STRATEGIC CONTROL SYSTEMS IN STRATEGY IMPLEMENTATION AND FINANCIAL PERFORMANCE OF BAMBURI CEMENT LIMITED, KENYA

BY

NDEGWA EPHANTUS WANJOHI

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DECLARATION

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

Signed..... Date.....

Ndegwa E. Wanjohi

Reg. No. D61/P/8040/2002

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

Signed..... Date.....

Professor Martin Ogutu

Department of Business Administration

School of Business

University of Nairobi

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DEDICATION

This report is dedicated to my dear parents who believed in education and made sure that my siblings and I had it all even in the most difficult of times.

The report is also dedicated to all scholars and academicians who continue to document their knowledge and thoughts for others to learn, reference and advance.

ABSTRACT

Bamburi Cement Limited (BCL) continues to publish impressive financial results despite heightened competitive and cost pressures in Kenya's cement industry. It is in the backdrop of a turbulent business environment that the case study sought to provide in-depth insight of the company's strategic control systems (SCS) in implementation of its competitive strategic thrusts over five years. The study relied on both primary and secondary data sources to identify the SCS applied and financial performance of the company while examining the relationship between them. Content analysis was used to summarize and infer findings from interviews while the Pearson's product moment correlation coefficient and regression analysis was used to examine the relationship between the financial performance and SCS application. Interviews with the company's top management revealed that BCL applies various administrative SCS in implementation of strategy. It was established that the selection of SCS depends on the type of strategies implemented while the intensity of their application is influenced by both internal perceptions and external forces. The research established a significant and positive relationship between the intensity of SCS application and financial performance of the company. The aim of the study was to contribute to the minimal research base of SCS application practices in Kenya and more-so ascertain the importance and role of strategic control systems in a company's financial performance.

Key words: Strategic Control Systems; Strategy Evaluation and Control; Strategy Implementation; Financial Performance; Bamburi Cement Limited; and Kenya.

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ACRONYMS AND ABBREVIATIONS

BCL	Bamburi Cement Limited
BSP	Bamburi Special Products Limited
CAGR	Compounded Annual Growth Rate
Capex	Capital Expenditure
CDP	Cement Division Package
Cementia AG	Aktiengesellschaft (German for Limited Company)
COI	Current Operating Income
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
DPS	Dividends Per Share
EACPA	East Africa Cement Producers Association
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
EPS	Earnings Per Share
ERP	Enterprise Resource Planning System
EVA	Economic Value Added
FCF	Free Cash Flows
HCL	Hima Cement Limited
HR	Human Resources
Ksh	Kenya Shilling (Kenya Monetary Currency)
Kt	Kilo tons (1,000 tons)
Lafarge SA	Société Anonyme (French for Limited Company)
LES	Lafarge Eco Systems Limited
LTI	Lost Time Incident
m^2	Meters Squared
m^3	Cubic Meters
Mn	Million
MSAP	Mombasa Plant
NGP	Nairobi Grinding Plant
No.	Number
Opex	Operating Expenses
PE	Price Earnings
R&O	Risk and Opportunities analysis
RMX	Ready Mix Concrete
ROCE	Return on Capital Employed
ROI	Return on Investment
SCS	Strategic Control Systems
UoM	Unit of Measure

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Companies operating in Kenya's cement industry are inadvertently faced by a myriad of challenges key among them increased competition exacerbated by new entrants, threat of imports and increased capacities coupled with high production costs particularly on energy, imported clinker and transport. Furthermore, Kenya's economic context is largely characterized by high inflation, high interest rates and volatility in currency fluctuations.

According to Porter (1998), firms develop competitive strategies to survive and maintain a competitive advantage in the market. In Kenya, cement companies have adopted various competitive strategies in response to sectoral and economic pressures (Nyawira, 2010; and Otido, 2011). Bamburi Cement Limited too has a formal strategy development process that is influenced by external and internal situations (Mwanzia, 2009).

It is important to note that strategy formulation in itself is not the key to success. In fact, Mintzberg and Quinn (1991); and Kaplan and Norton (2001) concluded that ninety percent of well formulated strategies fail at the implementation stage mainly due to inadequacies in the administrative processes of strategy evaluation and control. It is therefore critical that organizations employ effective control and evaluation practices to ensure successful implementation of strategy and achieve desired results (Simons, 1994).

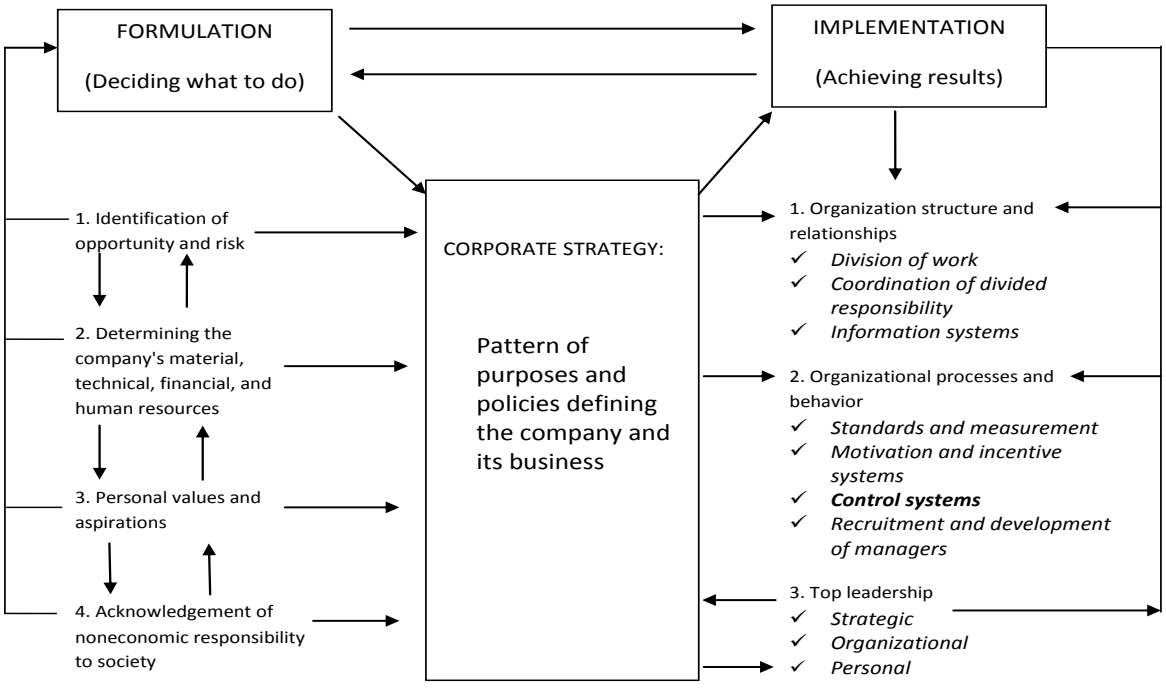
Through an in-depth examination of the strategy implementation, evaluation and control processes at Bamburi Cement Limited, this study seeks to identify the company's strategic control systems applied on its strategic thrusts (Hax & Majluf, 1996) and establish the relationship of the control systems to the company's financial performance.

