The distributors purchase the products in large quantities and distribute to the retailers who are the pharmacies and chemists. There are two major categories of pharmaceutical firms that can be identified in Kenya; those that are subsidiaries of foreign-based multinational pharmaceutical corporations, e.g. GlaxoSmithKline (GSK) and those that are locally incorporated and owned by Kenyan nationals such as Cosmos ltd and Regal pharmaceuticals ltd.

The pharmaceutical sector can be looked at as a subset of the health sector in that in 2010, the total health expenditure was 4.5% of the gross domestic product (GDP) while the pharmaceutical expenditure was 1.65% of the same thus translating to 36.65% of the total health expenditure. As such the pharmaceutical industry has a great role to play in the health care provision. According to Kenya Pharma Expo 2014, “Kenya is currently the largest producer of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50% of the regions’ market.” Due to the rapid growth of the pharmaceutical market in the region, there’s need for increased production and export.

The demand for medicines in the domestic market is driven by a number of related factors; the first being disease incidence and product class, major diseases being HIV/AIDS, malaria and tuberculosis. Second being procurement whereby the government procures drugs through KEMSA (Kenya Medical Supplies agency). The third being exports, whereby exports within COMESA region grew by 96% during the

years 2004-2008. However, there has been a significant growing trade imbalance in pharmaceuticals with imports registering four times the value of exports during the same period. Kenya exports its pharmaceutical and medicinal products to Tanzania, Uganda, Rwanda, Burundi, Democratic Republic of Congo, Ethiopia, Malawi, and the Comoros, among others.

Sales of over-the-counter (OTC) and prescription medicine increased by 22.9% to 17.7 billion Kenyan shillings in 2008 compared to the previous year (Kenya Pharmaceutical Health Report 2010). By 2014 the Kenyan drug market is expected to hit a value of 33.5 billion Kenya shillings equating to a compound annual growth rate of 13.53% in local currency terms. Pharmacy and Poisons Act, Cap 244 is the main legislation that regulates pharmacy profession, its main purpose being control of manufacturing, trade distribution and sale of pharmaceutical products. The regulation of all the pharmaceutical firms is done by Pharmacy and Poisons Board of Kenya (PPB), which operates as a department of Ministry of Health (MOH).

1.1.5 Pharmaceutical Manufacturing Firms in Kenya

There are nineteen registered pharmaceutical manufacturers in Kenya (PPB, 2014). They are mainly local with only one multinational company, GlaxoSmithKline (GSK). Most of these firms are located within Nairobi and its environs. Collectively they employ over 2000 people, about 65% working in direct production. The industry's capability mainly involves compounding and packaging medicines, repacking formulated drugs and process bulk drugs into doses using imported pharmaceutically active ingredients and excipients.

Excipients are the non active additives used together with the active ingredients to form the complete product. According to Kenya's Pharmaceutical Industry Report (2005), the industry imports over 95% of raw materials while only 5% of the total industry requirement is available locally. Most of these manufacturers aim to produce affordable quality human and veterinary pharmaceuticals.

The industry is not capable of undertaking research and development (R&D) for discovery of new drug substances namely pharmaceutically active ingredients (API's). Also these firms are not able to carry out bioequivalence studies (BE) that are mandatory by world health organization (WHO) when one introduces new drug substances (Kenya Pharmaceutical country profile 2010).

Due to the government's efforts to promote local and foreign investment in the sector, the number of manufacturing and distribution companies continues to expand. The competitive environment in which they operate is mainly from two fronts; competition with each other and from imports mainly due to high price since most firms are small and do not have the capacity for large volumes. This translates to the locally manufactured products being more expensive than imports since the Kenyan firms lack the economies of scale. On the other hand, no duty or value added tax (VAT) is charged on imported pharmaceuticals. However, Import Declaration Fees (IDF) is levied and amount to indirect tax on pharmaceuticals. In 2010 the market share of pharmaceuticals produced by local manufacturers was 28%.

Local pharmaceutical companies share common characteristics; among them need for greater production efficiencies, shortage of qualified personnel; since most pharmacists lack the industrial orientation, production of common lines; mainly generics and low capacity utilization, among others.

1.2 Research Problem

Determination of the effects of strategic management elements on business performance is enabled through carrying out evaluation and control on such elements. One cannot control what cannot be measured hence these elements need to be measured. It is therefore crucial to identify which parts of the business can be planned for and managed in a strategic manner. The BSC has evolved into a model that aids organizations in strategy evaluation by harnessing its multiple benefits. The current research will aim to use the BSC model, as originally proposed by Kaplan and Norton, which has the four perspectives that can be used for strategy evaluation and control. Strategy relies on proper evaluation and control of these strategic elements since the firms are operating in a dynamic environment. Proper strategies will in turn translate into performance and growth.

Pharmaceutical manufacturers in Kenya are already operating in a very competitive environment. Locally manufactured pharmaceuticals face high competition due to two main facts; they have a limited range of diversity compared to products from multinational companies (MNCs), and MNCs have the capacity for mass production hence the benefits from economies of scale. The need to also supply quality

pharmaceuticals at a competitive rate cannot be underestimated. It is therefore of great importance that these firms employ measures that enable sustainable competitive advantage. Their success depends, among other factors, on how well their strategies enhance a strategic fit. Application of BSC can come a long way in helping achieve this.

Researchers and scholars have conducted several studies to establish various aspects related to the use of BSC in various stages of strategic management. Jordao and Norvas (2013) established that use of BSC provided an effective strategic process. Lin, Yu and Zhang (2014) investigated the impact of BSC application on hospital performance in China. Behrouzi, Shaharoun and Ma'ra (2014) established the importance of BSC application in strategic management practices in Australian health sector. Kinanu (2013) established that application of BSC in the performance of multinational corporations listed in Nairobi securities exchange assisted in measurement of the four BSC perspectives. Mwangi (2013) established that large Pharmaceutical firms in Kenya have adopted strategic management practices. Wanguku (2013) established that out of the international non-governmental organizations surveyed in his research, 34% applied BSC.

There is limited information regarding the application of BSC as a tool for strategy evaluation and control in the Pharmaceutical Manufacturing firms in Kenya. As such this study aims to fill this gap. The research question therefore is, to what extent do these Pharmaceutical Manufacturing firms apply BSC in strategy evaluation and control?

1.3 Research Objective

The objective of this study was to determine the extent of application of BSC by Pharmaceutical Manufacturing firms in Kenya in the evaluation and control of their strategies.

1.4 Value of the Study

The study will be of benefit to scholars and academicians in that it will serve to advance knowledge in the area of BSC as a tool in application of good strategic management practices. This study approach can be applied to similar firms under different settings and also to different firms under similar settings. It will also serve as a future reference to further studies as a source of critic or guidance. It will also raise a series of research questions and propose avenues for further research.

