# STRATEGY EVALUATION AND CONTROL BY PHARMACEUTICAL MANUFACTURERS AND DISTRIBUTORS IN KENYA

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## DECLARATION

This management research project is my original work and has not been submitted for a degree in any other university.

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

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## DEDICATION

This management research project report is dedicated to my dear wife and companion Rose Nduvi Nandama and to our three children Baranaba, Tunu and Neema.

## ABSTRACT

Strategy is a multidimensional concept that has found application in the business world. It is about winning. Many firms are embracing the utilization of strategic management principles designed at achieving long-term organizational objectives. Companies are investing a lot of resources in formulating and implementing strategies. However, it is acknowledged that even the best formulated and implemented strategies tend to become obsolete as a firm's external and internal environments change. In order to ensure that strategies provide desired results, it is essential that strategists invest in systematic review, evaluation and control of strategy execution.

This study investigated the strategy evaluation and control practices of pharmaceutical manufacturers and distributors in Kenya. It also sought to determine the relationship between these practises and other firm characteristics. A cross-sectional survey design was used with a sample size of 60 pharmaceutical firms operating as manufacturers and distributors. The study used a structured questionnaire to collect data. Majority (83.4%) of respondents indicated strong appreciation of the importance of evaluating and controlling strategies Consistency was considered by the majority of respondents (47.7%) to be the most important factor among Rumelt's strategy evaluation criteria when deciding on strategies to be employed by their organizations.

Most respondents (60.0%) indicated that they reviewed their strategies on a periodic basis i.e. quarterly, bi-annually or annually while 36.7% do so whenever need arises. However, few firms (33.3%) make budgetary allocations for strategy evaluation and control activities. Monitoring of financial performance was the most commonly used

method of strategy evaluation and control. All firms that participated in the survey used some form of financial controls. The level of usage of techniques that incorporate non-financial measures was quite low and in sharp contrast to the use of financial measures. Management by Objectives (33.3%), audits (16.7%), balanced score card (3.3%) and benchmarking (3.3%). There was no indication of the use of contingency planning as a technique for controlling strategy implementation.

Monitoring financial performance was utilized by all firms regardless of age, ownership, size and type. Using the Chi square test, relationships were identified to exist between company type and various factors considered by firms when reviewing the premises of strategy including changes in competitor's strengths and weaknesses, competitor's reaction to an organization's strategy, changes in competitor's strengths and weaknesses as well as competitors' satisfaction with their present market positions and profitability .

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# CHAPTER 1: INTRODUCTION

## 1.1 Background

### 1.1.1 Strategic Management

The concepts and theories of business strategy are said to have their antecedents in military strategy (Grant, 1988). Evered (1983) indicates that the term strategy derives from the Greek word ‘strategia’ meaning ‘generalship’ itself formed from ‘statos’ meaning ‘army’ and – ‘ag’, ‘to lead.’ Strategy is therefore about winning and many principles of military strategy find application in business strategy. The term strategy has been used in the literature in various ways. It is a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction, and purpose as well as facilitating the necessary changes induced by its environment (Hax and Majluf, 1996).

There are as many definitions of strategy as there are authors. Chandler (1962), views strategy to consist in determining the fundamental objectives and goals in the long run of an organization then choosing the modes of action and allowance of the resources which will make it possible to achieve these goals. Johnson and Scholes (2002), define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholder expectations. According to Mintzberg, H., Ahlstrand, B. and Lampel, J. (1998), there are five main and interrelated definitions of strategy: plan, ploy, pattern, position and perspective.

When viewed as a plan, strategy is some form of consciously intended course of action which is created ahead of events. This can be either a general strategy or a specific one. If specific, it may also constitute a ploy. Strategy as a ploy is a manoeuvre to outwit an opponent. As a pattern, strategy is where an organization is observed after an event to have acted in a consistent manner over time and can therefore be said to be pursuing a particular strategy. From the perspective of being a position, strategy is about positioning the organization in order to achieve or maintain sustainable competitive advantage. Mintzberg et al (1998) argue that most organizations try to avoid a head-on competition but instead seek to achieve a position where their competitors cannot or will not challenge them. In this sense, strategy is also seen as a game with groups of players circling each other, each trying to gain the high ground.

Finally, when defined as a perspective, strategy is seen as an abstract concept that exists primarily in people's minds. The actual details of an organization's strategy are somewhat irrelevant to members of the organization. What is important is that everyone in the organization shares a common view of its purpose and direction which then informs and guides decision making and actions. Despite the various definitions, a common theme within literature is that strategy is thought to constitute a logic underlying an organization's interactions with its environment which in turn guides its deployment of resources (Dent, 1990).

After the end of the end of the Second World War, the USA experienced an extraordinary trading boom which forced many American companies to rethink their business planning systems (McKiernan, 1992). In order to cope with the new and rapidly changing technological, economic and organizational developments that followed the end of the war, American organizations, which were in the forefront of these developments, began to adopt long-range planning techniques (Burnes, 2004). This period was characterized by relative environmental stability, abundant business opportunities and rapidly expanding companies. The challenge was on how to better manage companies in the face of growth opportunities.

According to Moore (1992), the development of this strategic approach to planning and investment was given a significant impetus when some of the people involved in wartime strategic planning activities returned to civilian life. A key aim of long-range planning was to reduce the gap that often occurred between the level of demand that a firm expected and planned for, and the level of demand that actually occurred (Fox, 1975). Given the relative environmental stability, planning was extrapolative in nature. Scholars who made significant contributions in the field of strategy during its nascent stage include Drucker (1954), Chandler (1962), Ansoff (1965) and Andrews (1971).

In the early 1970s, changes occurred which resulted in widespread dissatisfaction with long-term planning. This period saw an increase in environmental turbulence characterized by increased competition, slower growth and reduced business opportunities. Long range planning techniques could not cope with such turbulence which limited forecasting accuracy. In response to this failure, the concept of strategic management began to emerge. Strategic management focuses on environmental assumptions that underlie market trends and incorporates the possibility that changes in trends can and do take place, and it is not based on the assumption that adequate growth can be assured (Elliot and Lawrence, 1985; Mintzberg and Quinn, 1991). In addition, strategic management focuses more closely on winning market share from competitors rather than assuming that organizations can rely solely on the expansion of markets for their own growth (Hax and Majluf, 1996).

Strategic management has been defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce and Robinson, 1991). According to Johnson and Scholes (2002), it includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action. It is a process that encompasses strategic planning, implementation and evaluation Strategic planning provides a structured means for analysis and thinking. It encourages a longer-term view of strategy than might otherwise occur and can be used as a means of control by regularly reviewing performance and progress against agreed objectives. In addition, it can be a useful means of coordination, creating ownership of strategy as well as helping in communicating intended strategy.

Implementation involves transforming strategies into action. It is concerned with ensuring that strategies are working in practice. Implementation involves structuring an organization to support successful performance, enabling success through the way in which the separate resource areas of an organization support strategies and also change management. Once implemented, there is need to evaluate performance in order to determine whether desired results are being achieved and taking corrective action where necessary.

Literature on strategic management advocates for the establishment of some system of strategic controls to monitor strategic progress and ensure the implementation of strategic plans (Govindarajan and Gupta, 1985; Hrebiniak and Joyce, 1984; Lorange, 1982; Lorange et al., 1986). Strategic control has been defined as the process by which managers monitor the ongoing activities of an organization and its members to evaluate whether activities are being performed efficiently and effectively and to take corrective action to improve performance if they are not (Hill & Jones, 2001). It is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises and making necessary adjustments (Pearce & Robinson, 1991). Hills and Jones (2001) further point out that strategy control is important because it helps managers obtain superior efficiency, quality, innovation and responsiveness to customers.

### 1.1.2 The Global Pharmaceutical Industry

The pharmaceutical industry is a highly competitive global industry. It is a classic science-based industry with new products emerging from research breakthroughs and general developments in scientific knowledge. The industry consists of three segments namely manufacturers, distributors and retailers. Manufacturers convert raw materials into finished pharmaceutical products. Distributors are generally involved in the procurement, warehousing and distribution of medicines sourced from manufacturers to other healthcare institutions while retailers mainly deal with patients who are the final consumers of medicines.

The global pharmaceutical industry is dominated by large multinational enterprises that are based mainly in the United States of America and Europe. According to the

Allen Consulting Group Pty Ltd of Australia (2006), the US contributed US$60 billion to value-added in pharmaceuticals in the year 2000 surpassing Western Europe's US$40 billion and Japan's US$22 billion. Global sales of pharmaceuticals in 2004 reached $591 billion and grew approximately nine per cent between 2002 and 2003. It goes further to observe that this relationship has grown starker since that time with the US increasingly becoming the dominant centre for pharmaceutical production activity.

Nine geographic markets account for over 80% of global pharmaceutical sales. These are US, Japan, France, Germany, UK, Italy, Canada, Brazil and Spain. Of these markets, the US is the fastest growing market and since 1995 it has accounted for close to 60%of global sales. In 2000 alone the US market grew by 16% to $133 billion dollars making it a key strategic market for pharmaceuticals. The big ten global players are Pfizer, GlaxoSmithKline, Norvatis, Sanofi-Aventis, Merck and Company, AstraZeneca, Johnson & Johnson, Bristol Myers Squibb, Wyeth and Roche. Majority of pharmaceutical sales originate in the US, EU and Japanese markets.

### 1.1.3 The Kenyan Pharmaceutical Industry

The pharmaceutical sector in Kenya consists of the three segments mentioned above. New analysis from Frost & Sullivan (2009) indicates that the market earned $208.6 million in 2007 and estimates this to reach $557.8 million in 2014. The analysis covered generic pharmaceuticals, branded pharmaceuticals, anti-diabetic pharmaceuticals, oncology pharmaceuticals, cardiovascular pharmaceuticals and anti-infective pharmaceuticals. There are more than 30 licensed manufacturing concerns that include a number of local companies and a few Multi National Corporations (MNCs). Most of them are located within Nairobi and its environs.

Manufacturers compound and packages medicines, repacking formulated drugs and processing bulk drugs into doses using predominantly imported active ingredients and excipients. Kenya has minimal raw materials for pharmaceutical products and relies a lot on imported sources. The industry imports over 95% of the raw materials. The availability of raw materials locally is limited to only about 5% of the total industrial requirements. Distribution of pharmaceuticals to public health institutions in Kenya is undertaken mainly by the Kenya Medical Supplies Agency (KEMSA) which is a division of the Ministry of Medical Services. The Mission for Essential Drugs and Supplies (MEDS) meets the needs of most faith based health facilities.

There are many distributors who supply the private market as well as non-profit making organizations. Pharmaceutical products in Kenya are channelled to patients through pharmacies, health facilities and shops. The number of companies engaged in manufacturing and distribution of pharmaceutical products in Kenya continue to expand, driven by the Government's efforts to promote local and foreign investment in the sector. Trade in medicines in the country is regulated by the Pharmacy and Poisons Board created under the Pharmacy and Poisons Act Cap 244 of the laws of Kenya.

A number of strategic issues affecting the global pharmaceutical industry are also shaping the local industry. One of them is industry consolidation. Merger and acquisition activities among pharmaceutical manufacturers have been intense within the industry in the last decade. These activities are likely to continue among the leading companies driven by the economic realities of the high costs of Research & Development (R&D), shortening product life cycles, large marketing field forces and by the increasing difficulty of generating blockbuster drugs. This is happening against the backdrop of a highly regulated and compliance enforcing industry. Players often have immense legal, regulatory and compliance overheads which they have to absorb.

Over the last decade, the knowledgebase of the pharmaceutical sciences has changed dramatically and continues to change at a fairly high rate. As new technologies and bodies of scientific knowledge emerge, whole new sets of opportunities and threats are being introduced. Breakthroughs in science, innovation and technology continue to create novel opportunities for new products and processes. This has increased the pace of the industry and major players must keep up with changes else become vulnerable.

Another major issue facing the industry is the intense competition and the changing face of the pharmaceutical market. Generic drugs are becoming more important as large selling prescription drugs come out of patent protection and governments around the world seek to contain medical costs. The industry has seen a legion of new market entrants resulting in increased competition among players. Competitive advantage within the industry is being constantly redefined. Key industry players are being forced to revamp their organisational structure and re-engineer the processes in order to ensure continuity and maintain profitability.