1.1.1 Strategic Management Process

Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals and produces the principal policies and plans for achieving those goals (Andrews, 1987). Strategic management is an organizational process that entails three distinct aspects, that is, formulation, implementation; evaluation and control.

Strategy formulation mainly comprises of analytical activities primarily concerned with the selection of strategic choices within an environmental context while strategy implementation comprises of various sub-activities that are primarily administrative. Strategy implementation involves the coordination of an organization's resources and competencies to realize the strategic intentions as formulated. In essence, strategy implementation is concerned with the translation of strategy into action.

Figure 1: Strategy as a pattern of interrelated decisions



Source: Andrews (1987)

According to Pearce and Robinson (2003), mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards, and control systems are essential strategy implementation ingredients to effectively direct and control the use of the firm's resources. Strategy evaluation and control is a critical component of the strategic management process in providing learning and feed forward to the strategy formulation stage; and corrective actions and feedback to the strategy implementation process.

1.1.2 Strategic Control Systems

Strategic controls are a critical component of the strategic management process and in particular the implementation process, as it involves tracking, monitoring and evaluating the effectiveness of the implemented strategies, as well as making any necessary adjustments and improvements where necessary. Typically, strategic control systems (SCS) are viewed as tools of strategy implementation necessary to steer an organization through the changes that take place in response to the organization’s external and internal situations while providing feedback or feed forward to the strategy management process. They are formal target-setting, measurement, and feedback systems used by managers to evaluate whether a company is achieving desired behavior and implementing its strategy successfully.

Mockler (1972) defines controlling as a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with these predetermined standards, to determine whether there are any deviations and to measure their significance, and to take any action required to assure that all corporate resources are being used in the most effective and efficient way possible in

achieving corporate objectives. Simons (1994) notes that in addition to traditional measuring and monitoring functions, control systems formalize beliefs, set boundaries on acceptable strategic behavior, define and measure critical performance variables, and motivate debate and discussion about strategic uncertainties.

There are four basic types of strategic controls; Strategic surveillance, Premise, Special Alert and Implementation control (Schreyogg & Steinmann, 1987; and Pearce & Robinson, 2003). Strategic surveillance monitors a broad range of events inside and outside the organization that are likely to affect the course of its strategy. Premise controls systematically and continuously check whether the environmental and industrial assumptions on which the strategy is based are still valid. Special alert control is the deep and urgent revaluation of the firm's strategy triggered by a sudden and unexpected event. Implementation controls involve monitoring of strategic thrusts and milestone reviews while assessing overall relevance of strategy in view of incremental actions and results.

1.1.3 Organization Financial Performance

As an open system, an organization interacts with the environment in exchange of goods and services to create value. The inputs and value creation are measured in monetary terms and evaluated against preset standards. An organization should therefore select the right measurement tools that can effectively measure its performance and focus on meeting shareholders aim of profit maximization (Aguilar, 2003).

Performance measurement monitors strategy implementation (Simons, 1990) and is mainly underpinned by a financial perspective (Johnson and Kaplan, 1987). Financial measures express results of decisions in a comparable measurement unit and capture the cost of trade-offs between resources as well as the cost of spare capacity (Epstein and

Manzoni, 1997). Moreover, they support contractual relationships and the capital markets (Atkinson, Waterhouse & Wells, 1997). These financial measures clarify where a company should focus its efforts, what business processes need to be improved and identify weaknesses of that organization. Common financial performance measures used include profitability, liquidity, activity analysis, capital structure and stock market ratios.

Peters (1987) cautions that fixation with financial measurement leads to managers downplaying or ignoring less tangible, non-financial measures, such as competitiveness, quality, customer satisfaction, quality of employee working life, and innovation. Recognizing the fact that it is not conducive to evaluate the performance of organizations using either financial or non financial measure alone, there have been arguments for the use of a combination of both measures.

1.1.4 Cement Industry in Kenya

The importance of Kenya's cement industry as a key pillar of the country's vision 2030 cannot be overemphasized. The role of cement companies in the Kenyan economy has increased significantly in the recent past especially due to the growth of the construction industry in the country (Wanjira, 2010). The industry has witnessed a transformation in the past five years amid increased competition accentuated by new entrants and enhanced capacity by existing players stimulated by a growing cement and related products market. In 2008, the cement industry landscape in Kenya was marked by only three organizations namely; Bamburi Cement Limited, East African Portland Cement Company Limited and Athi River Mining Limited. Currently there are six cement companies with additions from; Mombasa Cement Limited operational in 2009, National Cement Limited operational in 2010 and Savannah Cement Limited operational in 2012.

Cement industry margins have come under strain following aggressive price competition strategy adopted by the new entrants coupled with increased costs of production in the sector. The high costs of production have been exemplified by escalating fuel and electricity prices coupled with pressure of spiraling double digit inflation on administrative and raw material costs. Furthermore, changes in regional regulatory framework which reduced import duty on cement from 40% to 25% under the East African Community Common External Tariff in June 2008 has led to an influx of cheap cement imports from low cost and government subsidized cement producers from the far-east countries mainly Pakistan and China. The industry further faces challenges from the COMESA bloc's push for a 10% Common External Tariff.

1.1.5 Bamburi Cement Limited, Kenya

As a key player in the cement industry, Bamburi Cement Limited plays an important role in the Kenyan economy by paying taxes, offering employment opportunities and sustaining the construction industry (Mwanzia, 2009). Founded in 1951 by Dr. Felix Mandl, BCL has grown to be Kenya's largest cement producer in terms of production capacity, market share and profitability. The company whose vision is "to be a world class producer that provides construction solutions to customers across Eastern Africa with a commitment to sustainability" has operations in both Kenya and Uganda and is listed in the Nairobi Securities Exchange under the construction and allied category.

The major shareholder controlling a 58.6% stake is Lafarge SA (Société Anonyme), a French based limited company and the world's largest manufacturer of building materials. Lafarge became the company's largest shareholder following the global acquisition of Swiss based Cementia AG in 1989 and subsequent acquisition of British based Blue

Circle Limited interests in 2001. Bamburi Special Products and Lafarge Ecosystems are wholly owned subsidiaries based in Kenya while Hima Cement Ltd is based in Uganda. Bamburi Cement Ltd also owns 70% and 29% of HCL and East African Portland Cement Company Ltd respectively. BSP specializes in the manufacture of precast concrete blocks and ready mix concrete while LES manages the company's mining reserves and rehabilitation of its mined quarries.