This study will be of value to the practitioners in enabling a better understanding of the BSC and how its approach can improve performance by proper evaluation and control of strategy. These practices will enable firm attain sustainable competitive advantage in the face of the competitive dynamic environments within which they operate. This enables the firms to attain a strategic fit and hence enhance the firm's performance.

The insights gained in this study will help Government policy makers to be in a more informed position to formulate better policies with regard to the pharmaceutical manufacturing industry. These can enable harnessing great benefits which includes employment, efficient productivity, health provision and contribution to the country's GDP, among others.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aims to provide a theoretical background of the study. It will also review the literature by various researchers and scholars regarding strategy evaluation and control, process of strategy evaluation and control and its importance in strategic management. This chapter also covers the various methods and tools that are used in strategy evaluation and control, among them BSC which is the highlight of the study. It will seek to emphasize the application of BSC as a method of strategy evaluation and control, its challenges and benefits.

2.2 Theoretical Foundation

This section aims to provide a background of some of the theories upon which the use of BSC in strategic evaluation and control can be better understood. Theories that were put to perspective are the Resource Based View theory (RBV) and the Dynamic Capability theory.

The RBV theory sees resources, both tangible and intangible, as a source of superior firm performance and a basis for competitive advantage. Penrose (1959) conceived the firm as an administrative organization and a collection of productive resources, both physical and human. The application of firm's tangible and intangible resources at its disposal forms the basis of its sustainable competitive advantage (SCA). Tangible resources are the physical aspects such as land, machinery and finance while intangible resources are the

non-physical assets such as knowledge, reputation, information etc. The resource based view of strategy aims to explain the distinctiveness of a firms capabilities that leads to its superior performance and SCA.

For the resource to contribute to SCA, it needs to have four main attributes namely; valuable, rare, in-imitable and non-substitutable. Employment and deployment of these resources matters as much as the resource itself. Hence competence refers to the effectiveness of the application of these resources in the firms' activities and processes. This theory recognizes the facts that, first, organizations are not identical, they have different capabilities and as such they are heterogeneous in nature. Secondly, the capabilities of one organization are difficult to be copied or obtained by another. Thirdly, an organization will try to achieve SCA by enhancing its capacities' that the rival firms do not have or have a difficulty in obtaining (Johnson, Scholes & Whittington, 2008). This enables achievement of strategic capabilities, which are the resources and capabilities needed to survive and prosper.

The Dynamic Capabilities theory is defined by Teece, Pisano and Shuen (1997) as the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments. Its aim is to identify firm's specific capabilities and how combinations of resources and competencies can be developed, deployed and protected. This approach stresses exploiting the internal and external specific competencies in order to address the dynamic environment. This theory brought into view areas that were originally conceived as outside the scope of strategic management.

These mainly include; human resources, organizational learning, manufacturing, product and process development, intellectual property, technology transfer and management of R&D, among others. Thus, dynamic theory is an integrative approach to understanding newer sources of SCA.

Dynamic capabilities theory attempts to deal with two key questions namely; how companies change their existing mental models and paradigms to adapt to radical discontinuous change and also how they can maintain threshold capacity standards and hence ensure competitive survival. In explain the terms ‘dynamic’ and ‘capabilities’ Teece et al (1997) summarizes the term ‘dynamic’ as referring to the capacity to renew competencies so as to achieve congruence with the changing business environment. The term ‘capabilities’ emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources and functional competencies to match the requirements of a changing environment. The main difference between the RBV and Dynamic Capabilities view is that the latter emphasizes on the issue of competitive survival rather than just SCA. There’s need to focus on the development of dynamic capabilities in the face of current business realities.

2.3 Strategy Evaluation and Control

Strategy in organizations involves the formulating, implementing, and then evaluating strategies. Strategy evaluation is a deliberate and systematic process. Executives need to reach a common understanding of the firm’s current position before charting new

strategies. According to Rumelt (1993), strategy can neither be formulated nor adjusted to changing circumstances without the process of strategy evaluation. Strategic evaluation and control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments.

The need for evaluation and control of strategies arises due to the fact that no matter how well a strategy is formulated, different strategies may emerge in the course of time. According to Mintzberg (1994) there are 'intended strategies', 'realized strategies' and 'emergent strategies'. Emergent strategy is a pattern of actions or behavior that becomes consistent over time and that was not intended in the original planning of strategy. Intended strategies are those that were originally planned for. Realized strategies are those that finally get to deliver the objectives of the firm.

2.3.1 Strategy Evaluation and Control Process

Evaluation and control of strategy involves three main steps; examining the underlying firm's strategy, comparing actual performance to plans and taking corrective action according to the variances noted. The evaluation is both qualitative and quantitative which enables an organization to adapt to changing environmental circumstances, a notion that Brown and Agrew (1982) referred to as 'corporate agility'. Strategy evaluation and control mainly takes two approaches; traditional and contemporary. Traditional approach is sequential whereby strategies are set, implemented and performance measured against the predetermined goals. The control is then done once the set measures do not match up to the performance. This is a feedback loop type of control.

The contemporary approach is based on continuous evaluation of internal and external environment, to identify trends and signals that point to a revision of the strategy. This necessitates looking at formulation, implementation and evaluation as being in a continual interactive relationship, and not a sequence.

Four criteria that can be applied in evaluating business strategy namely; consistency, consonance, feasibility and advantage, were advanced by Rumelt (1980; 1993). Consistency; the strategy must be consistent with the goals and policies. Consonance; strategy must present an adaptive response to both internal and external changes. Advantage; strategy must provide creation and/or maintenance of SCA. Feasibility; strategy should not overtax available resources or create unsolvable problems.

If a strategy does not fit into any of these four broad criteria, then there's a possibility it will not work. Various types of strategic controls; premise control, implementation control, strategic surveillance and special alert control have been advanced by Pearce and Robinson (2011). Premise control checks systematically and continually the premises upon which the strategy is based and whether they are still valid. Implementation control is designed to assess the strategy in light of the results associated with the actions involved in implementation. Strategic surveillance monitors a broad range of events inside and outside the firm that are likely to affect the course of its strategy. Special alert control is a rapid reconsideration of the strategy as a result of unexpected events.