The profile of the pharmaceutical consumer is also changing. With the advent of the internet, consumers have easier access to health related information. There are expectations on the industry to show that their products deliver better health and greater economic value. Current trends show that healthcare costs are constantly being shifted away from the government, which acted as the traditional social purchaser, over to health insurance companies and common individuals. The increasing price sensitivity of the common consumer and financial muscle of healthcare agencies and health insurance companies is forcing firms in the industry to cut product prices thereby reducing margins. Pharmaceutical firms are also facing external pressure to reduce the price and long-term dependence on pharmaceuticals due to ageing global populations.

The political environment worldwide has become a major force. Due to the socio-political consequences of healthcare and medicines, the pharmaceutical industry is facing increasing political pressure to reduce prices and control costs. In certain geo-political areas, particularly in developing economies, government are increasing pressure on pharmaceutical firms to act in the social interest and this is likely to intensify in the future. Examples are issues around AIDS in Africa.

## 1.2 Research Problem

David (1997), points out that even the best formulated and implemented strategies tend to become obsolete as a firm's external and internal environments change. According to him, it is essential that strategists also invest in systematic review, evaluation and control of strategy execution which involves examining the underlying bases of a firm’s strategy, comparing expected results with actual results and taking corrective actions to ensure that performance conforms to plans. For Roush and Ball (1980), a strategy that cannot be evaluated in terms of whether or not it is being achieved is simply not a viable or even a useful strategy.

Since the mid 80’s, the environment within which pharmaceutical companies operate in the country has undergone drastic changes. Several factors among them liberalization of the economy, the ever increasing impact of globalization as well as advances made in information and communication technology have led to increased competition as well as more informed and demanding customers. The rise of regional trade blocs and industry consolidation via mergers and acquisitions has only served to complicate the situation even further. In order to cope with this turbulence, players in the pharmaceutical industry have been shown to be engaging either formally or informally in strategic thinking, planning and implementation activities (Muiva, 2001; Ogolla, 2007; Sagwa, 2002).

According to Goold and Quinn (1990), there has been comparatively little empirical research to investigate whether and how companies use strategy control systems. Ittner and Larcker (1996) have observed that despite calls for the development of systems to control the implementation and monitoring of strategic plans, studies conducted in American and European firms suggest that few companies employ formal strategy control systems. Whereas studies have been conducted among American and European firms to determine the extent to which they employ strategy evaluation and control systems, little research has been conducted in the African context.

Hinga (2007) looked at strategy evaluation within one organization i.e. the World Health Organization Somalia Country Office while Makori (2002) conducted a survey of practices used in strategic performance measurement within an operations strategy context in companies that have participated in the Company of the Year Awards (COYA) in Kenya. However, not much has been done in studying a specific industry within the country and in particular the pharmaceutical industry. This study therefore seeks to answer two questions. Firstly, what strategy evaluation and control practices are being employed by pharmaceutical firms in Kenya? Secondly, what is the relationship between strategy evaluation and control practices and other characteristics within these firms?

## 1.3 Research Objectives

The study seeks to achieve the two objectives given below.

a) To establish strategy evaluation and control practices employed by pharmaceutical manufacturers and distributors in Kenya.

b) To determine the relationship between strategy evaluation and control practices and other firm characteristics such as years in operation, ownership, company type, size and target market.

## 1.4 Significance of the Study

The findings of this study are expected to benefit several stakeholders. They are going to provide a source of information for managers regarding strategy evaluation and control practices employed within the pharmaceutical industry which would be useful in influencing policy making as well as for benchmarking purposes.

This study is also useful to academicians and scholars as it adds to the knowledge base on strategy evaluation and control in a Kenyan context. Researchers are expected to be stimulated into undertaking further research in other aspects of strategy evaluation and control.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Approaches to Strategy

As pointed out in chapter one, it is commonly believed that the concept of strategy has been passed down from the ancient Greeks who developed it purely in relation to the successful pursuit of victory in war. The concept remained a military one until the nineteenth century when in began to be applied to the business world though most believe that the actual process by which it took place is untraceable (Bracker, 1980; Chandler 1962). Like many other concepts in the field of management, there are many approaches to strategy but none are universally accepted (Stacey, 2003). Whittington (1993) attempted to make sense of the many definitions and categories of strategy by identifying four generic approaches to strategy: the classical, evolutionary, processual and systemic.

The classical approach is the oldest approach to strategy. It portrays strategy as a rational process based on analysis and quantification aimed at achieving the maximum level of profit for an organization. It argues that through rigorous analysis and planning, senior managers can predict future market trends and shape the organization to take advantage of these. As the name suggests, the evolutionary approach uses the analogy of biological evolution to describe strategy development. Organizations are seen to be at the mercy of unpredictable and hostile vagaries of the market. Successful strategies are said not to be as a result of the ability to plan and predict but rather a result emerging from decisions managers take to align and realign their organizations to the changing environmental conditions.

According to Whittington (1993), the processual perspective concentrates on the nature of organizational and market process. It views organizations and their members as shifting coalitions of individuals and groups with different interests, imperfect knowledge and short attention spans. Markets are similarly capricious and imperfect but do not require organizations to achieve a perfect fit with their environment in order to prosper and survive. Strategy is portrayed as a pragmatic process of trial and error aimed at achieving a compromise between the needs of the market and the objectives of warring factions within an organization.

The systemic approach sees strategy as linked to dominant features of the local social system within which it takes place. Viewed from this perspective, strategy can be a deliberate process and planning and predictability are possible but only if the conditions within the host society are favourable. Therefore, to an extent, this is a contingency approach to strategy which can accommodate situations where firms do not seek to maximize or bow to market pressure. From the systemic perspective, the strategy an organization adopts and the interests managers pursue reflect the nature of the particular social system within which it operates.

## 2.2 Strategic Management Process

The strategic management process generally comprises five key facets that include goal-setting, analysis, strategy formation, strategy implementation and strategy monitoring. Goal setting is a four part process that involves articulating the organization's vision, defining its mission, identifying core values and determining strategic objectives. Together, they give the roadmap to take the organization from where it is now to where management wants it to be. They keep the organization on track towards achieving its long term goals. A vision statement describes the future as to where the organization is going. The mission statement describes the reason why an organization exists and what it is doing to pursue its vision of the future. It gives information on what a firm is all about, what it does and stands for. Values are behaviours that an organization's employees are expected to uphold if it is to fulfil its mission and attain its vision. Key objectives can be considered as the road signs on a firm's journey.

Traditionally, analysis involves internal and external analysis of an organization. Internal analysis is concerned with identification of an organization's strengths and weaknesses while external analysis concerns determining obstacles and opportunities in the business environment. This process is commonly referred to as SWOT analysis. In carrying out internal analysis, managers look at the organization's resource base e.g. skill base, capital or financial resources e.t.c. and determine areas of strength and weaknesses.

Internal analysis involves looking for what Barnard (1939) refers to as 'strategic factors'. These are the internal capabilities that appear most critical for success in a particular competitive area. External analysis on the other hand considers factors in the environment in which the organization operates and how they impact on the organization. Political, economic, social, and technological changes influence the direction and shape of an organization's policies and objectives. Therefore, internal and external analyses facilitate the making of strategic decisions that seek to balance the organization's competencies with the business opportunities around it.

Strategy formation involves several activities. One of them is the identification of key stakeholders, their expectations and resources. Stakeholders are those who have a direct interest in and are capable of influencing in some measure the outcomes or actions of the organization. Actors may include, among others, the following: competitors, beneficiaries, directors, employees, political parties, consumers and international donors.

The other activity involves the identification of key strategic issues. Strategic issues are the principal problems that must be dealt with effectively otherwise the organization can expect undesirable results. The effective treatment of strategic issues can signify fundamental change in how the organization goes about its business. These problems might concern the organization's mission, its products or services, its clients, financing mechanisms, management, or relationship to certain stakeholders. Energy expended in problem and issue identification and clarification payoffs in the development of strategies for their treatment.

Once the strategic issues have been identified, the next step involves the design, analysis, and selection of strategy alternatives and options. Strategies required to solve challenges facing an organization need to be identified. Generally, more than one option for dealing with the challenges will be identified; then options must be examined for their comparative viability, feasibility, and desirability. Desirability has to do with the fit of organizational and environmental values and objectives with the strategy.

There are two major parts to the strategy implementation process. First, it involves the development of an action plan, which is a statement of what, who, when, and how the actions necessary to carry out the strategy will be done. Performance goals and objectives are also specified. The second part of implementation consists of actions aimed at marshalling and applying resources e.g. changes in organizational structures, installation of new incentive systems; marketing of new services or creation of demand among new beneficiaries or consumers e.t.c.

It should be noted that the managers' task is more than just the internal operation of the organization; they must also manage its fit with the environment. Strategic management assumes continual change. Therefore mechanisms must be developed for monitoring, controlling and evaluating the performance of the organization's strategy with respect to achieving the goals and objectives set in the action plan.

## 2.3 The Need for Strategy Evaluation and Control

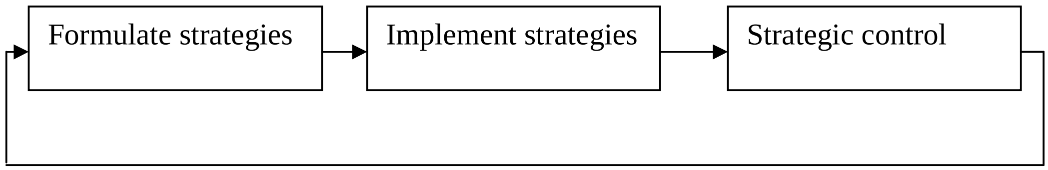
Henry Mintzberg, one of the foremost theorists in the area of strategic management, observes that no matter how well an organization plans its strategy, a different strategy may emerge. He coined the terms 'intended strategies' and 'realized strategies' and related them to deliberate, unrealized, and emergent strategies. Starting with intended or planned strategies, Mintzberg relates five types of strategies. He refers to intended strategies that get realized as 'deliberate strategies' while intended strategies that do not get realized as 'unrealized strategies'. Mintzberg goes further to refer to realized strategies that were never intended as 'emergent strategies.'

There are a number of ways in which the realized strategy can become different from the planned or intended strategy. The intended and realized strategies may differ because of unrealistic strategic decisions, poor judgments about the external environment, managerial incompetence in implementing the strategic decisions, uncontrollable changes in the external environment, or a failure in leadership to motivate individuals to pursue the intended strategy. Recognizing the number of different ways that intended and realized strategies may differ underscores the importance of evaluation and control systems so that the firm can monitor its performance and take corrective action if the actual performance differs from the intended strategies and planned results.

## 2.4 Traditional Versus Contemporary Approaches

The traditional approach to strategy control is sequential. Top management sets goals and strategies are formulated, implemented and performance is measured against the predetermined goals. Control is based largely on a feedback loop from performance measurement to strategy formulation. This process typically involves lengthy time lags, often tied to a firm's annual planning cycle. Little or no action is taken to revise strategies, goals and objectives until the end of the time period. The traditional approach is appropriate when the environment is stable and relatively simple. Goals and objectives can be measured with a high level of certainty, and there is little need for complex measures of performance.

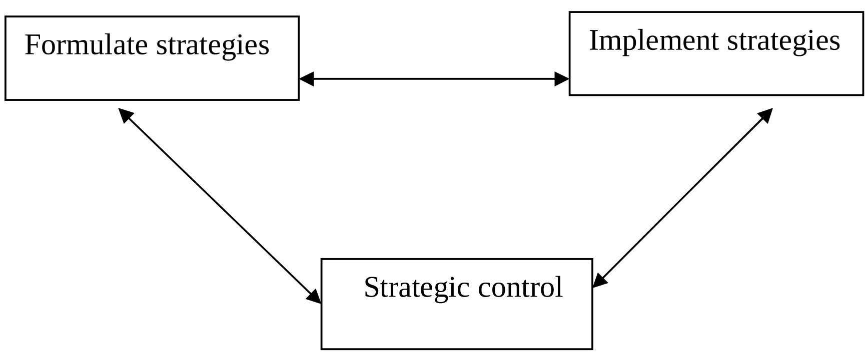
Figure 2.1 Traditional approach to strategy control




Source: Dess, G.G., Lumpkin, G.T. & Peridis, T. (2006). *Strategic Management*: *Creating Competitive advantages*. New York: McGraw-Hill.

On the other hand, the contemporary view to strategy control emphasizes on the need to continually monitor the internal and external environments to identify trends and events that signal the need to revise strategies, goals and objectives. Therefore, relationships between strategy formulation, implementation, evaluation and control are highly interactive as opposed to being sequential.