Notwithstanding the turbulence and challenges in the cement industry, the five year published financial performance records of BCL show continued resilience and a steady year on year improvement in turnover and operating profit. The notable competitive and growth strategies employed by BCL include; cost leadership, diversification, sustainability, vertical integration, capacity expansion and territorial expansion.

1.2 Research Problem

Strategy evaluation and control is an integral part of an organization's strategic management process (Siro, 2009) that achieves advantage in a changing environment to meet the needs of markets and to fulfill stakeholder expectations (Johnson et al., 2008). According to Mintzberg (1987), strategy involves attaining and maintaining competitive advantage through the successive exploitation of known or emergent possibilities. Mwanzia (2009) concluded that the strategy development process at BCL is a product of both planned and emergent strategies while acknowledging existence of strategic evaluation and control practices at the company.

A detailed search of available studies in the area of strategy evaluation and control in the implementation of strategy revealed that despite a growing interest in the study of strategy control practices, only a handful of studies have been conducted on the topic in

Kenya. The studies identified covered strategy evaluation and control practices among dairy processing firms in Kenya (Kariuki, 2008); Kenya Wildlife Service (Siro, 2009); faith based organizations in Nairobi (Gaithuma, 2009); Kengen Ltd (Kinyua, 2009); Kenya Revenue Authority (Wanyama, 2009); National Social Security Fund, Kenya (Chelimo, 2010; and Musyoka, 2011); Parastatals in Kenya (Kaguru , 2010); Pharmaceutical manufacturer and distributors in Kenya (Nandama , 2010); and power generation, transmission and distribution (Rwara, 2011).

On further examination of the studies carried out on Kenyan firms, it became apparent that despite conceptual acknowledgement of the relevance of strategic control systems, the measurement of their contribution to company performance lacked practical investigation. The search further revealed that no research has been conducted on the subject of strategic control systems on Bamburi Cement Limited and more so, Kenya's construction industry which is the company's strategic group (Porter, 1980).

It is in the backdrop of the phenomenon of Bamburi Cement Limited's continued good financial performance in a turbulent operating environment and the identified gap of knowledge that the study will seek to identify the strategy control systems applied by BCL to ensure strategies remain on track during their implementation and answer the question on whether the control systems influence the company's financial performance.

1.3 Research Objectives

This study seeks to:

i. Identify the Strategy Control Systems applied by Bamburi Cement Limited.
ii. Examine the relationship between the Control Systems applied and the Company's financial performance over five years.

1.4 Value of the Study

The research will contribute to theoretical developments and knowledge base of strategic management in the area of strategy evaluation and control by providing factual collaborative information. It will be beneficial to strategic management scholars as a source of secondary data material while stimulating further research on strategic control systems application practices.

The study will also be useful to the management of Bamburi Cement Limited and the wider corporate practitioners in understanding the importance and relationship of strategic control efforts to company performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature in this study is reviewed in line with the study objectives and highlights the underpinning concept of strategic evaluation and control, strategy implementation process, strategic control systems and practices; and organization financial performance.

2.2 Strategy Evaluation and Control

Since the concept of strategy was formally introduced to business and management in the early 1950s (Aosa, 1999), strategic management has evolved from a simple planning function to a process consisting of three distinct but interrelated stages or tasks that interact with each other namely; strategy formulation, strategy implementation, and strategy evaluation and control (Thompson & Strickland, 2001).

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again (Hunger and Wheelen, 2011). Its importance lies in its ability to coordinate the tasks performed by managers through the control of performance. In the absence of coordinating and controlling mechanisms, managers may pursue goals, which are inconsistent with the overall objectives of the organization (Kazmi, 2008).

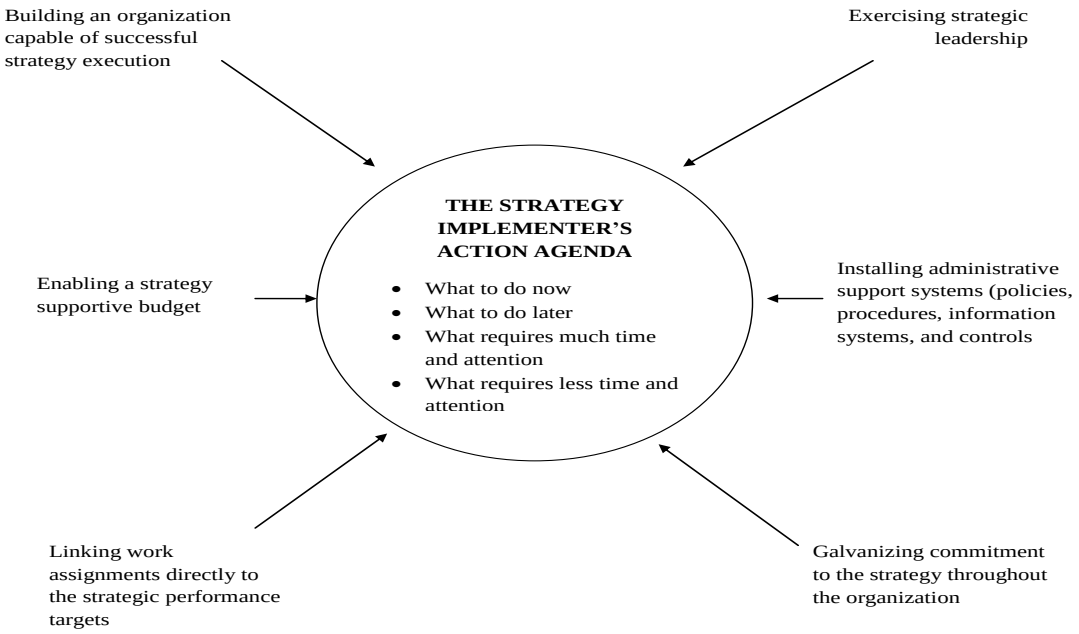
The process of evaluation involves four steps namely; Setting standards of performance, Measuring performance against pre-set standards, Analyzing variances between standards and results; and Taking corrective action on the identified undesirable variances. It is an important process since it provides feedback, validates strategic choices, ensures congruence between decisions and strategic intentions and feed forward information to new strategy formulation.

Strategy control entails the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance (Hitt et al., 1996). In this case, measurement systems have to contribute to the implementation of the strategic orientations in guiding the action by ensuring short- and long-term performance evaluation. Therefore it can be construed that strategic control is aimed at monitoring the course of progress in the predetermined direction, and evaluation of organizational performance of organizational units to assess their contribution to the achievement of organizational objectives.

2.3 Strategy Implementation

Strategy implementation is an administrative process that involves translation of strategy into action. According to Thompson and Strickland (1989), the cornerstones of strategy implementation are developing an organization’s capability to carry out strategy successfully, mobilizing resources into activities critical to strategy success, instituting supportive internal policies and procedures, creating a strategy supportive working environment, tying reward structures to achievement of organizational objectives while inducing motivation in people to meet the needs of strategic change.