Effective strategy evaluation and control is important in accomplishment of short and long-term objectives. It allows an organization to; maximize their internal strengths as they develop, to exploit external opportunities as they emerge, to recognize and defend against threats, and to deal with internal weaknesses before they become detrimental. It enables organizations to move forward with purpose and direction, continually evaluating and improving the firm's external and internal strategic position. Strategy evaluation allows organizations to make effective long term decisions, execute those decisions efficiently, and to take corrective actions as needed to ensure success thus enabling an organization to shape its own future. In today's competitive business environment, notes Huynh, Gong and Tran (2013b), it's important for organizations to implement strategic management tools in order to increase their competitiveness and develop more advantages.

2.3.2 Models/ Methods of Strategy Evaluation and Control

Evaluation and control can be done through application of various models or methods namely; BSC, Monitoring Financial Performance, Management by Objectives (MBO), Benchmarking, Contingency planning, Audits, and Performance Contracting, among others. Contingency plans are alternative plans that can be put to effect if certain key events do not occur as expected. To minimize the impact of potential threats, some firms develop these as part the strategy evaluation process. Alternative strategies not selected for implementation can serve as contingency plans in case the strategies selected do not work.

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and the established criteria and communicating the results to interested users” (American Accounting Association). It is a frequently used tool in strategy evaluation. Benchmarking is a method whereby performance metrics are compared to industry’s best practices from other companies. It determines who is the very best, who sets the standards and what those standards are. Various aspects are evaluated and this allows organizations to develop plans on how to improve or adapt specific best practices. MBO first outlined by Drucker (1954) in his book ‘The Practice of Management’ involves the management and employees understanding the firms’ objectives in order to achieve them.

2.4 BSC as a method of Strategy Evaluation and Control

The BSC is a model that can be applied to all the three main phases of strategic management. In this study we look at its use in evaluation and control. The model aims at making the measurement of business strategy more concrete and enables managers to think of what vision and strategy is all about, thus leading to achievement of the same. In BSC top level objectives are translated into operational objectives as they progress down the organization, and each manager develops measures that will help achieve the higher level objectives (Kaplan & Norton, 2001). The critical characteristics of the BSC are mainly; its focus on the organization’ strategy, the selection of a manageable data items to monitor, and the mix of financial and non-financial data items.

2.4.1 Use of BSC in Strategy Evaluation and Control

The formulation of the BSC framework starts by looking at the four perspectives as was originally advanced by Kaplan and Norton namely; financial, customers, internal business processes and innovation and growth (Kaplan & Norton, 1992). For BSC to be used in evaluation and control; it's important to set effective measurable data, expectations should be realistic, ensure that there's consistency in data and corrective intervention methods should be applicable. Developing the right metrics to translate the strategic objective is as important as defining the objectives themselves. Challenging, yet obtainable, targets for each metric need to be established in order to motivate each and every area to achieve excellent results. Strategic objectives that drive performance for the objectives are selected, periodic data collection done and reporting for the metrics and initiatives done accordingly.

The BSC enables the visual documentation of the links between the measures in a 'Strategy map' or 'Strategic Linkage Model' in which the cause- effect chain among the objectives of the strategy are linked (Kaplan & Norton, 2000). Kaplan and Norton argue that, strategy, being a set of hypothesis about cause and effect, can be expressed in a set of *if-then* statements. These statements help demonstrate how intangible assets, such as employees, get converted into tangible financial results. For example, an organization can be able to link improved profits from improved sales to the training of employees. Norreklit (2000) argues that the BSC is a strategic control framework that links together measurements in a causal chain that passes through the entire company. As such a properly structured BSC can make the relationships between the four perspectives

measurements more explicit, and thus the strategy more understandable to managers and employees.

2.4.2 Challenges of BSC in Strategy Evaluation and Control

Application of BSC does not come without its challenges as highlighted by Kaplan and Norton (1996). The biggest challenge is working out what is the most relevant information to include. Each firm should identify measures appropriate to its strategy and competitive position. The development process should focus on establishing consensus about the design within the development group. Communication of strategy, strategy maps, and scorecards needs to be emphasized and all involved need to be in continuous communication. Information on BSC metrics need to be reliable, on time and continuous.

Other challenges include; comprehensive understanding of the principles underlying the model, implanting the necessary changes and commitment towards the new philosophy. It's necessary to have the BSC designed by people who have knowledge in the organization and management responsibility since much of the benefit comes from the design process itself. The best designs are those developed by the people who will eventually use them.

2.4.3 Benefits of BSC in Strategy Evaluation and Control

In their book, “translating strategy into action: The Balanced scorecard” Kaplan and Norton (1996) argue that the real power of BSC occurs when it is transformed from a measurement system into a management system. It assists in identification of the most critical measures for monitoring and developing strategy. It is used by management to

align key management processes and systems to the strategy through; translating strategy into operational terms, align organization to the strategy, make strategy everyone everyday job, make strategy a continual process, and mobilize leadership for change (Kaplan & Norton, 2001).

Effective measurements must be an integral part of the management process, yet BSC, being a measurement system is also a management system that can motivate breakthrough improvements in critical areas such as, production process, customer service and market development (Kaplan & Norton, 1993). The BSC can be used by managers to keep track of the execution of activities by staff within their control and monitor the consequences arising from these actions. The BSC enables managers to understand many interrelationships leading to improved decision making and problem solving.

BSC provides measures that show what has already happened (financial measures) and operational measures that act as the drivers of future financial performance. Norreklit (2000) argues that the BSC is distinct from other strategic measurement system in that it is more than an *ad hoc* collection of financial and non- financial measures. By considering all the operational measures together, the BSC guards against sub optimization. Based on the evaluation of complete set of measures in the BSC, strategic managers are in a position to re-evaluate the company's missions and goals. Problems can be rectified and new opportunities exploited by changing the strategy. The BSC has been applied successfully to private sector companies, government agencies and non-profit organizations (Hanson, 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examines the research design and methodology that was used in the study. It covers the research design, study population, method of data collection and how the data was analyzed.

3.2 Research Design

The study was a cross sectional survey design in that data was collected at one specific point in time. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with regard to one or more variables (Mugenda & Mugenda, 2003). A survey research refers to a body of techniques for collecting data on characteristics, attitudes, thoughts, and behavior by obtaining responses from individuals to a set of prepared questions (Doyle, 2004).

3.3 Population of study

Population of interest comprised all the nineteen pharmaceutical manufacturers in Kenya as indicated in appendix I. The study was therefore a census and no sampling was done. Population refers to the total collection of elements about which the researcher makes some inferences (Cooper & Schindler, 2003).

3.4 Data Collection

The study used both primary data and secondary data. Primary data was collected by use of questionnaire containing both open-ended and close-ended questions. The

questionnaire was given to one of the senior top level manager, either the CEO's or Managing Directors since they are the ones involved with formulation of strategies in these companies. Hence the study aimed at getting nineteen respondents. The method of application of the questionnaire was self-administered and was distributed by drop and pick method.