Figure 2.2 Contemporary approach to strategic control




Source: Dess, G.G., Lumpkin, G.T. & Peridis, T. (2006). *Strategic Management*: *Creating Competitive advantages*. New York: McGraw-Hill.

## 2.5 Criteria for Strategy Evaluation

Rumelt (1980) offers four criteria for evaluating strategies. These are consistency, consonance, feasibility and advantage. A strategy should not present inconsistent goals and policies. According to Rumelt, if managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, the strategy may be inconsistent. This will also be the case if success in one organizational department means or is interpreted to mean failure for another department or if policy problems and issues continue to be brought to the top of resolution.

Consonance refers to the need for strategies to examine sets of trends as well as individual trends in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. For a strategy to be considered feasible, it must neither overtax available resources nor create unsolvable problems. It seeks answer the question as to whether a strategy can be attempted within the physical, human and financial resources available to the firm. Finally, a strategy should provide for the creation and maintenance of a competitive advantage in a selected area of activity. Competitive advantage is normally a result of superiority in resources, skills or positioning.

## 2.6 The Process of Evaluating and Controlling Strategies

Strategy evaluation and control involves three basic activities. It involves examining the underlying bases of a firm's strategy, comparing expected results with actual results and taking corrective actions to ensure that performance conforms to plans. Numerous external and internal factors can prohibit firms from achieving long-term objectives. External factors may include actions by competitors, changes in demand, changes in technology, economic changes, demographic shifts and governmental actions. Internally, ineffective strategies may have been chosen or implementation activities may have been poor. There is need to continually monitor the external opportunities and threats as well as internal strengths and weaknesses that represent the bases of current strategies to find out whether there are any changes.

The underlying basis of an organization's strategy can be reviewed by developing revised External Factor Evaluation (EFE) and Internal Factor Evaluation (IFE) matrices. The revised matrices are then compared with existing corresponding matrices to check for differences. A revised IFE Matrix should focus on changes in the organization's management, marketing, finance/accounting, production/operations, Research & Development and Management Information System strengths and weaknesses while a revised EFE Matrix should indicate how effectively a firm's strategies have been in response to key opportunities and threats.

Measuring organizational performance involves comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and short-term objectives are commonly used in this process. Failure to make satisfactory progress toward accomplishing objectives signals a need for corrective action. Strategy evaluation is based on both quantitative and qualitative criteria.

Quantitative criteria commonly used to evaluate strategies are financial ratios which strategists use to make three critical comparisons. One is comparing the firm's performance over different time periods. The second is comparing the firm's performance to competitors while the third is comparing the firm's performance to industry averages. Key financial ratios for measuring organizational performance include return on investment, return on equity, profit margin, market share, debt to equity, earnings per share, sales growth and asset growth. However, quantitative criteria tend to focus on short-term objectives and therefore organizations need to develop qualitative criteria to augment them.

Taking corrective actions requires making changes to re-position a firm competitively for the future. Examples of changes that may be needed are altering an organization's structure, replacing one or more key individuals, selling a division or even revising a business mission. Strategy evaluation enhances an organization's ability to adapt successfully to changing circumstances – a notion that has been referred to as 'corporate agility' by Brown and Agnew (1982).

## 2.7 Types of Strategy Controls

There are four basic types of strategy controls including; premise control, implementation control, strategic surveillance and special alert control. Premise control is designed to check systematically and continuously whether or not the premises set during planning and implementation process are still valid. Premises are primarily concerned with environmental and industry factors. To attempt to track every premise may be unnecessarily expensive and time consuming. Therefore, managers must select those premises and variables that are likely to change and would have a major impact on the company and its strategy if they did.

To enact premise control, key premises are identified during the planning process. They are recorded and responsibility for monitoring them assigned to persons or departments who are qualified sources of information. Premises should be revised based on updated information. Key areas within the company or key aspects of the strategy that the predicted changes may significantly impact should also be pre-identified so that adjustments necessitated by a revised premise can be determined and initiated. In order to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy, strategic managers use implementation controls.

The two basic types of implementation control are monitoring strategic thrusts and milestone reviews. Implementing broad strategies often involves undertaking several new strategic projects. These are specific narrow undertakings that represent part of what needs to be done if the overall strategy is to be accomplished. Projects or thrusts provide a source of information from which managers can obtain feedback that helps determine whether the overall strategy is progressing as planned and whether it needs to be adjusted or changed.

One approach to enacting implementation control is to agree early in the planning process on which thrusts are critical factors in the success of the strategy. Managers responsible for these implementation controls single them out from other activities and observe them frequently. The other approach is to use stop/go assessments linked to a series of meaningful thresholds (time, costs, research and development e.t.c.) associated with particular thrusts.

Managers often attempt to identify critical milestones that will occur over the time period the strategy is being implemented. Milestones may be critical events, major resource allocations or the passage of a certain amount of time. In each case, a milestone review usually involves a full-scale reassessment of the strategy and the advisability of continuing or refocusing the direction of the company. Milestone reviews may also occur concurrently with the timing of a new major step in the strategy's implementation or when a key uncertainty is resolved.

Both premise and implementation controls are focussed types of control. Strategic surveillance is however designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy (Scheyogg and Steinmann, 1987). The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged with the specific intent being the opportunity to uncover important yet unanticipated information. Surveillance is kept unfocussed as much as possible and needs to be designed as loose 'environmental scanning' that involves seeking information from sources such as trade magazines, journals, trade conferences, conversations and observations.

A special alert control is the need to thoroughly and often rapidly reconsider the firm's basic strategy based on a sudden unexpected event. Many firms develop crisis teams to handle initial response and coordination when faced within unforeseen occurrences that may have an immediate effect on the firm's strategy. Increasingly, companies are also developing contingency plans along with crisis teams to respond to such circumstances.

## 2.8 Strategy Evaluation and Control Techniques

Evaluation and control of strategy requires techniques that can be used in target setting, measuring performance and providing feedback that enable managers to achieve successful strategy implementation. They should be flexible enough to allow managers to respond as necessary to unexpected events. In addition, they should provide accurate information that gives a true picture of organizational performance. Information needs to be provided in a timely manner because making decisions on the basis of outdated information is a recipe for failure. Several methods that can be used to evaluate and control strategy are discussed below.

### 2.8.1 Monitoring Financial Performance

Financial controls are the most commonly used measures in monitoring and evaluating an organizations performance. Strategic managers select financial goals they would like the organization to achieve such as growth, profitability and return to shareholders. They then measure whether or not these goals have been achieved. One reason for their popularity is their objectivity. The performance of one company can be compared with that of others in terms of its stock market price, return on investment, market share or even cash flow. Financial measures that can be used include the stock price and return on investment.

Stock price is a useful measure of a company’s performance because it is determined competitively by the number of buyers and sellers in the market. It is an indicator of the market’s expectation of a firm’s future performance. Movements in the stock price provide shareholders with feedback on a company’s and its managers’ performance. Return on Investment (ROI) is a financial measure that is determined by dividing net income by invested capital. Like stock price, it can also be used at the corporate level to evaluate the performance of an organization against that of others.

ROI can be used to assess how well an organization's strategies are working by comparing its performance with that of similar organizations. It can be used at divisional level to judge the performance of an operating division by comparing it with that of a similar freestanding business or other internal divisions. Failure to meet stock price or ROI targets indicates the need for management to take corrective action which could include options such as structural changes, crafting new strategies, liquidation and divestiture of businesses among others.

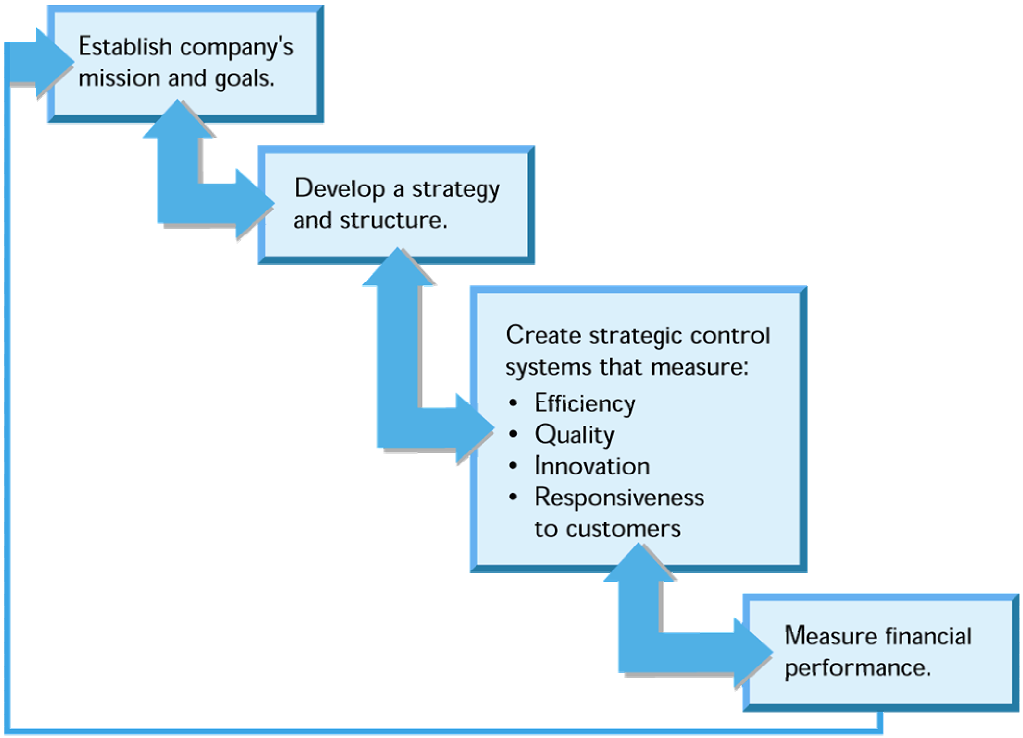
### 2.8.2 The Balanced Scorecard (BSC)

The BSC is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of an organization. . It was devised by Kaplan and Norton (1992) and refined in later publications (Kaplan and Norton, 1993, 1996a, 1996b, 2001a, 2001b). According to Kaplan and Norton (1996a), if companies are to survive and prosper in a competitive environment, they must use measurement and management systems derived from their strategies and capabilities. The BSC measures performance across four balanced perspectives of customer knowledge, internal business processes, learning and growth as well as financial performance - which in turn are linked to the organisation's strategic vision. A critical assumption of the BSC is that each performance measure is part of a cause-and –effect relationship.

Using this approach, managers develop a set of strategies to build competitive advantage based on an organization's mission and goals. This is then followed by establishing an organizational structure to use resources to obtain a competitive advantage. (Kaplan & Norton, 1993). To evaluate how well the strategy and structure are working, managers develop specific performance measures that assess how well the four building blocks of competitive advantage are being achieved i.e. efficiency, quality, innovation and responsiveness to customers. The organization's ability to build a competitive advantage is then measured using financial measures such as cash flow, periodic sales growth, increase in market share and return on investment or equity. Based on an evaluation of the complete set of measures in the BSC, strategic managers are then in a position to re-evaluate the company's mission and goals. They can also take action to rectify problems or to exploit new opportunities by changing the organization's strategy or structure.

Using the BSC as the central organizing framework for the strategic management process implies the use of four successive management steps. The initial step involves clarifying and translating vision and strategies into specific strategic objectives and identifying the critical drivers of the strategic objectives. This linking of the competitive position of the organisation to the operational aspects of its processes is necessary to translate strategy into action. It is then followed by communicating and linking strategic objectives and measures which serves to signal to all employees the critical objectives that must be achieved if an organisation's strategy is to succeed. The other step involves planning, setting targets and aligning strategic initiatives. Finally, there is feedback and learning which is regarded by Kaplan and Norton (1996) as being the most innovative and most important aspect of the entire Scorecard management process. By setting targets during planning sessions and making mid-course corrections, strategy can consistently be evaluated as to its appropriateness within the developing organisational environment.

Figure 2.3 A Balanced Score Card Approach




Source: Hill, C.W. & Jones, G.R. (2001). *Strategic management theory*. New York: Houghton Mifflin Company.