Figure 2: Implementing Strategy: The Key Tasks



Source: Thompson and Strickland (1989)

The success of a strategy depends upon the efficacy of implementation and therefore top priority of strategy implementation is building a capable organization. It involves developing a responsive internal organization structure, building and nurturing skills and competencies and selecting people for key positions. Chandler (1962) argued that strategy follows structure. In his work, Chandler advanced that a long term perspective of strategy was necessary to give the company structure direction and focus. Therefore, organization structure, processes, behavior and people can be construed as imperatives of strategy implementation.

2.4 Strategy Control and Systems

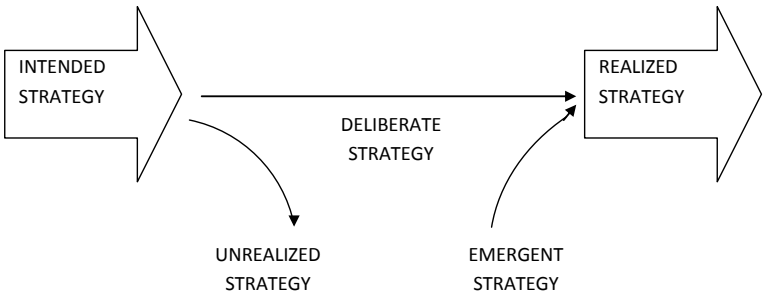
Control can be understood at multiple levels to mean various things. It can imply the exercise of influence, regulation, restraint, prevention, elimination, command and direction over behaviors, activities, tendencies or events. It implies testing or verification

in science. According to Mockler (1972), controls can be implemented before, during, or after the activity is completed.

Strategic control is the process of strategy evaluation after formulation, during and after implementation that seeks to identify whether the existing strategy fits, whether it will fit in the future and whether there is need to change it. It is a critical phase in strategic management that highlights the efficiency and effectiveness of the selected strategies and plans in relation to desired outcomes. This process consists of four fundamental activities namely; fixing a performance benchmark, measurement of performance, analyzing variances and taking corrective actions. It is on the basis of results from this phase that management may make adjustments in strategy formulation or implementation or both.

Mintzberg and Waters (1985) postulated that the strategy formation process is complex and varied and that not all intended or planned strategies are realized. They demonstrated that realized strategies could be either deliberate or emergent.

Figure 3: Types of Strategies



Source: Mintzberg and Waters (1985)

The complexity of strategy formation and implementation coupled with the dynamic and unpredictable nature of an organization's environment may create a gap between planned goals and actual results. Therefore management may alter an organization's activities in response to these gaps (Asch, 1989). This can be achieved by maintaining a stable

strategic path by constantly addressing deviations from desired objectives (Quinn, 1980) or by modifying the original objectives to include current and emergent trends. To avoid unrealized strategies, SCS are essential in monitoring the strategy and detecting potential and inherent problems, and making the necessary adjustments.

At the corporate level, SCS are defined as administrative mechanisms by which corporate executives influence the strategic direction and level of achievement of their firm's multiple business units while at the business level, SCS are processes which managers adjust their strategies over time inorder to pursue larger corporate goals (Fiegener, 1994). SCS differ from typical management controls since they require more data from external sources, they are oriented to the future, they are concerned with qualitative measurement of decision premise accuracy, they are based on external factors and rely on variable reporting intervals.

SCS can therefore be viewed as having a long-term orientation which can promote managers' support of initiatives that enhance long-term value creation (Hitt et al., 1996). According to Pearce and Robinson (2003), strategy control is concerned with guiding action as that action is taking place and when the end result is still several years off.

SCS are used to delegate; and manage strategy formulation, implementation and evaluation. Hax and Majluf (1996) noted that strategy control metrics should be embedded on strategic thrusts that reveal the strategic intent of the firm as shaped by top managers and translated into a set of tasks unequivocally assigned to each of the organization units and responsible managers.

SCS are influenced by an organization's internal and external situations of change and complexity. Fiegener (1997) noted that the relationship between the design and the

effectiveness of strategic control depends on the environmental context. It is an ongoing evaluation activity that informs strategic adjustments and is itself modified to cater for changes in the environment (Thompson & Strickland, 2001). It involves qualitative assessments of a firm's performance based on its objectives and competitive environment (Hoskisson et al, 1993).

SCS are ongoing; monitor and measure short term and long term sustainability objectives of a financial and non-financial nature; and provide feedback to the strategy management process. Goold and Quinn (1993) describe strategic control as monitoring the implementation and progress of policies to achieve strategic goals supplementing financial control with non-financial criteria such as cost targets relative to those of competitors; market share in comparison with main competitor; relative product/service quality; timetables for strategic action programmes. The balanced scorecard advanced by Kaplan and Norton (2001) measures performance on the basis of both financial and non-financial metrics.

Controls can be categorized on the basis of their timing as feed-forward, concurrent and feedback (Mockler, 1972; and Kinicki and Williams, 2003). Feed forward controls also referred to as preliminary, pre-control, preventive, or steering controls, focus on inputs regulation to ensure they meet desired standard. Concurrent controls are also referred to as screening or yes-no controls, and focus on regulating ongoing activity to ensure they meet standards while Feedback controls also referred to as post action or output controls, focus on variation between standards and actual performance.

2.4.1 Barriers to Strategy Control Systems application

Prior research in the area of strategic control indicates that the implementation of strategic control can be difficult in terms of technical and design limitations. However, the limitations and barriers are unlikely to represent fundamental obstacles or difficulties associated with implementing effective strategic control systems (Durden, 2001). According to Lorange and Murphy (1984), the underlying barriers to strategic control can be grouped into Systematic, Behavioral and Political classes.

Systematic barriers arise from deficiencies in the control system or its management. Creating and developing SCS and subsequent promulgation throughout the organization could be expensive and counterproductive exacerbated by bureaucracy and too much emphasis on strategy evaluation. Uncertainty and inflexibility in linking plans to strategic outcomes could culminate in potential complexity of devising robust and workable measures leading to unrealistic and unachievable measurement metrics and timelines that could subsequently limit SCS application.

Behavioral barriers result from managers' inability to think in new ways and overcome familiar thought patterns. SCS application may be inhibited by employee resistance to changes in measurement and control patterns exacerbated by synergy loss arising from sub-optimization or silo mentality among managers. SCS may be negatively impacted by employee demoralization and low motivation levels arising from lack of participation and engagement in its development.

Political barriers stem from the complexity of resource allocation in a political environment. Political struggles within an organization could scuttle SCS implementation and use. Cultural misfit could also impede SCS application (Lorange & Murphy, 1984).

2.4.2 Successful Strategy Control Systems application

According to Fiegener (1994), a generic control process has four sub-processes namely standard setting, administrative actions, outcome measurement, and evaluation-reward. It is therefore imperative that mechanisms, tools, structure, people and culture embedded on these sub processes be effectively deployed to achieve successful SCS application.