3.5 Data Analysis

Data analysis for the data from the closed ended questions, that is quantitative in nature, was done by use of descriptive statistics. Descriptive statistics involves quantitatively describing the main features of a collection of information. Measures of central tendency such as median mean and mode was used. Measures of variability which include variances and standard deviations were applied as well as percentages and proportions. A descriptive study is concerned with determining the frequency with which something occurs without manipulating the variables (Bryman & Bell, 2011). Data obtained from the open ended questions contained qualitative data, same to the secondary data that was reviewed. This qualitative data was analyzed by content analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is a presentation of results and findings obtained from field responses and data, broken into three parts. The first section deals with the demographic information, while the second section presents findings of the analysis on BSC application. The third part consists of the discussions of the findings.

4.2 Demographic Results

Demographic information provides general information of the respondents in the study. The study sought to find out the demographic information of the respondents which included level of education, professional qualification, years worked in the pharmaceutical companies, age of respondent and years of operation of the company. The findings of the study are discussed in the subsections below.

4.2.1 Response Rate

From the data collected, out of the 19 questionnaires administered, 14 were filled and returned as presented in Table 4.1. This represented 73.6% response rate, which is considered satisfactory to make conclusions for the study. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This also correlates with Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertion; the response rate in this case was calculated to be 73.6% was very good.

This high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants and applied the drop and pick method where the questionnaires were picked at a later date to allow the respondents ample time to fill the questionnaires.

Table 4.1: Response Rate

	Frequency	Percentage
Returned Questionnaires	14	73.6%
Unreturned questionnaires	5	26.4%
Total	19	100%

Source Research data

4.2.2 Pilot Test Results

To establish validity, the research instrument was given to experts who were experienced to evaluate the relevance of each item in the instrument in relation to the objectives. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). Validity was determined by use of content validity index (CVI). CVI was obtained by adding up the items rated 3 and 4 by the experts and dividing this sum by the total number of items in the questionnaire. A CVI of 0.821 was obtained. Oso and Onen (2009), state that a validity coefficient of at least 0.70 is acceptable as a valid research hence the adoption of the research instrument as valid for this study.

The questionnaires used had Likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of

factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 4 = excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

4.2.3 Level of Education

The study found it of paramount importance to determine the respondents' level of education in order to ascertain if they were well equipped with the necessary knowledge and skills in their respective areas of specialization. From the study findings presented in Table 4.2 below, majority (71.4%) indicated that they had acquired a degree at the university, followed by 28.6% of the respondents who indicated that they had post graduate qualification. It however emerged that none had certificate and diploma qualification as their highest level of education since the study targeted the senior top level managers, that is either the CEO's or Managing Directors in the pharmaceutical manufacturing companies in Kenya. The findings therefore indicate that the respondents have the capacity and skills to give clear information on the extent of application of BSC in the pharmaceutical manufacturing firms.

Table 4.2: Education Level

Level of Education	Frequency	Percentage
Certificate	0	0%
Diploma	0	0%
Degree	10	71.4%
Post graduate	4	28.6%
Total	14	100%

Source Research data

4.2.4: Qualification of Respondents

The study sought to determine the qualification of the respondents that defines their designation in the company. The findings were presented in table 4.3 below.

Table 4.3: Qualification of Respondents

Designation	Frequency	Percentage
Accountant	3	21.4%
Quality control manager	2	14.3%
Human resource manager	1	7.2%
Managing Director	1	7.2%
Company pharmacist	7	50%
Total	14	100%

The findings in Table 4.3 above reveal that the designation of majority of the respondents were company pharmacist at 50%, the accountants at 21.4%; 14.3% were the quality

control managers while 7.2% of the respondents were both managing director and human resource manager. The study deduced that the respondents in the designated qualifications were knowledgeable and were in a position to respond effectively on the application of balance scorecard as a tool for strategy evaluation and control by pharmaceutical manufacturing firms.

4.2.5: Age of the Respondents

From the presentation in Table 4.4 below, the study noted that most of the respondents were between the ages of 41 to 45 years (64.29%) this carried a frequency of 9 respondents. This was closely followed by respondents who stated that they were between the ages of 36 to 40 years. This age bracket was noted to have a frequency of 14.29% and a frequency of 2 respondents. Next was the age bracket of ages between 31 to 35 years and it tied with respondents of the ages between 24 to 30 years and 46 and above years. They all had a similar frequency of 1 and therefore each carried approximately 7.14% of the total respondents. From the findings, it can be inferred that the respondents were old enough to provide reliable insights relevant to the study.

Table 4.4: Age of the Respondents

Age brackets	Frequency	Percentage
24 to 30 yrs	1	7.14%
31 to 35 yrs	1	7.14%
36 to 40 yrs	2	14.29%
41 to 45 yrs	9	64.29%
46 yrs and above	1	7.14%

Source Research data

4.2.6: Years Worked in the Pharmaceutical Firms

The study sought to determine the years worked in the firms for the respondents and the results are presented in Table 4.5 below. It was noted that majority of respondents in the study had worked in the pharmaceutical firms for five to ten years. This carried 64.29% of the total respondents and had a frequency of 9 respondents. Respondents who had worked in the pharmaceutical companies for less than five years followed closely next with a frequency of 3 respondents and approximately 21.42% of the total respondents. The least number of respondents were those who stated that they had worked in the pharmaceutical companies for more than 10 years. This group had a frequency of 2 respondents and carried 14.29%. The findings implies that the respondents were experienced enough to provide valuable responses concerning the extent of application of BSC by Pharmaceutical Manufacturing firms in Kenya in the evaluation and control of their strategies.

Table 4.5: Years Worked in the Pharmaceutical Firms

Years worked	Frequency	Percentage
Less than five years	3	21.42%
Five to ten years	9	64.29%
Above ten years	2	14.29%
Total	14	100%

Source Research data

4.2.7: Years the Company has been in Operation

The study sought to determine the number of years the company has been in operation.

The findings in Figure 4.1 below revealed that the majority of the companies had been in operation for above 10 years. This accounted for 71.4% of the respondents. The companies that have been in operation for five to ten years accounted for 21.4% while the companies that indicated that they had been in operation for less than 5 years accounted for 7.2%.