### 2.8.3 Management by Objectives (MBO)

MBO has been defined as a system of evaluating managers by their ability to achieve specific organizational goals or performance standards and to meet their operating budgets. (Drucker, 1954). The principle behind MBO is to make sure that everybody within the organization has a clear understanding of organizational objectives as well as awareness of their own roles and responsibilities in achieving them. It aims at getting managers and empowered employees acting to implement and achieve their plans, which in turn automatically achieve those of the organization. To ensure effectiveness, objective setting is linked to goals envisaged in an organization's strategic plan. Managers are expected to participate in the organization's strategic planning process in order to improve on its implementation which includes putting in place a range of performance systems designed to help the organization stay on the right track.

MBO was introduced as a supplementary management tool by Alfred Sloan in the early 1950s. However, Peter Drucker is credited with making it a central management concept in his classic management book, "The Practice of Management", in 1954. This approach aims at increasing organizational performance by aligning goals and subordinate objectives throughout the organization. It is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources.

In this approach, both employees and their superiors jointly set performance goals and duties. Having participated in the fixation of their own goals, employees become more involved, dutiful and active in performance. Objectives are written down for each level of the organization, and individuals are given specific aims and targets. Employees get strong input to identify their objectives and time lines for completion. It includes ongoing tracking and feedback in the process to reach objectives. Performance is measured on the basis of what is accomplished as opposed to how employees spend their time.

MBO involves the following stages: defining corporate objectives at board level, analyzing management tasks and devising formal job descriptions, which allocate responsibilities and decisions to individual managers, setting performance standards, agreeing on and setting specific objectives, aligning individual targets with corporate objectives and establishing a management information system to monitor achievements against objectives. Among its key principles include cascading of organizational goals and objectives, ensuring existence of specific objectives for each employee, participative decision making, explicit time framing as well as performance evaluation and feedback.

### 2.8.4 Benchmarking

This is a strategy evaluation technique that uses standard measures in an industry to compare an organization to other organizations in order to gain perspective on organizational performance. The process consists of an organization looking and learning from others by comparing itself with them. Performance and behaviour are not static because they change with time. Benchmarking is therefore a long-term process. It is a method that involves the whole organisation in searching for the best practice not just for 'what' is done best, but 'how' it is done.

There are several advantages associated with benchmarking. It enables an organization to know who performs the business process very well and has process practices that are adaptable to those of the organization. It opens up organizations to new methods, ideas and tools to improve their effectiveness. Benchmarking helps in cracking through resistance to change by demonstrating other methods of solving problems than the ones currently employed and demonstrating that they work because they are being used by others.

The process of benchmarking is moderately expensive. It involves visit and time costs. Visit costs include travel costs, meals, hotel rooms e.t.c as managers move around trying to identify best practices. Time costs arise from the fact that members of the benchmarking team invest time in researching problems, finding exceptional companies to study, visits and implementing key learnings. Organizations that institutionalize benchmarking into their daily procedures also incur benchmarking database costs. They find it useful to create and maintain databases of best practices and associated companies.

### 2.8.5 Audits

The American Accounting Association (1971) defines auditing as 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 established criteria, and communicating the results to interested users. Financial audits are a common occurrence in accounting circles. They can be used to determine correspondence between assertions based on strategic plans and established criteria.

A similar principle can be used to evaluate other aspects of strategic performance. Organizations can use internal auditors or set up other mechanisms to evaluate the effectiveness of their strategic management systems. Public accounting firms often have consulting arms that can also be used to provide strategy evaluation services.

Kelly (1984) developed a tool comprised of a set of questions referred to as the 'The Planning Process Audit (PPA) which can be used in strategy evaluation. Environmental audits are also gaining momentum for use in determining how well organization's are adhering to environmental concerns.

### 2.8.6 Contingency Planning

Contingency plans can be defined as alternative plans that can be put into effect if certain key events do not occur as expected. They should focus on both the minimizing of threats and capitalizing on opportunities in improving a firm's competitive advantage. Focus should be on high priority areas as it is not practical to cover all bases by planning for all possible contingencies. Contingency planning is an important strategy control tool as it allows quick changes to be made when strategy evaluation activities reveal the need for such interventions.

Effective contingency planning starts by identifying both beneficial and unfavourable events that could possibly derail the strategy or strategies. This is then followed by specifying trigger points and estimating when contingent events are likely to occur. The impact of each contingent event is then assessed indicating potential benefits and harm. Develop contingency plans making sure that the contingency plans are compatible with current strategy and that they are financially feasible. Thereafter, the counter-impact of each contingency plan is assessed and early warning signals determined and monitored. for key contingent events. Monitor the early warning signals. It is then important to develop advanced action plans to take advantage of the available lead time (Chandran & Linneman, 1981).

# CHAPTER 3: RESEARCH METHODOLOGY

## 3.1 Research Design

The study used a survey design to with the aim of gaining a generalized understanding of what is happening within the pharmaceutical industry with regard to strategy evaluation and control. This would then form a platform for further studies targeting individual companies against the background of an understanding of what is happening within the wider industry. Other studies including Muiva (2001), Ogolla (2007) and Sagwa (2002) have used this design to study strategic issues within the pharmaceutical industry in Kenya.

## 3.2 Population

The population of interest in this study comprised of pharmaceutical manufacturers and distributors operating in Kenya. According to the East African Pharmaceutical Loci ($10^{th}$ Edition, 2010/2011) – a regional drug index for healthcare practitioners, 82 companies operate in Kenya as pharmaceutical manufacturers and distributors.

## 3.3 Sample

The survey sample was made up of 60 firms randomly selected representing 73% of the target population. This conformed to the widely held rule of thumb which requires that a representative sample size to have 30 or more units. 30 firms responded to the questionnaire representing a 50% response rate and constituted 36.6% of the target population. The response rate was not 100% mainly due to the fact that a number of firms which received questionnaires failed to return them despite constant follow-ups.

## 3.4 Data Collection

Primary data was collected using a structured questionnaire that had both open and close-ended questions. A copy of the questionnaire is given in Appendix II. The questionnaire was administered through electronic mail given that respondents were reachable via email. Electronic mail was considered to be convenient as it allowed accessibility at minimal cost. Respondents were top level managers of companies participating in the survey.

## 3.5 Data Analysis

Data collected was edited for accuracy, consistency, uniformity and completeness. Descriptive statistics was used to analyse data as it allowed for numerical description and comparison of various variables. Cross tabulation, Pearson's product moment correlation and chi-square test were used to determine relationships between variables. Data was then presented in various forms including tables, different types of charts and graphs. These tools were used because of their clarity as well as ease of understanding and interpretation.

# CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

In this chapter, the results of the study are presented and discussed. Of the 60 questionnaires that were distributed, 30 were filled and returned representing a 50% response rate. This rate was considered acceptable given that it is generally expected to be about 30% (Emory, 1985). The data was captured and analysed using excel and SPSS. The analysis and study findings were summarized and presented in the form of tables, graphs and charts.

## 4.2 Profile of Respondents

The study required respondents to give profiles of their organizations in a manner that allowed the researcher to capture information regarding the number of years the firms have been in operation, type of ownership, sector, company size and target market. Gathering information on company profiles was important as it would form the basis for working out relationships between strategy evaluation and control practices employed by respondents and firm characteristics.

By indicating the year in which the companies were established, it was possible to determine the number of years they have been in operation. Company ownership was captured as being either local, foreign or having both aspects of ownership. The number of employees in an organization and sales turnover were used to determine the company size while respondents were asked to indicate whether their target markets were local, regional or international.  The findings are as presented below.

### 4.2.1 Years in Operation

The number of years companies were in operation was categorized into 3 groups and the frequency as well as the percentages of each category determined. Results were then tabulated as indicated below.

Table 4.1 Company Age

| **Years** | **Frequency** | **Percentage** | **Cumulative percentage** |
|---|---|---|---|
| Less than 10 | 7 | 23 | 23 |
| 10 – 20 yrs | 10 | 33 | 56 |
| Above 20 yrs | 13 | 44 | 100 |
| **Total** | **30** | **100** | **-** |

Source: Research Data

Majority (44%) of the companies surveyed were established over 20 years ago followed by those aged between 10 to 20 years (33%). Only 23% of the companies were established within the last ten years. The results reveal that majority of the respondents have been in operation for a period of more than 10yrs. This indicates that majority of the respondents have adequate experience of operating within the Kenyan market.

### 4.2.2 Company Ownership

The researcher determined the percentages of three categories of ownerships i.e. local, foreign and ‘other’ (both local and foreign) of respondents. The results are summarized in table 4.2 below.

Table 4.2 Company Ownership

| **Ownership** | **Frequency** | **Percentage** | **Cumulative percentage** |
|---|---|---|---|
| Local | 25 | 83.3 | 83.3 |
| Foreign | 2 | 6.7 | 90.0 |
| Other | 3 | 10.0 | 100.0 |
| **Total** | **30** | **100.0** | **-** |

Source: Research Data

Majority of the firms are fully locally owned (83.3%) with a paltry 6.7% being foreign owned. 10.0% of the firms had both local and foreign ownership. From the above results, it appears that strategy evaluation and control practises within pharmaceutical firms operating in Kenya are likely to be mainly home-grown.

### 4.2.3 Company Type

The pharmaceutical industry consists of three segments namely manufacturers, distributors and retailers. This study focused on manufactures and distributors and the researcher sought to know how many of the respondents belonged to each category.

Table 4.3 Company Type

| **Type** | **Frequency** | **Percentage** | **Cumulative percentage** |
|---|---|---|---|
| Manufacturer | 9 | 30.0 | 30.0 |
| Distributor | 20 | 66.7 | 96.7 |
| Other | 2 | 3.3 | 100.0 |
| **Total** | **30** | **100.0** | **-** |

Source: Research Data

From the table above, results indicate that majority (66.7%) of the respondents were distributors while 30% were manufacturers. A small percentage (3.3%) operate have both manufacturing and distributing units. The results are consistent with what one would expect in a developing country like Kenya with a liberalized market. Distributors handle products that are locally manufactured and those that are imported from other countries and it is therefore expected that they would be higher in number.

### 4.2.4 Company Size

The size of a company tends to influence the manner in which organizations operate. Therefore, the study sought to find out if this was the case in the area of strategy evaluation and control. In order to obtain an indication of company size, respondents were asked to provide information regarding the number of employees and sales turnover for their companies. Cross tabulation was then done between the company type and the number of employees. This enabled an evaluation of the relationship between company type and size in terms of number of employees. Results were as indicated in tables 4.4 below.

Table 4.4 Cross Tabulation of Company Type and Number of Employees

| **Company type** | **Number of employees (Frequency/Percentage)** | | | |
|---|---|---|---|---|
| | Up to 50 | 50 to 100 | 101 to 200 | Above 200 |
| Manufacturers | 2 (25%) | 1 (8.3%) | 4 (80%) | 3 (60%) |
| Distributors | 6 (75%) | 11(91.7 %) | 1 (20%) | 2 (40%) |
| **Total** | **8 (100%)** | **12 (100.0%)** | **5 (100.0%)** | **5 (100.0)** |

Source: Research Data

The results reveal that manufacturers tend to be bigger than distributors in terms of the number of employees. Manufacturers dominate the number of firms with over 100 employees while distributors dominate the number of firms with up to 100 employees. These results are consistent with expectations because manufacturers generally have more human resource related processes in comparison to distributors. Respondents were also asked to give their average annual sales turnover for the 3 years preceding the study. Sales turnovers were categorized into 4 groups and results summarized in table 4.5 below.

Table 4.5 Cross Tabulation of Company Type and Sales Turnover

| **Company type** | **Sales Turnover (Frequency/Percentage)** | | | |
|---|---|---|---|---|
| | < Ksh. 50million | Ksh. 51m to 500million | Ksh. 501m to 1billion | > Ksh. 1billion |
| Manufacturers | 0 | 6(30%) | 3(42.9%) | 1(33.3%) |
| Distributors | 0 | 14(70%) | 4(57.1%) | 2(66.7%) |
| **Total** | **0** | **20 (100.0%)** | **7 (100.0%)** | **3(100.0)** |

Source: Research Data

None of the respondents had a sales turnover of less than Ksh. 50million. Majority of the firms (60%) have a sales turnover of between Ksh. 51 to 500million. Contrary to expectations, distributors tended to have higher sales turnovers than manufacturers. This could be due to the fact that there were more distributors participating as respondents compared to manufacturers.

### 4.2.5 Target Market

Business entities usually have different target markets depending on the attractiveness of market segments and the fit between these segments and the firm's objectives, resources, and capabilities. The study sought to establish the geographical target market of players in the Kenyan pharmaceutical industry and to determine the influence of the target market on strategy control and evaluation practices employed by firms in the country. The geographical target markets were categorized into local, regional and international. Respondents were asked to indicate their target market using this categorization. Results were tabulated as indicated below.