Standard setting should be aligned to strategic intent. Translating strategic goals into performance objectives and deploying them across the organization promotes alignment of standards to the strategic thrusts expressed in terms of key strategic themes as in the balance scorecard framework advanced by Kaplan and Norton (2001). This alignment ensures each operational level contributes to the achievement of the overall strategic goal.

Administratively, SCS should fit and match the strategic orientation of an organization. Fiegener (1994) postulated that the tightness or looseness of control systems is dependent on type of strategy pursued. Porter (1980) suggested that firms pursuing cost leadership strategy employ tight control systems while those pursuing differentiator strategy employ looser and more subjective control systems. Miles and Snow (1978) concluded that defender strategies require tight cost control while prospector strategies rely on informal controls.

Successful SCS should be top management priority and play an essential role in helping organizations become fast learning and adaptive. SCS should be flexible and provide meaningful feedback and feed forward information that are measurable and can motivate an organization. SCS should be formalized and tie organizational reward system with strategic outcomes while enabling supervision and the cultural context of an organization.

2.5 Organization Financial Performance

It is imperative that organizations adopt appropriate measures which could be used to continually monitor performance against objectives. The set of performance measures adopted are affected by the interaction of three contingent variables namely; the competitive environment, the chosen strategy and the type of business. Typically, in a dynamic environment, measures are interactive focusing on exceptions like strategic threats and uncertainties whereas in stable environments, delegated control of day to day operations can be relied upon. Organizations pursuing a service quality differentiation strategy may require different measures from those pursuing an innovation strategy. Furthermore, some measures may be feasible in one sector but not in others.

Table 1: Types of Performance Measures

Measures	Dimension	Examples
Financial Performance	Profitability analysis	Growth, EBITDA, net profit, ROCE, contribution, operating margins, asset turnover, ROI, EVA
	Liquidity analysis	Working capital, FCF, current ratio, inventory turnover, inventory days, trade receivables days, trade payable days
	Capital structures	Gearing ratio, interest cover
	Activity analysis	Budget variance, Usage/ volume variance, project evaluation
	Stock Market Ratios	Market capitalization, EPS, DPS, PE ratio, dividend yield, dividend cover
Non-financial Performance	Competitiveness	Market share and position, sales growth rate vs. market growth rate, customer base growth
	Resource utilization	Productivity measures (Capex and Opex productivity), cost effectiveness (marketing campaign decay rates)
	Service/ Product quality	Customer complaints, customer feedback, supplier quality evaluation
	Customer satisfaction	Lead time (responsiveness), customer/ trade visits, delight surveys, customer loyalty
	Working life quality	Job satisfaction, engagement index, staff turnover, overtime, absenteeism
	Innovation	Proportion of new to old products, contribution of new products, product curling rate
	Corporate social responsibility (CSR)	Environmental impact and sustainability, community engagement, tax compliance

Source: Researcher (2013)

Financial performance refers to the degree at which an organization's financial objectives are being or have been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms and is used to measure firm's overall financial health over a given period of time and benchmark with similar firms.

Financial performance measures have been criticized on the grounds that they can lead to many problems including focusing on achieving results on the short term; cause and effect relationship lag; too much historical focus; orientation on transactions; some economic values ignored; lack of predictive ability; provide little information on root cause and solutions and data manipulation (Merchant and Van der Stede, 2007; Ittner et al., 2003). These problems led to agitation for the use of a multi-dimensional performance measurement that supplements traditional financial metrics with non-financial metrics (e.g. Kaplan & Norton, 2001; Atkinson et al., 1997; Simons, 1990; Peters, 1987). The use of multidimensional performance measurement systems depends on several environmental and organizational contexts.

Despite the heavy criticism, financial performance remain widely used as the main control measures mainly because it is among the primary measures outsiders use to evaluate the organizations' performance, it provides a relatively subtle or unassuming form of control allowing managers to adapt their operations to fit their managerial styles thus stimulate creative thinking, and the cost of implementing them is often small relative to that of other forms of control because the core financial results control measurement elements are largely in place (Merchant & Van der Stede, 2007).

2.6 Strategic Control Systems and Financial Performance

The measurement and evaluation of performance is central to control, and addresses three questions namely; what happened, why it happened and what to do about it. Financial performance provides short term feedback to the control systems as they monitor the implementation of strategic objectives by checking the organizations position, communicating the position, confirming priorities and compelling progress. It can therefore be construed that SCS are the means while financial performance is the end.

The specific mission of business is economic performance and every management act, decision and deliberation has economic performance as its first dimension (Drucker, 1974). Even though financial performance is the key mission of a business firm, it should not be evaluated in isolation, but should be converged with non-financial metrics since SCS monitor an organization's sustainability over long periods of time. However, these non-financial metrics must link to financial goals.

It is generally accepted that proper SCS application enhance corporate performance, and the growing literature and research base in support of this relationship (e.g. Kuye & Oghojafor, 2011; Livin et al., 2008; Pearce and Robinson, 2003; Fiegener, 1994) is a demonstration of the subjects importance within business and management circles.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter identifies the procedures and techniques that were used in conducting the study and details the research design and the data collection methods and tools used during the research as well as how the data collected was analyzed.

3.2 Research Design

The research was approached as a single case study. As advanced by Yin (2009), both descriptive and explanatory case study approaches were the preferred methods because they provide a holistic, detailed and in-depth insight of the applied SCS at Bamburi; and the relationship between the applied systems and company performance.

Farquhar (2012) suggests that the aim of case study research is to dig deep, look for explanations and gain understanding of the phenomenon through multiple data sources and through this understanding extend or test theory. According to Soy (1997), the case study method is used to build upon theory, to produce new theory, to dispute or challenge theory, to explain a situation, to provide a basis to apply solutions to situations, to explore, or to describe an object or phenomenon. Most recently, scholars and researchers have adopted the case study design successfully (Musyoka, 2011; Chelimo, 2010; Mwanzia, 2009 and Siro, 2009).

3.3 Data Collection

The study relied on both primary and secondary data. Primary data was collected through structured personal interviews with elements of unstructured guided conversation, targeting a minimum of 2 executives and 6 cross-functional middle tier managers due to the strategic insight required on the information sought; while secondary data was collected through observation of available company documents and company's published annual report and financial statements.

Collection of primary data was facilitated by an interview guide administered by researcher and summarized on pre-designed collection forms while the secondary data was collected in a pre-designed data collection form. The interview guide was structured in three parts; part one focused on the profile of interviewees, part two on the company and implemented strategies and; part three on the strategic control systems applied and relationship with financial performance.

Part three of the interview supported by guided conversation highlighted the strategic drivers linking them to the control systems applicable and subsequently financial performance parameters. Under this part, personally administered five point Likert scaling from responses of unstructured guided conversation was used to assess the interviewee's perspective of the company's strategic control systems and intensity of the systems application.