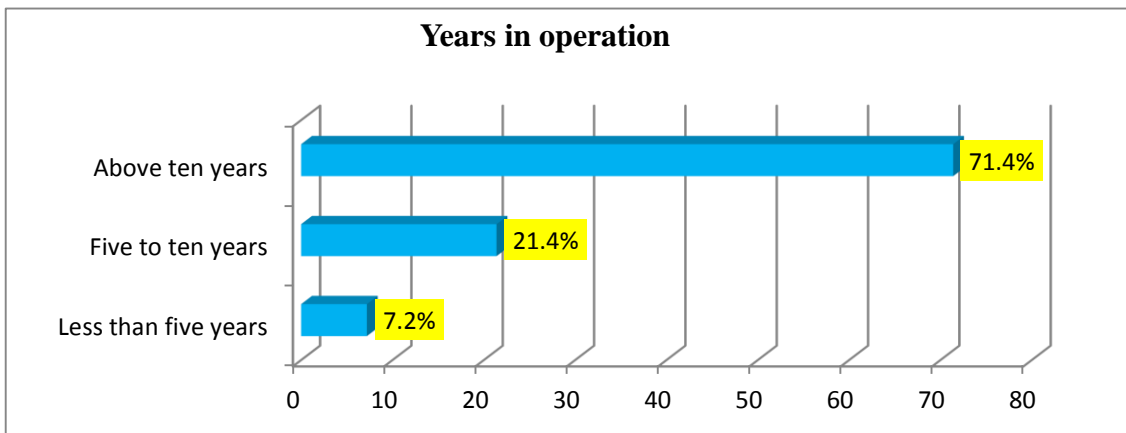


Figure 4.1: Years the Company has been in Operation

Source Research data

4.2.8 Number of Employees

The study sought to determine the number of employees the company have. The findings presented in Table 4.6 below revealed that the majority of the respondents indicated that their company has approximately 101 to 200 employees working in the organization. This accounted for 64.2 %. The respondents indicated that 7.1 % of the companies had employees above 500. The pharmaceutical companies that had 301 to 400 and 401 to 500 employees both accounted for 14.3 %. None of the companies had less than 100 employees.

Table 4.6: Number of Employees

Number of employees	Frequency	Percentage
Less than 100	0	0 %
101- 200	9	64.2 %
201-300	-	-
301-400	2	14.3%
401-500	2	14.3%
Above 500	1	7.1 %
Total	14	100%

Source Research data

4.3 Application of BSC

The study sought to determine the extent of strategy evaluation and control, extent of BSC parameter indicators, measures attributed to slow or successful application of BSC and also benefits, challenges and recommendations suggested by these companies. The extent to which the respondents agreed to the given statements were rated on a scale of 1 to 5 where 1 = no extent and 5 = very great extent.

4.3.1 BSC in Strategy Evaluation and Control

The response as presented in Table 4.7 below revealed that the formal documentation of vision and mission statements was rated to a moderate extent with a mean of 3.32 and a standard deviation of 0.0546. The respondents rated that the formulation of strategy involves top level, middle and operational level managers to a least extent with a mean of

2.81 and standard deviation of 0.1641. The response revealed that the respondents rated strategy evaluation and control is considered of great importance to the company to a moderate extent with a mean of 3.65 and standard deviation of 0.4541. The formal documentation of BSC in the firm was rated to a moderate extent with a mean of 3.74 and a standard deviation of 0.1534.

Table 4.7: BSC in Strategy Evaluation and Control

Parameter	Mean	Std. Dev.	Decision
There's formal documentation of vision and mission statements	3.32	.0546	Moderate extent
Formulation of strategy involves top level, middle and operational level managers	2.81	0.1641	Least extent
Strategy evaluation and control is considered of great importance to the company	3.65	0.4541	Moderate extent
There's formal documentation of Balanced Scorecard (BSC) in the firm	3.74	0.1534	Moderate extent

Source Research data

4.3.2 Review of BSC Policy/Documentation

The study sought to determine how often BSC policy/documentation were reviewed in the firm. The findings of the study as shown in Table 4.8 below revealed that the BSC policy/documentation in the firm was reviewed on an annual basis. This accounted for

57.1% of the total respondents. BSC policy review done on quarterly basis was indicated by 21.4% of the respondents. 14.3% of the respondents indicated that they review BSC policies in more than two years while 7.1% indicated that the BSC policy in the company was never reviewed.

Table 4.8: Review of BSC Policy/Documentation

BSC policy/documentation reviewed	Frequency	Percentage
Never	1	7.1%
Quarterly	3	21.4%
Semiannually	-	-
Annually	8	57.1%
Biannually	-	-
More than 2 years	2	14.3%
Total	14	100%

Source Research data

4.3.3: Indicators of BSC Application

The study sought to find out the extent to which the indicators of BSC are applicable to the company. The findings were rated on a scale of 1 to 5 where 1= no extent, 2= least extent, 3= moderate extent, 4= great extent, 5= very great extent. The findings as presented in Table 4.9 below revealed the rating of parameters used in Balanced Score Card as follows:

Table 4.9: Indicators of BSC Application

PARAMETERS	Mean	SD	Decision
To what extent does your company apply BSC in evaluation of strategy	4.81	1.26	Great extent
To what extent does strategy evaluation contribute to firm performance	3.52	1.22	Moderate extent
How often do you use BSC as part of your reporting	3.43	1.16	Moderate extent
Are you satisfied with the way you measure the performance of your organization	4.92	1.11	Great extent
FINANCIAL PERSPECTIVE PARAMETERS			
To what extent do you measure sales growth	4.27	1.29	Great extent
To what extent do you measure Inventory turnover	4.16	1.23	Great extent
To what extent do you measure Return on equity	3.16	1.22	Moderate extent
To what extent do you measure cost efficiency	4.46	1.11	Great extent
Overall to what extent do you think your company evaluates the financial perspective?	4.17	1.27	Great extent

CUSTOMER PERSPECTIVE			
To what extent do you measure customer loyalty/ retention rate	4.61	1.22	Great extent
To what extent do you measure customer satisfaction	4.73	1.25	Great extent
To what extent do you measure Sales from new accounts	4.35	0.72	Great extent
To what extent do you evaluate your product pricing	4.97	1.24	Very great extent
Overall to what extent do you think your company evaluates the customer perspective?	4.68	1.26	Great extent
INTERNAL BUSINESS PERSPECTIVE			
To what extent do you measure percent of revenue from new products	4.91	0.24	Great extent
Accuracy in delivery orders	4.32	1.25	Great extent
Broken/spoilt/expired products	3.24	1.21	Moderate extent
To what extent do you measure on-time deliveries	3.69	1.32	Moderate extent
Overall to what extent do you think your company evaluates the internal business perspective?	3.54	1.28	Moderate extent

INNOVATION AND LEARNING PERSPECTIVE			
To what extent do you measure employee training days	4.18	1.21	Great extent
Upgrading of employee competencies	3.53	1.36	Moderate extent
Production of new product/product lines	5.69	1.04	Very great extent
Innovation to the existing product/product lines	3.08	0.32	Moderate extent
To what extent do you measure effectiveness of your R&D expenditure	4.34	0.21	Great extent
Overall to what extent do you think your company evaluates the Innovation and Learning perspective?	3.87	0.32	Moderate extent

Source Research data

4.3.4: Other Parameters for Measure

The study sought to find out whether the company uses other parameters to measure the BSC perspectives. The response from the respondents revealed that parameters such as performance evaluation and production manufacturing evaluation were used in the companies to measure the BSC perspectives.