Table 4.6 Target Market

| **Ownership** | **Frequency** | **Percentage** | **Cumulative percentage** |
|---|---|---|---|
| Local | 11 | 36.7 | 36.7 |
| Regional | 14 | 46.7 | 83.4 |
| International | 5 | 16.6 | 100.0 |
| **Total** | **30** | **100.0** | **-** |

Source: Research Data

The results above indicate that majority of firms in the pharmaceutical industry (46.7%) mainly target the regional market followed by the local market (36.7%). Fewer firms (16.6%) target the international market. The regional interest depicted in the results above could be explained by the fact that 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. (PKF, 2005).

### 4.2.6 Governance

On the issue of governance, all firms responded indicating use of the conventional hierarchical structure. Majority had a chief executive officer or managing director to whom senior managers report. Below the senior managers are middle level managers who supervise other members of staff. Senior managers together with their teams take charge of key functional areas. However, only a third of the respondents have boards of directors to which the chief executive officers report. A key observation was that majority of the pharmaceutical firms, especially in the private sector, are run as family businesses. 7% of the firms that participated in the survey were international organizations and thus had their chief executive officers reporting to superiors located outside the country.

## 4.3 Strategy Evaluation and Control Practices

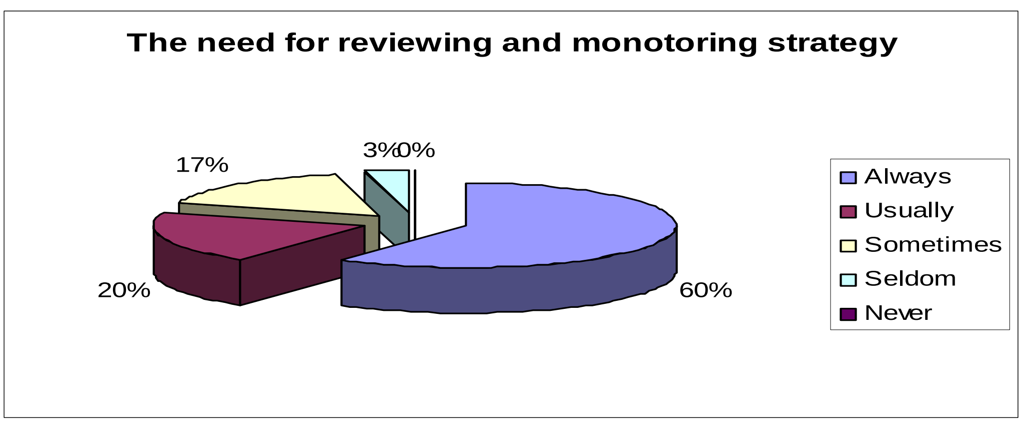
A key objective of the study was to establish the strategy evaluation and control practises employed by pharmaceutical manufacturers and distributors in Kenya. Recognizing the number of different ways that intended and realized strategies may differ underscores the importance of evaluation and control systems. These enable an organization to monitor its performance and take corrective action if the actual performance differs from intended strategies and planned results. The study sought to determine characteristics of strategy evaluation and control practices within the Kenyan pharmaceutical industry.

Areas of interest included, among others, the extent to which the issue of strategy evaluation and control was deemed as being important, frequency of strategy evaluation, review of strategy, financing of strategy evaluation and control activities, performance measures, techniques utilized in evaluating and controlling strategies, utilization of findings emanating from evaluation activities as well as challenges encountered when evaluating and controlling strategies. In order to achieve this goal, a number of both closed and open ended questions were posed to respondents. Results were presented in the form of tables and charts.

### 4.3.1 Importance of Evaluation and Control of Strategies

Respondents were asked to indicate their opinion on the importance of evaluating and controlling strategies. Majority of respondents were in agreement with 83.4 % indicating strong agreement and 13.3% agreeing mildly. A small percentage of respondents (3.3%) neither agreed nor disagreed while none indicated any disagreement.

Figure 4.1 The Need for Reviewing and Monitoring Strategy



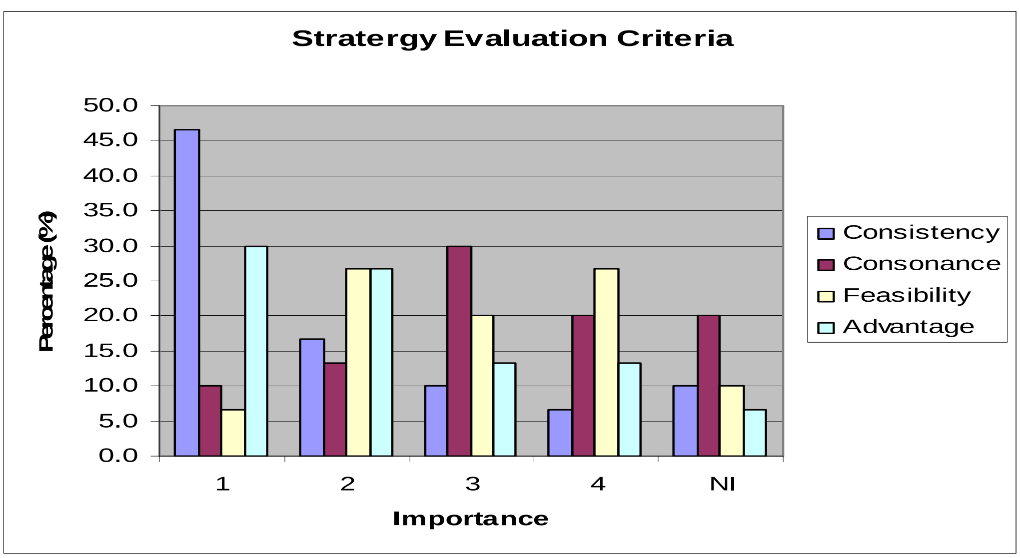

Source: Research Data

Figure 4.1 above indicates that majority of the respondents indicated that they frequently see the need for reviewing and monitoring organizational strategies. 60% indicated that they ‘always’ saw the need to review strategy, 20% responded ‘usually’, ‘sometimes’ had a response of 17% while a paltry 3% indicated ‘seldom’ and none indicated ‘never’. This further indicates the appreciation of the importance of evaluating and controlling strategy implementation.

### 4.3.2 Strategy Evaluation Criteria

It is impossible to demonstrate conclusively that a particular strategy is optimal, but it can be evaluated for critical flaws using criteria developed by Rumelt (1980) i.e. consistency, consonance, feasibility and advantage. This study sought to establish the importance attached to factors in Rumelt’s strategy evaluation criteria within the pharmaceutical sector. Respondents were required to rank the factors in the order of importance when deciding on strategies to be employed by their companies from 1 to 4 starting with the most to the least important.  If a factor was considered as not being important, they were not to rank it at all. The results were then presented in the form of a bar chart is indicated in figure 4.8 below.

Figure 4.2 Ranking of Rumelt’s Evaluation Criteria




**(Key:** NI=Not Important) Source: Research Data

Majority of the respondents (47.7%) ranked the ability to present consistent goals and policies (Consistency) as the most important factor. The percentage of respondents who considered the other factors as being most important were 30.0% for the ability to create and maintain competitive advantage (Advantage), 10.0% for the ability to examine trends (Consonance) and 6.7% for the ability to utilize resources (Feasibility). A greater number of respondents (20.0%) considered consonance as not being important in strategy formulation in comparison to the other factors i.e. consistency and feasibility (10.0% each) and advantage (6.7%). The graph above shows the relative ranking of the factors in greater detail.

### 4.3.3 Strategy Review

How an organization structures its strategy review has significant impact on the effectiveness of its strategy management efforts. Several aspects of strategy review within the pharmaceutical sector were investigated. These included frequency of strategy review, considerations made during strategy review and the review of SWOT analysis. Respondents were asked to indicate the frequency at which they review their strategies. Several options were provided including annually, bi-annually, quarterly, whenever necessary, never and ‘other’.

They were also required to indicate how often they re-look at aspects of the initial SWOT analysis carried out during the planning stage. A list of seven considerations was provided and respondents asked to rate on a scale of 1-5 the importance they attach to these areas when reviewing the premises on which their strategies were formulated. Investigating strategy review practices was considered as an important aspect of the strategy control process. Results were presented in the form of tables as given below.

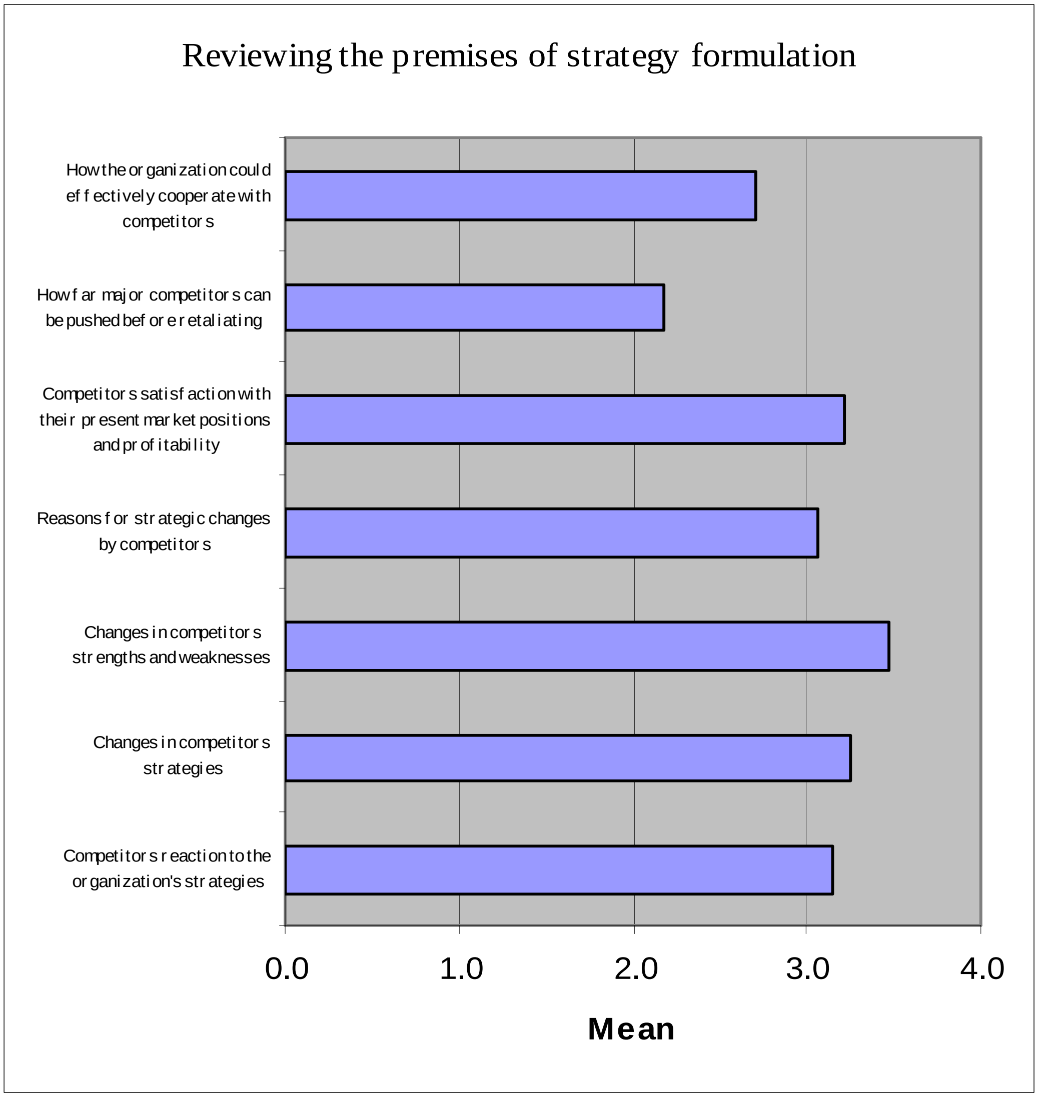
Table 4.7 Frequency of Reviewing Strategies

| **Frequency** | **Frequency** | **Percentage** | **Cumulative percentage** |
|---|---|---|---|
| Annually | 6 | 20.0 | 20.0 |
| Bi-annually | 2 | 6.7 | 26.7 |
| Quarterly | 10 | 33.3 | 60.0 |
| Whenever necessary | 11 | 36.7 | 96.7 |
| Rarely | 1 | 3.3 | 100.0 |
| Never | 0 | 0.0 | - |
| Other | 0 | 0.0 | - |
| **Total** | **30** | **100.0** | **-** |

Source: Research Data

Results indicate that majority of the firms (36.7%) review their strategies whenever necessary followed closely by those that do it quarterly (33.3%). 20.0% carry out reviews annually, 6.7% do so bi-annually while 3.3% rarely review strategies. None of the respondents failed to review their strategies. Overall, the results indicate that an overwhelming majority of respondents (60.0%) review their strategies periodically.