3.4 Data Analysis

Content analysis was used to analyze the qualitative data collected to determine concepts within narrations. Comparison was used to check consistency, completeness, accuracy, relevance and validity of responses. The data was then coded to delimit the number of categories for further analysis using the Statistical Package for Social Sciences (SPSS) version 17.0; for subsequent tabular presentation.

A five point non-comparative Likert scale was used to determine the extent to which strategic control systems are applied, with an intention to represent each strategic control system in different aspects of the same attitude. During the analysis, the Likert scale was used to derive the mean score to determine the intensity of each strategic control systems applied and their impact on strategies implemented by the company.

Product moment correlation was used to determine the existence of a relationship between SCS intensity and the company's financial performance while regression analysis was used to establish the amount of variations in financial performance which can be associated with changes in the value of strategic control systems intensity in the absence of other variables. The company’s financial performance was summarized in terms of turnover, costs and other income to determine the relationship with each control system as applied on target strategy. In this case as summarized in table 6, cost performance was examined against intensity of control systems on cost reduction, capacity expansion and sustainability strategies while turnover was examined against intensity of control systems on focus, differentiation, vertical integration, capacity expansion, territory expansion and product diversification strategies. Other income was assessed against both sustainability and divestment strategies.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretation of findings from the data obtained during the study. The data collected was analyzed in line with the underlying study objectives and the theoretical framework as outlined under the literature review. The findings are presented in a thematic approach based on the SCS typology advanced in theory by Schreyogg and Steinmann (1987) as applied on the corporate and business strategies advanced by Porter (1980) and Andrews (1987) respectively.

The primary data analyzed was collected through in-depth interviews with all the eight targeted managers thus yielding 100% response rate. The managers interviewed represented eight key departments at Bamburi Cement Limited namely; finance, human resources, sales, marketing, logistics, procurement, production and strategy. The content analyzed from secondary data was sourced from the company's published annual financial statements and selected management reports between 2008 and 2012; and internal publications which included principles of action, Lafarge way, group rules, principles of organization, management cycle and selected internal memos.

4.2 Strategy Management at Bamburi Cement Limited

To provide contextual clarity to the objectives of the study, the researcher first sought to understand the process of strategy management and strategies implemented (appendix D) by Bamburi Cement Limited over the past five years. Interviews with the company's

management revealed that the process of strategy development is highly formalized with a widely understood management cycle that is influenced by both external environment and internal situations.

4.2.1 Strategy Management Cycle

An in-depth review of the available secondary data established that the company's management cycle involves four key processes namely; strategic review, performance plans, organizational and human resource (O&HR) review and budgets. The strategic review, performance plans and O&HR reviews are annual processes with a three to five year focus while the budget is performed yearly. The purpose of the management cycle is to structure a collaborative process between all Lafarge business units, divisions and the group and to ensure that responsibility and authority are delegated in an effective and consistent manner. All components in the management cycle are linked together to form a common set of tools and processes for the entire Lafarge group which are anchored on a quarterly business review cycle.

4.2.1.1 Strategic Review

The strategic review process outlines the principal strategic objectives and measures their expected outcome in terms of value creation. It is prepared in the first half of the year by a small number of top managers and relies on an in-depth understanding of the business environment on a detailed analysis of its past performance as well as the strengths, weaknesses, opportunities and threats of the company's strategic position. It outlines the key challenges facing the business and lists any strategic changes that exist; provides a realistic assessment of market trends and external economic factors; evaluates each of the

various strategic options and their impact in helping achieve the organization's vision; describes the organic growth linked to the customer strategy and the external growth through acquisitions; outlines in global terms the main performance improvements that make this value creation possible; builds a high-level action plan and sets a timetable; lists any key points that require further analysis. The strategic review process serves as a framework for the development of the performance plan.

4.2.1.2 Performance Plans

The performance plans express and drive the performance improvement objectives and corresponding action plans over a time horizon of two to three years. Starting from an analysis of the strengths and weaknesses of the business, and following on from the business model and strategic review, the performance plan describes, for each significant value driver, the priorities for improving performance; sets the corresponding objectives, the level of ambition and the timetable; defines the actions required and the resources necessary to realize improvements and to achieve the results.

4.2.1.3 Organizational and Human Resources Review

The O&HR review is prepared jointly by the HR department and the managing director. Its purpose is to ensure, over a time horizon of three years, the organization structure and human resources are capable of delivering the strategic orientations, and that people are adequately supported and developed to achieve these orientations. The O&HR review assesses the organization in relation to its business context in terms of strategic objectives, critical success factors, potential obstacles and performance gaps; identifies the HR challenges faced by the organization and outlines corresponding initiatives and/or

specific actions to be taken; describes the evolution of the organizational structure, evaluates the potential of key managers and outlines their possible evolution; proposes a succession plan, indicating the possible advancement of individuals to key positions; defines the program for people development, focusing on identification of managers with development potential; follow-up of progress from individuals who have a performance problem; evolution of the pool of experts and functional staff; training and development initiatives currently underway or to be undertaken in the coming year; identification of candidates for international mobility and review of the situation and evolution of current expatriates; implementation of Group (Lafarge SA) directives on diversity and gender; analyzes the situation of key human resources processes and metrics like Hay implementation, compensation and benefits along with other processes that are important to the company.

4.2.1.4 Budgeting

The Budget is the process of the strategy management cycle that sets the annual financial objectives of the company and is approved by Lafarge SA. The budget process is consistent with the conclusions of the strategic review, the performance plan and the O&HR review; and is based on well-defined assumptions regarding the environment; contains objectives that are consistent with year one of the performance plan; and forecasts of capital allocation, in accordance with the rules set out by Lafarge SA. Management of the company commit to the budgeted financial objectives and undertakes to realize the performance objectives included in the Budget while realizing fully the benefits of an environment that is favorable to budget or strongly mitigate the impact of a negative environment.

4.2.2 Strategy Implementation

The interviewees in collaboration with documented processes revealed that the process of strategy development is characterized by both top down and bottom up approaches where top management of both Bamburi and the parent company Lafarge SA are tasked with formulation and adoption of strategies while the middle and lower carder staff are involved in implementation with modest involvement in the formulation and selection process. The middle management and lower carder staff are mainly involved in performance planning process. The selected strategies are cascaded to all staff through a formal communication process entailing bulletins, road shows and memorandum from the managing director specifying strategic intent and reasons for the strategic focus, functional specific contributions and departmental targets as anchored in the budget.

The interviewees noted that over the past five years, realized strategies at the company have been both intended and emergent with no intended strategies being unrealized. The study further revealed that despite the robust growth in demand for cement and related construction products in Kenya, the cement industry is characterized by intense competition exerting pressure on selling prices and escalating operating costs exacerbated by macro-economic outliers and poor infrastructure. To navigate through the turbulent operating environment, the company has embarked on various programs namely cost reduction, strategic revenue protection, business growth and sustainability to tap business opportunities and cushion against external threats.