4.3.5: Parameters Attributed to the Application of BSC

The study sought to determine the extent to which the given parameters have been attributed to the slow or successful application of BSC for strategy evaluation and control. The findings as presented in Table 4.10 below revealed that the respondents indicated that the lack of skills and know how in developing BSC to a moderate extent attributed to the slow or successful application of BSC for the strategy evaluation and control with a mean of 3.97 and standard deviation of 1.411. The respondents rated management as too busy thus lack of time to least extent in attributing to the slow or successful application of BSC for the strategy evaluation and control with a mean of 2.91 and standard deviation of 0.8325. The respondents also indicated that difficulty defining and setting measurement metrics attributes to a moderate extent to the slow or successful application of BSC for the strategy evaluation and control with a mean of 3.08 and standard deviation of 1.353.

Table 4.10: Parameters Attributed to the Application of BSC

PARAMETERS ATTRIBUTED TO THE APPLICATION OF BSC	Mean	Std. Dev.	Decision
Lack of skills and know how in developing BSC	3.97	1.411	Moderate extent
Management too busy thus lack of time	2.91	.8325	Least extent
Difficulty defining and setting measurement metrics	3.08	1.353	Moderate extent

Data collection not consistent or regular	4.5217	1.06173	Least extent
Data evaluation of the various measures is difficult	4.3261	1.14728	Least extent
Difficulty in understanding the connection/link between the measures	4.1522	1.42196	Least extent
Lack of proper communication between the parties involved	3.2391	1.76567	Least extent
Financial constraints/ process too costly	4.1957	1.15802	Least extent

Source Research data

4.3.6 Benefits of using Balanced Score Card in Strategy Evaluation and Control

The study sought to determine the major benefits that the companies derive from the use of BSC in evaluation and control of strategy. The study established that the benefits of BSC in evaluation and control of strategy include that it helps align key performance measures with strategy at all levels of an organization; it provides management with comprehensive picture of business operations; it facilitates communication and understanding of business goals and strategies at all levels of an organization; it helps transform strategy into action as the outcome can be measured; it provides strategic feedback and learning; its initiatives are continually measured and evaluated against industry standards and it also brings about improved decisions and better solutions.

4.3.7 Challenges of using BSC in Strategy Evaluation and Control

The study sought to determine the major challenges that the companies experience in the use of BSC in evaluation and control of strategy. The respondents noted that among the challenges faced; lack of proper understand by all concerned to be able to implement, poorly defined metrics/perspectives, lack of formal review structures, lack of proper improvement methodology. Lack of efficient data collection, evaluation and reporting also came up as a major challenge in these firms.

4.3.8 Recommendations to Limit the Challenges of BSC Application

Respondents gave various suggestions as to what can help improve the application of BSC in these firms. Among them were; increase financing of BSC, widen the scope of parameters evaluated, review of BSC by all concerned on a regular basis, ensure the metrics are well defined in the system thus easier to monitor, design more specific metrics that measure the right things that the stakeholders find value in, involve more stakeholders in the process of coming up with the metrics and creation of governance process that engages key stakeholders. Other suggestions included training of all employees in efficient data collection and analysis, and linking rewards to performance through effective evaluation and performance appraisals.

4.3.9 Correlation Analysis

This section presents a discussion of the results correlation analysis which was used measure the strength of the relationship between the independent variables i.e. the relationship between financial perspective, customers, internal business processes, and

learning and growth perspectives. Correlation analysis established the relative significance of each perspective on the dependent variable as indicated by the benefits derived from use of BSC in strategy evaluation and control.

The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r . The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases. Table 4.11 below shows the correlation coefficient matrix of the predictor variables.

Table 4.11: Correlation Coefficient

	financial perspective	customer perspective	internal business	innovation and learning
financial perspective	1			
customer perspective	0.8345	1		
internal business perspective	0.8507	0.8679	1	
innovation and learning perspective	0.7612	0.8163	0.7568	1

Source Research data

The study in the Table 4.11 above shows that all the predictor variables were shown to

have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between financial perspective and customer perspective (correlation coefficient 0.8345), internal business perspective and financial perspective (correlation coefficient 0.8507), innovation and learning perspective and financial perspective (correlation coefficient 0.7612), customer perspective and internal business perspective (correlation coefficient 0.8679) customer perspective and innovation and learning perspective (correlation coefficient 0.8163) and between internal business perspective and innovation and learning perspective (correlation coefficient 0.7568).

4.4 Discussion of the Research Findings

According to Kaplan and Norton (1996) the four perspectives of the scorecard permit a balance between short and long-term objectives, between outcomes desired and the performance drivers of those outcomes, and between hard objectives measures and softer, more subjective measures. While the multiplicity of measures on a balanced scorecard may seem confusing, properly constructed scorecards contain a unity of purpose since all the measures are directed toward achieving an integrated strategy.

This study finding established that overall the financial perspective was rated as evaluated to very great extent. The balanced scorecard retains the financial perspective since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. Financial performance measures indicate whether a company's strategy, implementation, and execution are contributing to bottom-line improvement. Financial objectives typically relate to profitability-measured, for example,

by measures of sales growth, inventory turnover, cost efficiency and return on equity. Alternative financial objectives can be rapid generation of cash flow. This perspective shows the results of the strategic choices made in the other perspectives. By making fundamental improvements in their operations, the financial numbers will take care of themselves, according to (Kaplan and Norton, 1992). Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment (Procurement Executives Association, 1998). Financial considerations for public organizations should be measured by how effective and efficiently they meet the needs of their constituencies. The findings were in line with Lambert & Knemeyer (2004), who argues that the financial perspective translates the purpose of the organization into action through clarifying precisely what is wanted and gaining commitment to it.