Figure 4.3 Reviewing the Premises of Strategy




**(Note: 1= Least Important while 5 = Highest Important)** Source: Research Data

In rating the importance of several considerations when reviewing the premises on which a company's strategy was formulated, changes in competitors' strengths and weaknesses were rated the highest with a mean score of 3.4 followed by changes in competitors' strategy (3.1). Competitor's satisfaction with their present market positions and profitability and competitors reaction to the organization's strategy had a similar mean score (2.9).

Reasons for strategic changes by competitors (2.8), how the organization could effectively cooperate with competitors (2.7) and how far major competitors can be pushed before retaliating (2.1) then followed in that order. However, it is worth noting that the mean scores of the various considerations were close to one another indicating that they were all generally considered as being important.

Table 4.8 Reviewing SWOT Analysis

| **Frequency** | **Percentage** | | | |
|---|---|---|---|---|
| | **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| Always | 56.7 | 50.0 | 70.0 | 60.0 |
| Usually | 20.0 | 26.7 | 13.3 | 16.7 |
| Sometimes | 16.7 | 16.7 | 10.0 | 13.3 |
| Seldom | 3.3 | 3.3 | 3.3 | 6.7 |
| Never | 3.3 | 3.3 | 3.3 | 3.3 |
| **Total** | 100 | 100 | 100 | 100 |

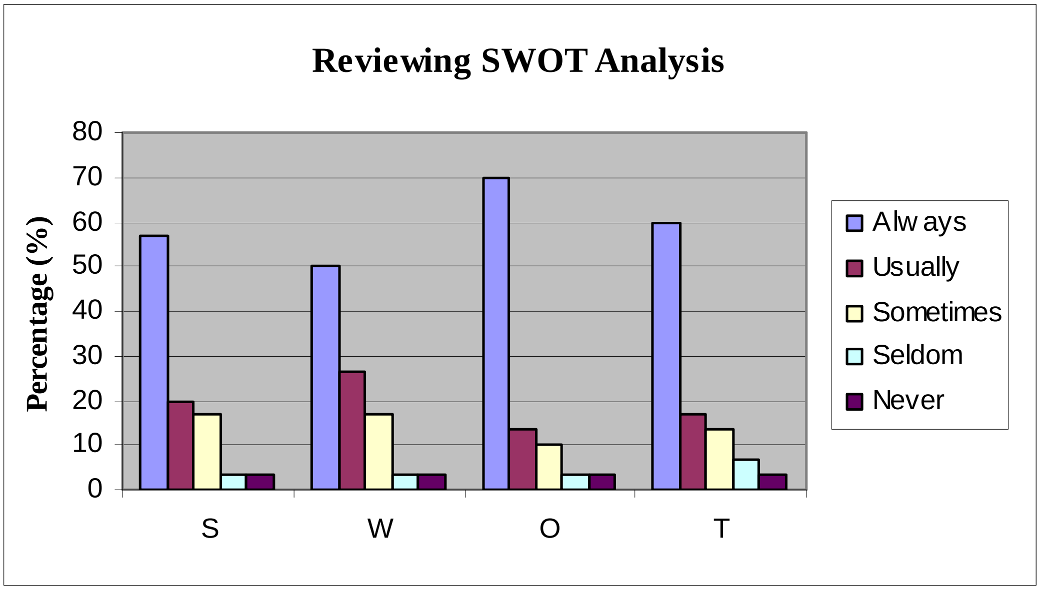
Source: Research Data

The ‘always’ category recorded the highest score followed by the ‘usually’ category in terms of frequency of reviewing elements of SWOT analysis. Generally, the ‘seldom’ and ‘never’ categories had very low scores. This indicates that majority of the firms frequently review the initial SWOT analysis carried during the strategy planning stage.

The review of opportunities recorded the highest score under the ‘always’ category while the review of weaknesses had the highest frequency under the ‘never’ category.

This suggests a tendency of firms having more interest in re-looking at emerging opportunities and less concern for worrying about their weaknesses. The results are presented graphically below.

Figure 4.4 Reviewing SWOT Analysis




(**Key:** S – Strengths, W – Weaknesses, O – Opportunity, T – Threats) Source: Research Data

### 4.3.4 Financing of Strategy Evaluation and Control Activities

In order for strategy evaluation and control activities to be successfully carried out, they require financing. Companies usually make budgetary provisions for important events in their calendars. The study sought to establish whether pharmaceutical companies make such provisions in their budgets. Respondents were required to indicate whether their companies make budgetary provisions for strategy control and evaluation activities. This was considered to be an important indicator on the importance attached to such activities. Results were as tabulated below.

Table 4.9 Budgeting for Strategy Evaluation and Control Activities

| **Position** | **Frequency** | **Percentage** | **Cumulative Percentage** |
|---|---|---|---|
| Present | 10 | 33.3 | 33.3 |
| Absent | 20 | 66.7 | 100.0 |
| **Total** | **30** | **100.0** | **-** |

Source: Research Data

Majority of the respondents (66.7%) do not make budgetary provision for strategy evaluation and control activities. This can be interpreted to mean that even though many firms indicate they consider these activities as being important, they are yet to consider them as being critical enough to warrant financial planning that ensures that they are properly undertaken.

### 4.3.5 Techniques Used in Evaluating and Controlling Strategies

Several techniques can be used in setting targets, measuring performance and providing feedback in order to enable managers achieve successful strategy implementation. The study sought to determine the techniques utilized by pharmaceutical manufacturers and distributors. Closed and open ended questions were utilized to determine the techniques used by respondents.

Respondents were asked to indicate which measures and processes they were using in evaluating and controlling strategies as well as factors which determine their choices. Responses were classified into six categories including the monitoring of financial performance, use of the balanced score card, management by objectives, benchmarking, audits and contingency planning. The percentage of respondents who gave information indicating the utilization of each of these techniques was determined and results summarized in table 4.10 below.

Table 4.10 Techniques Used in Evaluating and Controlling Strategies

| **Technique** | **Percentage** |
|---|---|
| Financial controls | 100.0 |
| Balanced score card | 3.3 |
| Management by Objectives | 33.3 |
| Benchmarking | 3.3 |
| Audits | 16.7 |
| Contingency planning | 0.0 |

Source: Research Data

Monitoring of financial performance was the most commonly used method of strategy evaluation and control. All firms that participated in the survey used different types of financial measures. The level of usage of other techniques that incorporate non-financial measures was quite low and in sharp contrast to the use of financial measures i.e. Management by Objectives (33.3%), audits (16.7%), balanced score card (3.3%) and benchmarking (3.3%). There was no indication of the use of contingency planning as a technique for controlling strategy implementation.

A commonly used financial technique was that of budgeting. Many firms draw up budgets and monitor and evaluate performance against the budgets. Several financial parameters are used to evaluate and control strategy execution. The financial measures that were most commonly cited as being in use included sales turnover and profitability. These were followed by cost analysis and control for both recurrent and capital expenditure. Other financial parameters in use were return on investment, cash flow analysis, ageing of debts, gross margins and inventory valuations. None of the respondents cited the use of stock market price suggesting that none of the companies is listed on the stock exchange market.

Management by objectives was mainly done through the setting of annual organizational objectives which were then cascaded down to individualized objectives for employees. The objectives were aligned to strategic objectives set by organizations and periodic reviews carried out to determine attainment of set objectives. Majority of the firms using the MBO technique carried out two reviews per year i.e. mid and end year reviews. A key finding was that staff performance on set objectives was used for motivational programmes through linkage of payment of bonuses to performance.

Even though the use of the balanced scorecard in a structured manner was low, it is worth noting that several aspects of this technique were mentioned by a number of respondents as being in use. Surveys aimed at gauging customer satisfaction with regard to responsiveness by firms to customer needs in terms of quality of products and services found common usage. Other approaches utilized included performance and job satisfaction evaluations and determining the rate of new product development. A number of firms also have put in place quality assurance systems to control implementation of internal processes.

Audits were both financial and non-financial. 100% of respondents conducted financial audits through the engagement of external financial audit firms. Commonly used non-financial audits were those aimed at ensuring compliance to regulatory requirements e.g. Good Manufacturing Practices (GMP) and Good Distribution Practices (GDP) for manufacturers and distributors respectively. It was significant that none of the respondents had pursued ISO certification and therefore no audits for compliance with this standard were captured. Prescription audits were commonly used by distributors to determine the performance of medical representatives.

Benchmarking was carried out through monitoring of performance against established industry standards as well as through visiting other players in the industry to establish best practices and adapting them to suit an organization's unique circumstances. Surveillance of competitor activities, milestone reviews, project evaluations, evaluating the success of change management initiatives as well as the number and quality of strategic partnerships were also given as measures used to monitor and control strategy implementation. Overall, the findings demonstrate a high reliance on the use of financial techniques in evaluating performance of strategies with minimal use of non-financial techniques.

### 4.3.6 Utilization of Findings Arising from Strategy Evaluation

Rumelt (1980) sees strategy evaluation as the appraisal of plans and the results of plans that centrally concern or affect the basis mission of an enterprise. According to him, its special focus is the separation between obvious current operating results and factors that underlie success or failure in the chosen domain of activity. Its result is the rejection, modification, or ratification of existing strategies and plans. There was need to determine the manner in which pharmaceutical manufacturers and wholesalers in Kenya utilize information gathered from strategy evaluation activities.

This information was captured via responses to an open ended question regarding the use of findings from strategy evaluation. Majority of the firms (56.7%) gave responses that point towards using findings from strategy evaluation activities in taking corrective actions to organizational strategies. The process mainly involved comparing expected to actual results, investigation of deviations from plan, evaluating individual performance and finally taking corrective action leading to progress towards stated objectives.

Several terminologies were used in pointing towards the results of strategy evaluation activities including re-aligning strategy, re-strategizing, adjusting budgets, re-setting targets and objectives, reviewing policies, processes and procedures, deciding on whether to alter or maintain strategy, fine-tune company strategy, re-allocation of resources and continuous improvement. Other uses indicated included rewarding good performance and informing decisions on staff training, future strategies and business planning.

### 4.3.7 Obstacles to Strategy Control and Evaluation

A wide range of obstacles to strategy implementation were provided which were also said to impact negatively on strategy control and evaluation activities. The most common obstacle was that of resource limitation mainly in terms of finances. Many firms indicated that they had difficulties in raising monies to finance strategy evaluation and control activities. Inadequate management time was also given as another form of resource limitation.

Respondents also indicated inadequacies in their abilities to effectively utilize strategy control and evaluation techniques due to lack of competence in doing so. This was complicated by what was indicated as limited opportunities for training staff in relevant skills. A turbulent business environment characterized by changes in government policies and regulations, changes in competitor strategies, internal resistance to change, high staff turnovers were also given as common obstacles.

## 4.4 Relationship Between Strategy Evaluation and Control Practices and Other Firm Characteristics

Several firm characteristics affect the manner in which organizations operate. Therefore, strategy evaluation and control practices employed by a firm are likely to be influenced by factors known to impact on strategy implementation by firms. Four such factors include age of a company, company ownership, company type and company size. The study attempted to establish whether there was any relationship between these factors and the strategy evaluation and control practices of respondents to the survey.

### 4.4.1 Company Age

As would be expected, pharmaceutical companies in the country have been in operation for varied number of years. The study sought to determine whether the number of years a company has been in operation had any effect on the practises employed to control and evaluate strategies. A cross tabulation between the company age and techniques used was carried out to determine whether there was existence of a relationship between the two and results presented in table 4.11 below.