To cushion against escalating costs of inputs and other operating expenses while protecting margins eroded by aggressive price competition by new entrants and imports from subsidized sources, a cost reduction program was rolled out in 2008. The cost

reduction programs include; alternative fuels substitution to guard against increased fossil fuel costs, competitive and strategic sourcing through performance based engagements with suppliers, free cash flow management to cushion against high borrowing costs, preventive maintenance practices to reduce waste in maintenance costs and performance based rewards and union collective bargaining agreements to balance and sustain wage bill and productivity.

To cushion against revenue and market share loss accentuated by increased players and imports, the study established that the company pursues strategic revenue protection programs. These include dealer loyalty schemes to encourage allegiance, continuous focus on key revenue streams of IHB (individual home builders), contractors and exports by innovations, brand building through marketing campaigns, industry protection lobbying through EACPA and vertical integration in cement and concrete based products like paving blocks and RMX.

The company also pursues business growth programs to tap into a growing market while protecting market share. These programs include territory expansion through diversification and innovation, mobile technology solutions like M-Service, targeted cement and concrete products; and capacity expansion through increased productivity, waste management; and capacity enhancement projects like NGP pozzolana drier in 2009, MSAP kiln cooler in 2007, new plant at HCL in 2010, BSP truck mixers and new paving block making plant in 2011.

Sustainability actions to ensure harmonious long term engagement with the operating environment are also in place. They include prospecting for reserves to boost limestone reserves, rehabilitation of quarries into nature trails, building schools and clinics for

communities in the environs, implementation of a bag filter project to reduce impact of dust pollution; and bio fuel tree plantations to provide source of future alternative fuel. Programs anchored on the O&HR process on people and organizational development are in place and supported by an established plant school at MSAP. It was noted that the company has a strong safety and health culture that involves employees and third party partners including transporters.

4.2.3 Strategy Evaluation and Control

Interviews with the company's management confirmed the existence of a highly formalized and tightly managed evaluation and control process. The administrative process is as an integral part of the performance management systems coordinated by the finance control and strategy departments. The process is reinforced by the company's code of conduct and principles of action which stipulate that all sites must track operational performance against agreed objectives, monitor related indicators, report progress and have a dedicated space where the relevant performance indicators are displayed and periodically updated.

The study established that key performance indicators are used to measure objectives and monitor progress and the financial consequences of these objectives are monitored and evaluated, wherever possible by the finance control team. The company's management cycle and principles of action stipulate that the company must have "stretch" performance plan objectives developed by all staff and validated by Lafarge SA teams before the beginning of the budget period. Furthermore, management commits to the performance improvement targets as part of their personal objectives. The performance is monitored

monthly by the management team and quarterly by the Board's audit committee. Lafarge SA performs quarterly business reviews as anchored in the management cycle.

The study further revealed that an integral part of the budget is an analysis which distinguishes the financial impacts of operational performance and the environment. The budget performance is broken down on a monthly basis and is one of the two primary references for operational reporting, the other reference being the prior year comparison. At the end of the financial year, management and the board assess the performance achieved and integrate the results into the next management cycle. The results are a basis for individual and team performance reviews for purposes of reward and salary reviews.

4.3 Strategic Control Systems applied at Bamburi Cement Limited

The study revealed that strategy control systems at Bamburi cement limited are facilitated by administrative structures, tools and activities. These administrative systems are designed to provide both feedback and feed forward to the organization's strategy management processes supported by information flow, organization structure, internal processes and practices. Each strategy has unique SCS applied to ensure perfect fit.

The interviewees noted that timely, consistent, accurate and accessible information flow for feedback and feed forward is critical to effectively control and evaluate strategies implemented by the company. Internal information mainly flows through the company's cross functional enterprise system SAP which was revamped in 2009 as a deliberate strategic enabler to enhance internal monitoring and reporting of projects and activities; coupled with the CDP which is a robust planning, analysis and reporting tool globally applied by Lafarge SA to provide management with incisive information thus enhancing benchmarking, premise monitoring, variance analysis, performance reporting and

common language application. External information is through business intelligence facilitated by field staff and corporate subscriptions to external publications.

Structurally, the company has a control department within the finance function that collaborates with the strategy department to ensure information and analysis presented to management highlights both key risks and opportunities to the strategies adopted either through adhoc or routine reporting. The control department is structured to support the core functions of industrial, commercial, supply chain and general business in achievement of their strategic thrusts through analytical support and gate keeping. The company has an audit committee within the board of directors structure and a crisis committee made up of executive directors and operational managers.

The study established the company has internal processes and practices that ring fence the strategy evaluation and control process. These processes include monthly re-forecasting, contingency planning, emergency drills, annual financial and risk audits, and alignment of individual and departmental performance and rewards with organizational performance indicators.

To determine the intensity of strategic control systems applied, the interviewees (N) were requested through guiding statements to identify SCS applied and respond on a 5 point Likert scale indicating whether SCS applied are; 5-Very Tight, 4-Tight, 3-Blended, 2-Loose, 1-Very Loose. A mean score (M) of 0 to 1.50 indicates the strategy controls are very loose, between 1.50 to 2.50 means loose, 2.50 to 3.50 means blended, 3.50 to 4.50 means tight, while a mean between 4.50 and 5.0 indicates the strategy controls are very tight. The findings are summarized on tables 2 to 5 in the following subsections.

4.3.1 Strategic Surveillance

The study revealed that strategic surveillance controls are strongly emphasized by the company in strategy implementation. As depicted in table 2 below, strategic surveillance was noted to be relatively tight with a mean of means index of 3.91. SCS application was established to be strong and tight under all strategies examined with the exception of focus and differentiation strategies with mean scores of 3.29 and 3.08 respectively.

Table 2: Strategic Surveillance Control Systems

Strategy	Strategic Control Systems	M	N
Cost reduction	Business trends through Bloomberg and other internet sources.	2.90	3
	Industry trends: EACPA, Analysts reports subscription	4.67	6
Focus	Consumer satisfaction surveys done annually	4.43	5
	Monitoring of industry activities through business intelligence e.g. sales and field staff	2.34	6
Differentiation	Consumer feedback mechanisms and brand health trackers	4.21	5
	Monitoring of industry activities through business intelligence e.g. sales and field staff	2.14	6
Divestment	Due diligence outsourcing	4.42	4
Vertical Integration	Monitoring of industry activities through business intelligence e.g. sales and field staff	4.48	6
Capacity Expansion	Monitoring of industry activities through business intelligence e.g. Bloomberg	4.43	7
	Monitoring macro-economic indicators that may affect project e.g. interest rate trend on financing	3.42	6
Territory Expansion	Monitoring of industry activities through business intelligence e.g. sales and field staff	3.98	7
	Monitoring macro-economic indicators that may affect project e.g. interest rate trend on financing	3.72	6
Product Diversification	Consumer satisfaction surveys done annually	4.28	6
	Monitoring of industry activities through business intelligence e.g. sales and field staff	4.21	3
Sustainability	Monitoring of industry activities through business intelligence e.g. sales and field staff	4.41	7
	Community engagement and outreach resource focusing on community issues	4.38	4
Mean of Means: Strategic Surveillance Controls		**3.91**	

The study established that surveillance control systems at BCL are facilitated by business intelligence acquired from external publications, customer satisfaction surveys, consumer based research and field staff. For divestments, it was noted that due diligence is conducted by transaction consultants.