The second perspective of the Balanced Scorecard is the Customer Perspective. According to Doyle (2004), this perspective arises due to an increasing realization of the importance of customer satisfaction in any company. This is one of the leading indicators in that if customers are not satisfied, they will eventually find other suppliers that will meet their needs. In this perspective managers identify the customer and market segments in which the business unit will compete and measures of business unit performance in these targeted segments. This perspective typically includes several core or generic measures of the successful outcomes from a well-formulated and implemented strategy. The core outcome measures include customer satisfaction, customer retention, new customer acquisition, customer profitability, and market and account share in targeted

segments. In addition, the customer perspective should include specific measures of the value propositions that the company will deliver to customers in targeted market segments. The segment-specific drivers of core customer outcomes represent those factors that are critical for customers to switch to or remain loyal to their suppliers. The customer perspective enables business unit managers to articulate the customer and market-based strategy that will deliver superior future financial returns. Kaplan and Norton (1996), Kinanu (2013) outline the ability of the organizations to promote quality products or services, effectiveness of their delivery and the overall customer service and satisfaction. Mwangi (2013) points out that strategic management practices which include this perspective is basically the value proposition that the organizations will deliver to the customers in the targeted market segments.

Thirdly there is the Internal-Business-Process Perspective, which is primarily an analysis of the organization's internal processes. This perspective was rated as being evaluated to a moderate extent. Internal business processes are mechanisms through which organizational performance expectations are achieved. Customer-based measures are important, but they must be translated into measures of what the organization must do internally to meet customers' expectations. In this perspective, executives identify the critical internal processes in which the organization must excel. These processes enable the business unit to: deliver the value propositions that will attract and retain customers in targeted market segments, and satisfy shareholders expectations of financial returns. Organizations should decide at what processes and competencies they must excel and specify measures for each. Key internal processes are monitored to ensure that outcomes

were satisfactory. The measures should also link top management's judgment about key internal processes and competencies to the action taken by individuals that affect overall corporate objectives. This linkage ensures that employees at lower levels in the organization have clear targets for actions, decisions and improvement activities that will contribute to the organization's overall mission (Kaplan and Norton 1996). These measures allow managers to know how well their business is running, and whether its products and services conform to customer requirements (Behrouzi, Shaharoun & Ma'ara, 2014). It is no longer enough to satisfy customers, you need to delight them.

The study established that the fourth perspective, learning and growth were evaluated to a moderate extent. Learning and growth identifies the infrastructure that the organization must build to create long-term growth and improvement. The customer and internal-business-process perspectives identify the factors most critical for current and future success. Businesses must therefore improve their technologies and capabilities to be able to meet their long-term targets for customers and internal processes. In addition, intense global competition requires that companies continually improve their capabilities for delivering value to customers and shareholders. Organizational learning and growth comes from the three principal sources; people, systems, and organizational procedures. The financial, customer and internal-business-process objectives on the balanced scorecard will typically reveal large gaps between the existing capabilities of people, systems, and procedures and what was required to achieve breakthrough performance. To close these gaps, businesses will have to invest in reskilling employees, enhancing information technology and systems, aligning organizational procedures and routines.

These objectives are articulated in the learning and growth perspective of the balanced scorecard. Learning and growth issues enable the organization to ensure its capacity for meeting customer needs, a pre-requisite for long-term survival (Kaplan and Norton, 1996). Metrics can be put in place to guide managers in focusing training funds where they can help most (Behrouzi, Shaharoun & Ma'ara, 2014).

The findings concur to Hanson, Backlund & Lycke (2003) on the benefits derived from the use of BSC to evaluate and control strategy include translating the company's vision: helps managers build a consensus around the organization's vision and strategy; communicating and linking: lets managers communicate their strategy up and down the organization and link it to departmental and individual objectives; business planning: enables companies to integrate their business and financial plans and feedback and learning: gives companies the capacity for what we call strategic learning. Existing feedback and review processes focus on whether the company, its departments, or its individual employees have met their budgeted financial goals. With the balanced scorecard at the center of its management systems, a company can monitor short-term results from the three additional perspectives customers, internal business processes, and learning and growth and evaluate strategy in the light of recent performance. The scorecard thus enables companies to modify strategies to reflect real-time learning.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of a summary the study, conclusion, and limitations of the study. Also implications and recommendations of areas for further research is discussed.

5.2 Summary

The main respondents were pharmacists and the major age gap was 40-45. The majority companies had employees between one hundred to two hundred. The study found that balanced scorecard use in the Pharmaceutical Manufacturing firms in Kenya for strategy control and evaluation was considered of great importance only to a moderate extent. It was apparent that formulation of strategies did not involve all the three levels of management that is top level, middle level and operational level. This is clear since this parameter was rated to least extent. The formal documentation of BSC was rated as moderate hence it seems there's not a clear fully formalized BSC documentation in these companies. All the indicators of BSC application were responded to meaning most of these companies are actually evaluating and controlling their strategies using the four BSC perspectives as entrenched in the original BSC model. However, the lack of clear indication of formal BSC documentation shows that the BSC as a tool for strategy evaluation and control is not being fully embraced by these companies. A straight forward and user friendly balanced scorecard would reflect a good measure for evaluating and controlling strategy based on the strategic plan of the Pharmaceutical Manufacturing firms in Kenya.

5.3 Conclusion

From the findings of the study, it can be concluded that Pharmaceutical Manufacturing firms in Kenya have not fully embraced balanced scorecard as a tool for strategy evaluation and control, despite the fact that it has effects on their strategy. The study also found that financial perspective and customer perspective were the most highly evaluated perspectives of BSC in the Pharmaceutical Manufacturing firms in Kenya. As such there is needed to look at the other two perspectives as gains made on these two aspects may be short lived.

5.4 Limitations of the study

The only tool that was used to gather data was the questionnaire. The use of only one tool in data collection is not fully sufficient. Even though secondary data was used, some of it was not very conclusive due to limited information on the use of BSC in these firms as not much research has been done here in Kenya. Accessibility to some of the firms' managers was difficult and sometimes the questionnaire had to be dropped at the reception. Some questionnaires got lost and had to be replaced yet time was of essence. Finances and time also came up as a source of constraint and as such the researcher could not achieve the target of doing a census on all the companies listed.

5.5 Implications and Recommendations

The study shows that BSC as a tool in strategy evaluation and control is not fully embraced in these firms. This could be as a lack of proper knowledge hence the lack of

appreciation of the same. Based on the study findings, it is recommended that employees should be involved in the whole process of evaluation of the balanced scorecard. Training should be organized for all staff so that they learn more about the concept and fully buy in for the Pharmaceutical Manufacturing firms in Kenya to achieve the full benefits of the balanced scorecard. Communicating with the employees in the right way will help them understand balanced scorecard and how they can use it to improve their performance and more so boost their strategy.