Table 4.11 Cross Tabulation between Company Age and Evaluation Techniques

| **Age** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial Controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| Less than 10 | 100 | 0 | 42.9 | 0 | 0 |
| 10 – 20 yrs | 100 | 10.0 | 10.0 | 0 | 30.0 |
| > 20 yrs | 100 | 0 | 30.7 | 7.7 | 15.4 |

Source: Research Data

All companies, regardless of age, indicated the use of financial controls in monitoring and evaluating strategy implementation. Only a small percentage (10%) of firms aged between 10-20years used the Balanced Scorecard. Management by Objectives was more commonly used among companies of less than 10years in age (42.9%) followed by those above 20 years (30.7%). 7.7% of firms aged over 20years used benchmarking. 30% of firms aged between 10 and 20 years and 15.4% of those aged above 20years use audits.

From the above results, it is clear that financial controls are used to a great extent by all firms regardless of age. The use of MBO also cuts across all ages but to a lesser extent in comparison to financial controls. It also appears that the longer firms are in operation, the more the techniques that are likely to be used. This is demonstrated by the fact that firms operating for more than 10years tended to use a broader spectrum of techniques compared to those who have operated for less than 10years.

### 4.4.2 Company Ownership

The ownership of an organization can have significant effect on company policy on a wide range of organizational activities including strategic issues. Respondents were categorized in terms of ownership into local, foreign and 'other'. The 'other' category represented firms that had a combination of both local and foreign ownership. Techniques employed within each category were identified and the percentage of respondents utilizing a particular technique determined. A cross tabulation between the type of ownership and techniques used was done to determine whether there was a relationship between ownership and techniques used. Results are as presented in table 4.12 below.

Table 4.12 Cross Tabulation between Company Ownership and Evaluation Techniques

| **Ownership** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial Controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| Local | 100 | 4 | 36 | 0 | 16 |
| Foreign | 100 | 0 | 50 | 0 | 0 |
| Other | 100 | 0 | 0 | 33.3 | 33.3 |

Source: Research Data

Once again, results indicate that all respondents utilized financial controls regardless of the type of ownership. From the above table, it was not possible to establish any clear relationship between the company ownership and the other techniques.

### 4.4.3 Company Type

The exercise carried out in sections 4.4.2 and 4.4.3 above was extended to cover the area of company type and find out if it had an impact on strategy control and evaluation practices of pharmaceutical firms in Kenya. It was hypothesized that there existed a relationship between company type and considerations used by firms in reviewing the premises of strategy. In order to test this hypothesis, a Chi-Square test was carried out. In addition, Pearson's product moment correlation was undertaken as an additional test of determining the existence of any relationship between the two. Results were as indicated below.

Table 4.13 Tabulation between Company Type and Evaluation Techniques

| **Company Type** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial Controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| Manufacturer | 100 | 12.5 | 40 | 12.5 | 0 |
| Distributors | 100 | 0 | 25 | 0 | 20.8 |

Source: Research Data

Like in previous cases, results indicate that all companies, regardless of whether they are manufacturers or distributors utilize financial controls. Management by Objectives found higher usage among manufacturers (40%) as compared to distributors (25%)

but generally to a lesser degree in comparison to financial controls. Manufacturers tended to use a wider range of techniques of evaluating and controlling strategy compared to distributors as can be seen from the table above. This could be due to the fact that manufacturers tend to be bigger in size compared to distributors and therefore require employing more techniques to cover different aspects of their operations.

Table 4.14 Chi-Square Test on the Relationship between Company Type and Reviewing Premises of Strategy

| **Consideration** | **Asymp. Sig. (2-sided)** | **Alpha** |
|---|---|---|
| Competitor's reaction to the organization's strategies | 0.093 | 0.10 |
| Changes in competitors strategies | 0.112 | 0.10 |
| Changes in competitor's strengths and weaknesses | 0.050 | 0.10 |
| Reasons for strategic changes by competitors | 0.101 | 0.10 |
| Competitors' satisfaction with their present market positions and profitability | 0.086 | 0.10 |
| How far major competitors can be pushed before retaliating | 0.153 | 0.10 |

Source: Research Data

Using the Chi square test at 90% confidence level, results indicate that a relationship only exists between company type and consideration of competitor's reaction to the organization's strategies, changes in competitor's strengths and weaknesses, competitors' satisfaction with their present market positions and profitability when reviewing the premises of strategy formulation. This is because they had significance value less than 0.10 signifying statistical significance thus confirming the null hypothesis that a relationship exists between company type and reviewing premises of strategy.

Table 4.15 Correlation between Company Type and Performance Measures

| **Item** | | **Value** | **Asymp. Std. Error(a)** | **Approx. T(b)** | **Approx. Sig.** |
|---|---|---|---|---|---|
| Interval by Interval | Pearson's R | -.120 | .133 | -.630 | .534(c) |
| Ordinal by Ordinal | Spearman Correlation | -.048 | .176 | -.251 | .804(c) |
| N of Valid Cases | | 29 | | | |

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

Source: Research Data

Using Pearson's product moment correlation, results indicate that there is a weak inverse relationship between the company type and the performance measures utilized by companies to evaluate strategies two given that the correlation value was -0.120. This means that the performance measures used by respondents to evaluate strategies do not depend on whether a company is a manufacturer or a distributor. This is in line with earlier findings which indicate that majority of the firms use financial parameters regardless of the company type.

### 4.4.4 Company Size

The size of a company has an impact in the manner in which it conducts its business and is likely to affect how organizations implement strategies. It was therefore important to find out if this was the applied to the area of strategy evaluation and control. In order to obtain an indication of company size, respondents were asked to provide information regarding the number of employees and sales turnover for their companies. Cross tabulation was then done between the company size, both in terms of number of employees and turnover, and the techniques utilized by respondents. Results were as indicated in tables 4.17 and 4.18 below.

Table 4.16 Cross Tabulation between Number of Employees and Evaluation Techniques

| **No. of employees** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial Controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| Less than 50 | 100 | 0 | 37.5 | 0 | 12.5 |
| 50 - 100 | 100 | 0 | 16.7 | 0 | 25.0 |
| 101 - 200 | 100 | 0 | 20.0 | 0 | 0.0 |
| Above 200 | 100 | 20.0 | 20.0 | 20.0 | 20.0 |

Source: Research Data

Cross tabulation of the size of the company in terms of number of employees and techniques of strategy evaluation and control reveals that financial controls are once again the predominantly used techniques across different sizes of respondents. The use of Management by Objectives also cuts across different company sizes but to a lesser degree. Furthermore, it can be observed that large firms with over 200 employees tend to utilize a wider range of techniques as compared to the other firms. The table above indicates that they employed all of the five tabulated techniques. This seems to further suggest that the larger the company, the more the techniques used to evaluate strategies.

Table 4.17 Cross Tabulation between Sales Turnover and Evaluation Technique

| **Sales Turnover** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| < Ksh. 50million | 100 | 0 | 50.0 | 0 | 0 |
| > Ksh. 50M but < Ksh. 500million | 100 | 0 | 27.8 | 0 | 16.7 |
| > Ksh. 500million but < Ksh. 1 billion | 100 | 0 | 28.6 | 0 | 14.3 |
| >Ksh. 1 billion | 100 | 5.6 | 0 | 33.3 | 66.7 |

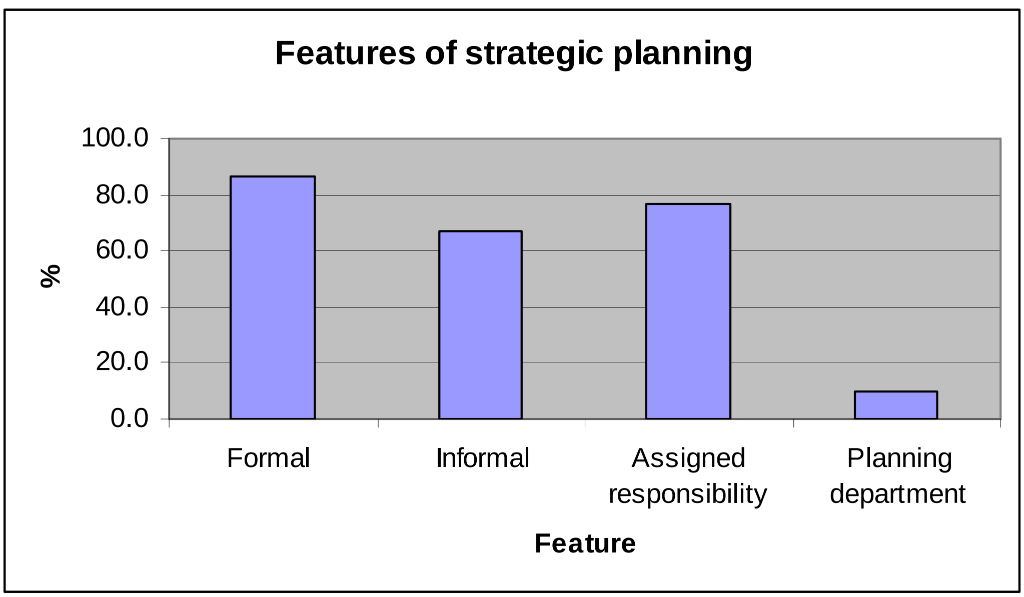
Source: Research Data

The trend observed concerning the use of financial controls in relation to other firm characteristics still applied in this case. All respondents utilized financial measures to evaluate strategies regardless of their sales turnovers. Results also indicate that MBO and audits ranked second in terms of spectrum of utilization. 3 out of the 4 categories utilized them to varying degrees. Respondents with sales turnover of above Ksh. 1 billion made use of more techniques compared to the other categories suggesting once again that the bigger the company the more the techniques utilized to evaluate strategies.

### 4.4.5 Strategic Planning and Utilization of Evaluation and Control Techniques

For one to fully appreciate how pharmaceutical organizations in the country carry out strategy evaluation and control, it is important to first determine some of their characteristics regarding strategic planning. This would then inform whether these characteristics have any bearing on how they control and evaluate strategies. Consequently, the study sought to find out whether or not respondents carry out strategic planning, how this is done and who is responsible for planning. The results were presented in the form of graphs and percentages.

Figure 4.5 Features of Strategic Planning




Source: Research Data

Majority of the respondents (90%) indicated that they engaged in strategic planning. Both formal and informal meetings are used in the strategic planning process (86.7

and 66.7% respectively). In addition, majority of the firms (76.7%) have clearly assigned responsibility of staff responsibility in strategic planning. However, a small number (10%) of the firms have a department specifically responsible for strategic planning as indicated in the graph above. These results are in agreement with findings of earlier studies among pharmaceuticals that indicate that players in this industry engage in strategic planning activities.

Table 4.19 Cross Tabulation between Presence of a Strategic Plan and Evaluation Technique

| **Presence of a strategic plan** | **Percentage** | | | | |
|---|---|---|---|---|---|
| | **Financial controls** | **Balanced Scorecard** | **Management by Objectives** | **Bench-marking** | **Audits** |
| Yes | 100 | 5.9 | 29.6 | 5.9 | 18.5 |
| No | 100 | 0 | 0 | 0 | 0 |

Source: Research Data

Financial controls were used by all respondents regardless of whether they had strategic plans or not. Non-financial techniques found usage in companies with strategic plans to varying degrees i.e. Balanced Scorecard (5.9%), Management by Objectives (29.6%), benchmarking (5.9%) and audits (18.5%). Companies which did not have strategic plans in place did not indicate utilization of non-financial techniques of evaluating strategies. Therefore, it would appear that there is a relationship between the existence of strategic plans and the utilization of non-financial techniques. Strategic planning tends to encourage the broadening of the spectrum of techniques utilized.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary

The objectives of this study were to establish the strategy evaluation and control practices employed by pharmaceutical manufacturers and distributors in Kenya as well as to determine the relationship between these practices and other firm characteristics. A total of 60 questionnaires were issued. Out of these, there were 30 responses representing a 50% response rate.

Results of the survey confirm findings of previous studies which indicate that majority of the pharmaceutical firms engage in strategic planning. This appears to be the case regardless of age, ownership, size, company type and target market. Most of the firms are run as family businesses whose main target is the local as well as the regional market. A small number of companies target the international market. Many firms tend to utilize both formal and informal approaches to strategy formulation and implementation. Responsibility for strategic planning activities is largely clearly assigned even though very few firms have planning departments.