5.6 Recommendation for Further Research

This study focused on the assessment of the effects of balanced scorecard in the evaluation and control of the strategies at Pharmaceutical Manufacturing firms in Kenya, it is therefore recommended that similar research can be replicated in other financial institutions who have implemented balanced scorecard and the results be compared so as to establish whether there is consistency on the effects of balanced scorecard in the evaluation and control of their strategies. The researches will greatly contribute to balanced scorecard, strategy and performance management literature.

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APPENDICES

Appendix I: List of companies

1. Auto sterile (East Africa) ltd
2. Benmed Pharmaceuticals ltd
3. Beta Healthcare ltd
4. Biodeal Laboratories ltd
5. Copper Brands (Kenya) ltd
6. Cosmos ltd
7. Dawa ltd
8. Elys Chemical Industries ltd
9. Glaxo Smith Kline ltd
10. Ivey Aqua EPZ ltd
11. Laboratory and Allied
12. Manhar Brothers (Kenya) ltd
13. Medivet Products
14. Norbrook Laboratories ltd
15. Novelty Manufacturing ltd
16. Pharmaceutical Manufacturing company ltd
17. Regal Pharmaceuticals ltd
18. Sphinx Pharmaceuticals ltd
19. Universal Corporation ltd

Source: Pharmacy and Poisons Board of Kenya, 2014

Appendix II: Questionnaire

Instructions

Please answer the questions below as openly as possible by writing in the space provided, using the key provided to rate your answers or by ticking the appropriate box. The answers are crucial in identifying the extent of balanced scorecard application in strategy evaluation and control in your organization.

Section A: Demographic

1. Name of your firm.....

2. Number of years of existence in the Pharmaceutical Industry.....

3. Indicate your designation.....

4. Please indicate your level of formal education

Certificate Diploma Degree Post graduate

5. What is your age bracket?

24-30 31-35 36-40 41-45 46 and above

6. For how long have you worked in the company?

Less than 5 years 5-10 years above 10 years

7. For how long has your organization been in operation?

Less than 5 years 5-10 years above 10 years

8. How many employees does the company have?

Less than 100 101-200 201-300 301-400 401-500

Above 500

SECTION B: BSC IN STRATEGY EVALUATION AND CONTROL

Balanced scorecard (BSC) is a strategic planning and management system tool used by an organization to align business activities to its vision and strategy, improve internal and external communications, and monitor organizations performance against strategic goals using Financial, Customer, Internal Business Processes and Learning and Growth perspectives.

9. To what extent do you agree with each of the statements below (please rank on a scale of 1 to 5 where 1= no extent and 5= very great extent)

Parameter	No extent	Least extent	Moderate	Great extent	Very great extent
There's formal documentation of vision and mission statements					
Formulation of strategy involves top level, middle and operational level managers					
Strategy evaluation and control is considered of great importance to the company					
There's formal documentation of Balanced Scorecard (BSC) in the firm					

10. How often is the BSC policy/documentation reviewed in the firm?

Never [] Quarterly [] Semiannually []

Annually [] biannually [] More than 2 years []

11. Below are indicators of BSC that are used by organizations to evaluate performance.

Kindly rate the extent to which the following statements are applicable to your firm. Use the key: 1= no extent, 2= least extent, 3= moderate extent, 4= great extent, 5= very great extent.

Parameter	No extent	Least extent	Moderate	Great extent	Very great extent
To what extent does your company apply BSC in evaluation of strategy					
To what extent does strategy evaluation contribute to firm performance					
How often do you use BSC as part of your reporting					
Are you satisfied with the way you measure the performance of your organization					
FINANCIAL PERSPECTIVE PARAMETERS					
To what extent do you measure sales growth					
To what extent do you measure Inventory turnover					
To what extent do you measure Return on equity					
To what extent do you measure cost efficiency					
Overall to what extent do you think your company evaluates the financial perspective?					

CUSTOMER PERSPECTIVE					
To what extent do you measure customer loyalty/ retention rate					
To what extent do you measure customer satisfaction					
To what extent do you measure Sales from new accounts					
To what extent do you evaluate your product pricing					
Overall to what extent do you think your company evaluates the customer perspective?					
INTERNAL BUSINESS PERSPECTIVE					
To what extent do you measure percent of revenue from new products					
Accuracy in delivery orders					
Broken/spoilt/expired products					
To what extent do you measure on-time deliveries					
Overall to what extent do you think your company evaluates the internal business perspective?					
INNOVATION AND LEARNING PERSPECTIVE					
To what extent do you measure employee training days					
Upgrading of employee competencies					

Production of new product/product lines					
Innovation to the existing product/product lines					
To what extent do you measure effectiveness of your R&D expenditure					
Overall to what extent do you think your company evaluates the Innovation and Learning perspective?					

12. What other parameters do you measure from the above four BSC perspectives?

(Mention at least two or more from each perspective)

.....

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.....

13. To what extent have the following measures been attributed to the slow or successful application of BSC for strategy evaluation and control?

Parameter	No extent	Least extent	Moderate	Great extent	Very great extent
Lack of skills and know how in developing BSC					
Management too busy thus lack of time					
Difficulty defining and setting					

measurement metrics					
Data collection not consistent or regular					
Data evaluation of the various measures is difficult					
Difficulty in understanding the connection/link between the measures					
Lack of proper communication between the parties involved					
Financial constraints/ process too costly					

14. What major benefits does your company derive from use of BSC in evaluation and control of strategy? (Tick all that applies)

- Helps align key performance measures with strategy at all levels of an organization
- Provides management with comprehensive picture of business operations
- Facilitates communication and understanding of business goals and strategies at all levels of an organization
- Helps transform strategy into action as the outcome can be measured
- Provides strategic feedback and learning
- Initiatives are continually measured and evaluated against industry standards
- Helps reduce the vast amount of performance information the company processes into essentials
- Brings about improved decisions and better solutions.

Any other.....

15. What are the major challenges of using BSC in evaluation and control of strategy?

(Tick all that applies)

- Poorly defined metrics/perspectives
- Lack of efficient data collection and reporting
- Lack of a formal review structure
- Lack of process improvement methodology
- Too much internal focus than external focus such as suppliers, regulations e.t.c

Any other.....

16. What do you recommend needs to be done to limit the aforementioned challenges, and make BSC an effective tool for evaluation and control of strategies in your firm? Explain your answer.


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Appendix III: Cover Letter


UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 4184160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE..... 26th Aug 2014

TO WHOM IT MAY CONCERN

The bearer of this letter JOAN WAIRIMU WANJUTU

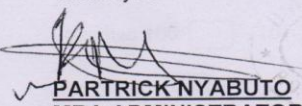
Registration No: D61/79934/2012


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

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

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

Thank you.


PARTRICK NYABUTO
MBA ADMINISTRATOR


26 AUG 2014

tel : 0722386380