Majority (83.4%) of respondents indicated strong appreciation of the importance of evaluating and controlling strategies. 80.0% of the respondents indicated that strategy review is mainly carried out by a combination of top and functional managers. A small percentage of the respondents (13.3) indicated it was the responsibility of top managers only while very few (6.7%) involved all staff. On-the-job training was found to be the most common way of gaining expertise in strategy evaluation and control represented by 60% of the respondents. 20% did so through combining formal and on-the-job training while 13.3% utilize formal training only. 6.7% did not give a response

Consistency was considered by the majority of respondents (47.7%) to be the most important factor among Rumelt's strategy evaluation criteria when deciding on strategies to be employed by their organizations. Most respondents (60.0%) indicated that they reviewed their strategies on a periodic basis i.e. quarterly, bi-annually or annually while 36.7% do so whenever need arises.  However, few firms (33.3%) make budgetary allocations for strategy evaluation and control activities.

Generally, most firms review their strengths, weakness, opportunities and threats as part of their strategy evaluation activities. Changes in competitors' strengths and weaknesses were rated as key considerations when reviewing the premises on which a company's strategy was formulated. Monitoring of financial performance was the most commonly used method of strategy evaluation and control. Many companies monitor such financial indicators as sales turnover, profitability, recurrent and capital expenditures, return on investment, cash flow, ageing of debts, gross margins and inventory valuations against set targets. Stock market price was not used at all suggesting that none of the companies is listed on the stock exchange market.

The level of usage of techniques that incorporate non-financial measures was however quite low and in sharp contrast to the use of financial controls. Management by Objectives (33.3%), audits (16.7%), balanced score card (3.3%) and benchmarking (3.3%). There was no indication of the use of contingency planning as a technique for controlling strategy implementation. Monitoring customer satisfaction, quality of products and services, staff performance and employee job satisfaction and the rate of new product development are some of the non-financial parameters used for evaluating how well a company's strategy was performing and controlling implementation.

Monitoring financial performance was utilized by all firms regardless of age, ownership, size and type. Using the Chi square test, relationships were identified to exist between company type and various factors considered by firms when reviewing the premises of strategy including changes in competitor's strengths and weaknesses, competitor's reaction to an organization's strategy, changes in competitor's strengths and weaknesses as well as competitors' satisfaction with their present market positions and profitability .

## 5.2 Conclusion

Majority of pharmaceutical manufacturers and distributors in Kenya engage in strategic thinking and have employed strategic management practises. In order to ensure realization of organizational goals and objectives, they need to evaluate and control implementation of strategies. Results of the study indicate that even though players in the industry evaluate and control strategy implementation, many firms do so mainly by monitoring and evaluating financial performance.

The use of formalized processes that make use of techniques which incorporate non-financial aspects of evaluation and control is yet to find widespread use. Monitoring financial performance cut across all firms and was not affected by other firm characteristics. A relationship was identified to exist between company type and various factors considered by firms when reviewing the premises of strategy.

## 5.3 Recommendations for Policy and Practice

There is need for players in the pharmaceutical industry to broaden the range of techniques used in evaluating and controlling strategy implementation. They particularly need to embrace the use of non-financial techniques to complement information acquired from monitoring and evaluating financial performance. The use of non-financial techniques enables a firm to gain a better understanding of its strategic position.

The study found out that few firms make budgetary provision for strategy evaluation and control activities. This implies that there is inadequate planning for strategy evaluation and control which could lead to failure of proper strategy implementation. Firms need to invest sufficient funds in these activities and plan ahead if they are to succeed in ensuring that strategy is implemented and adjusted in a manner that assures achievement of organizational goals. Players in the industry also need to build internal capacity for strategy evaluation and control by investing in the training of staff to enable them acquire relevant knowledge and skills.

## 5.4 Limitations of the Study

Some potential respondents indicated unwillingness to participate in the study while others felt that they were too small to respond to the questionnaire used in data collection. A number of firms failed to respond. Others were found to have either wound up operations to be no longer dealing with pharmaceuticals. These shortcomings had the net effect of reducing the total number of respondents thereby limiting access to data.

There were a few respondents who did not provide answers to some questions especially the open ended ones citing confidentiality. It was also apparent in a number of cases that some respondents did not have a good background on theoretical issues underlying strategy evaluation and control. Therefore, some responses were not clear while in some cases, the researcher was called upon to interpret a number of responses in order to determine where to categorize them. This could introduce some degree of error. Due to time limitation, it was not possible to administer majority of the questionnaires using the interview method. This would have provided more details especially with regard to open ended questions.

### 5.5 Suggestions for Further Research

This study was limited to pharmaceutical manufacturers and distributors in Kenya. Therefore, players operating as retailers were left out. A study geared towards retailers will give further insight on practices within the pharmaceutical industry. The study can also be extended to other industries in order to gain a wider understanding of practices within various sectors of the economy.

Research could also be undertaken focussing on individual organizations in order to gain an in-depth understanding of practices being utilized by specific firms within the pharmaceutical and other industries. This would provide helpful information for benchmarking especially if it is carried out among companies considered to be engaging best practises or those listed at the Nairobi Stock Exchange.

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## APPENDIX 1: LETTER OF INTRODUCTION

The Managing Director

Name and Address of the Organization

Dear Sir / Madam,

**RE: RESEARCH ON STRATEGY EVALUATION AND CONTROL BY PHARMACEUTICAL MANUFACTURERS AND DISTRIBUTORS IN KENYA**

I am a postgraduate student in the School of Business at the University of Nairobi pursuing an MBA programme and undertaking a management research project on the above subject as part of the postgraduate requirement.

Your organization has been selected to form part of this study. Kindly assist in data collection by responding to the questions in the attached questionnaire. The information provided will exclusively be used for academic purposes only and will be treated with utmost confidence.

A copy of the final report will be provided to you upon request.

Your cooperation will be highly appreciated.

Yours faithfully,

Wycliffe M. Nandama

## APPENDIX II: QUESTIONNAIRE

**Research Topic: Strategy Evaluation and Control by Pharmaceutical manufacturers and distributors in Kenya**

**Note:** This is an academic research project and there are no right or wrong answers. Please provide answers to the following questions by giving the necessary details in the spaces provided or ticking (√) as appropriate.

**PART I. COMPANY PROFILE**

1.1 Company Name:

1.2 Title of respondent: …………………………………………….

1.3 Which year was it established? …………………

1.4 Company ownership:

a. Local [ ]

b. Foreign [ ]

c. Other [ ] Please specify:

…………………………………………………………………………………………

….……………………………………………………………………………………...

1.5 Company type:

a. Manufacturer [ ]

b. Distributor [ ]

1.6 Number of employees in the organization.

a. Less than 50 [ ]

b. Above 50 but below 100 [ ]

c. Above 100 but below 200 [ ]

d. Above 200 [ ]

1.7 Target Market

a. Local [ ]

b. Regional [ ]

c. International [ ]

1.8 Average annual sales turnover for the last 3 years

a. < Ksh. 50M [ ]

b. Above Ksh. 50M but below Ksh. 500M [ ]

c. Above Ksh. 500M but below Ksh. 1billion [ ]

d. > Ksh. 1billion [ ]

**PART II. GOVERNANCE**

Briefly describe the governance structure of your organization

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

**PART III. STRATEGIC PLANNING AND IMPLEMENTATION**

3.1 Does your company have a strategic plan?

Yes [ ]   No [ ]

3.2 Indicate whether the following features characterize your planning process.

| | | | |
|---|---|---|---|
| a. | Formal planning meetings | Yes [ ] | No [ ] |
| b. | Informal planning meetings | Yes [ ] | No [ ] |
| c. | Clearly assigned responsibility for planning | Yes [ ] | No [ ] |
| d. | Existence of a planning department | Yes [ ] | No [ ] |

3.3 When formulating strategies, rank the factors listed below in order of importance when deciding on strategies to be employed by the company. (Number the most important 1, the next 2 and so on. If a factor has no importance at all, please leave blank)

a. Ability to present consistent goals and policies [ ]

b. Ability to examine trends [ ]

c. Ability to utilize existing resources [ ]

d. Ability to create and maintain competitive advantage) [ ]

3.4 What are the main obstacles you experience in the strategy implementation process?

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**PART IV. STRATEGY EVALUATION AND CONTROL**

4.1 What is your opinion about the following statement? ‘It is important to evaluate and control organizational strategies’

a. Strongly agree [ ]

b. Mildly agree [ ]

c. Neither agree nor disagree [ ]

d. Mildly disagree [ ]

e. Strongly disagree [ ]

4.2 Does your company see the need to review and monitor its strategy?

a. Always yes [ ]
b. Usually yes [ ]
c. Sometimes yes [ ]
d. Seldom yes [ ]
e. Never yes [ ]

4.3 How frequently does your company review its strategies?

a. Annually [ ]
b. Bi-annually [ ]
c. Quarterly [ ]
d. Whenever necessary [ ]
e. Rarely [ ]
f. Never [ ]
g. Other [ ] Please specify:

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4.4 Does your company have a budget specifically for strategy evaluation and control activities?

Yes [ ]    No [ ]

4.5 In general, how often does your company re-look at aspects of its initial SWOT analysis carried out during the planning stage when reviewing its strategies?

| | **Consideration** | **Always** | **Usually** | **Sometimes** | **Seldom** | **Never** |
|---|---|---|---|---|---|---|
| a | Strengths | | | | | |
| b | Weaknesses | | | | | |
| c | Opportunities | | | | | |
| d | Threats | | | | | |

4.6 How do you rate the importance of considering the following when reviewing the premises on which your company's strategy was formulated? **(Note: 1= Least importance, while 5 = Highest importance)**

| **Consideration** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Competitor's reaction to the organization's strategies | | | | | |
| Changes in competitors strategies | | | | | |
| Changes in competitor's strengths and weaknesses | | | | | |
| Reasons for strategic changes by competitors | | | | | |
| Competitors' satisfaction with their present market positions and profitability | | | | | |
| How far major competitors can be pushed before retaliating | | | | | |
| How the organization could effectively cooperate with competitors | | | | | |

4.7 What performance measures are utilized by your company to evaluate strategies?

a. Financial [ ]

b. Non-financial [ ]

c. Both financial and non-financial [ ]

4.8 List 5 financial measures used by your company to evaluate and control strategies

a…………………………………………

b.…………………………………………

c.…………………………………………

d.…………………………………………

e…………………………………………

4.9 List 5 Non-financial measures used by your company to evaluate and control strategies

a…………………………………………

b.…………………………………………

c.…………………………………………

d.…………………………………………

e…………………………………………

4.10 Who is responsible for evaluating and controlling the implementation of strategy?

a. Top management only [ ]

b. Top and functional managers [ ]

c. All staff [ ]

d. No one in particular [ ]

e. Other [ ]: Please specify:

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4.11 How do personnel responsible for strategy evaluation and control gain expertise in these aspects?

a. Formal training [ ]

b. On-the-job training [ ]

c. Other [ ] Please specify:

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4.12 Describe the process by which your company evaluates its strategies to determine whether it is achieving desired results (Methodology and Metrics used).

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4.13 Describe the process by which your company controls strategy implementation to ensure the achievement of desired results (Methodology and Metrics used).

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4.14 What factors influence the choice of the methods and metrics used in 4.12 and 4.13 above?

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4.15 How are findings of strategy evaluation activities utilized?

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4.16 What challenges does your company encounter in evaluating and controlling its strategies?

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**THANK YOU FOR YOUR TIME**

## APPENDIX III: RESPONDENTS

1. Ace Pharmaceuticals
2. Autosterile Ltd.
3. Biodeal Laboratories Ltd.
4. C. Mehta & Company Ltd.
5. Centrale Humanitaire Medico-Pharmaceutique (CHMP)
6. Cosmos Ltd
7. Dawa Limited
8. Elys Chemical Industries Ltd
9. Galaxy pharmaceuticals Ltd.
10. Harleys Ltd
11. Infusions Medicare Ltd
12. Kam Pharmacy (Wholesale) Ltd.
13. Lords Healthcare Ltd.
14. MacNaughton Ltd.
15. Madawa pharmaceuticals Ltd.
16. Medisel (K) Ltd.
17. Medivet products Ltd.
18. Medox Pharmaceuticals Ltd.
19. Mission for Essential Drugs and Supplies (MEDS)
20. Njimia pharmaceuticals Ltd.
21. Pan pharmaceuticals Ltd.
22. Phillips pharmaceuticals Ltd.
23. Ray Pharmaceuticals Ltd.
24. Regal pharmaceuticals Ltd.

25. Sai pharmaceuticals Ltd.

26. Sanofi Pasteur

27. Surgilinks Ltd.

28. Synermed Pharmaceuticals Ltd.

29. Unisel Ltd.

30. Universal Corporation Ltd

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