It was noted that the company subscribes to high circulation newspapers, industry analyst reports, online international cement review magazines, Bloomberg and other popular online magazines like Harvard business review (HBR) to enable managers identify global business and cement industry trends. Furthermore, the field staff including sales team is empowered to analyze industry trends and report exceptions to management on a regular basis through operational briefings. Product and service feedback is facilitated by annual customer satisfaction surveys, research and brand health trackers while sustainability strategy feedback is through community outreach staff employed by LES.

The interviewees cited the strategic divestment of Athi River Mining Ltd in 2009 which was a culmination of strategic surveillance through interactive due diligence to take advantage of the capital gains in the Nairobi Securities Exchange to boost the company's cash position during a period of high interest rates and spiraling inflation.

4.3.2 Premise Controls

To continuously and systematically check the assumptions underlying the strategic review, performance plans and budgeting processes, the company has instituted tight premise controls which keep track of changes in the industry and macro-economic environment and assess impact on strategies. The study established that the controls are tight and strongly emphasized with a mean index of 4.06 with exception to its application on sustainability strategy with mean score of 1.16.

Table 3: Premise Control Systems

Strategy	Strategic Control Systems	Mean	N
Cost reduction	Documentation & communication of budget and planning assumptions	4.53	5
	Tracking assumptions in CDP	4.30	8
	R&O analysis and reforecast process	4.56	8
Focus	Documentation & communication of budget and planning assumptions	4.79	5
	Tracking assumptions in CDP	4.51	8
	R&O analysis and reforecast process	3.90	8
Differentiation	Documentation & communication of budget and planning assumptions	4.64	5
	Tracking assumptions in CDP	4.62	8
	R&O analysis and reforecast process	4.57	8
Vertical Integration	Documentation & communication of budget and planning assumptions	4.61	5
	Tracking assumptions in CDP	4.43	8
	R&O analysis and reforecast process	4.74	8
Capacity Expansion	Documentation & communication of budget and planning assumptions	4.61	4
	Tracking assumptions in CDP	3.31	5
	Project review process	3.78	8
Territory Expansion	Documentation & communication of budget and planning assumptions	4.56	5
	Tracking assumptions in CDP	4.48	8
	R&O analysis and reforecast process	4.68	8
Product Diversification	Documentation & communication of budget and planning assumptions	4.76	5
	Tracking assumptions in CDP	4.03	8
	R&O analysis and reforecast process	4.67	8
Sustainability	Documentation & communication of budget and planning assumptions	1.32	4
	Tracking assumptions in CDP	1.20	6
	R&O analysis and reforecast process	1.04	8
Mean of Means: Premise Controls		**4.06**	

Source: Researcher (2013)

The study established that premise controls are facilitated by internal processes and practices. These include documentation and communication of planning assumption, tracking the assumptions regularly and monthly re-forecasting. The CDP is used to

document budget and strategic plan assumptions therefore providing a comparative of the key indicators and external factors while highlighting variances and facilitating management by exception. It was noted that the company has a process of monthly re-forecasting and risk and opportunity analysis in the management cycle where management is able to review the course of strategy to ensure it remains on track or review actions to ensure it is back on track. This process is entrenched and reviews done in line with actual performance on a monthly basis with the corporate office in France.

4.3.3 Special Alert Controls

The study revealed that special alert controls are tight and strongly emphasized by the company with a mean index of 4.24 as depicted in table 4 below.

Table 4: Special Alert Control Systems

Strategy	Strategic Control Systems	Mean	N
Cost Reduction	Contingency plans	3.98	4
	Controllers and Crisis committee reviews	4.17	8
Focus	Contingency plans	4.54	5
	Controllers and Crisis committee reviews	4.64	8
Differentiation	Contingency plans	2.24	4
	Controllers and crisis committee reviews	4.40	8
Divestment	Stock Market trending report	4.48	6
	Controllers reviews	4.45	8
Vertical Integration	Contingency plans	3.42	7
	Controllers and Crisis committee reviews	4.42	8
Capacity Expansion	Contingency plans	3.90	5
	Controllers and Crisis committee reviews	4.21	8
Territory Expansion	Contingency plans	4.42	5
	Controllers and Crisis committee reviews	4.43	8
Product Diversification	Contingency plans	4.12	5
	Controllers and Crisis committee reviews	4.37	7
Sustainability	Contingency plans	4.41	5
	Controllers and Crisis committee reviews	4.58	8
Mean of Means: Special Alert Controls		**4.24**	

The special alert controls are very tight on focus and sustainability strategies with mean scores of 4.60 and 4.51 respectively. The controls are supported structurally by the control department and crisis committee to evaluate risks associated with sudden and unexpected events.

The control department comprises functional controllers who are senior finance managers within the company's hierarchy reporting directly to their respective functions' executive directors and administratively to the finance director. The crisis committees are set up within the management ranks with a clear working mandate with safety and health groups and management committee to ensure the organization is prepared to act sufficiently during a crisis. They conduct drills, audits, prepare policy proposals and contingency plans to ensure the company is prepared for events that could derail its strategic course for example competitor price changes and disasters.

The interviewees cited a force majeure declared at its petcoke source port in 2011 that forced the organization to retract from substitution of coal with petcoke which is less costly, a disastrous fire accident in 2007 that halted operations in Mombasa and the unfortunate post election violence in 2008. The company in all these unexpected events was minimally impacted due to the quick response in triggering contingency plans.

4.3.4 Implementation Controls

The company has instituted tight implementation controls which ensure feed forward and feedback to management on the direction and re-evaluation of strategies. The controls are tight and strongly emphasized with a mean index of 4.26. Cost reduction, divestment, vertical integration, product diversification and sustainability strategies have very tight implementation controls with mean index above 4.50.

Table 5: Implementation Control Systems

Strategy	Strategic Control Systems	Mean	N
Cost Reduction	Audit committee quarterly reviews	4.21	6
	Rewards alignment to KPIs	4.73	8
Focus	Audit committee quarterly reviews	2.41	6
	Monitoring the strategic thrusts	4.57	8
	Rewards alignment to KPIs	4.60	8
Differentiation	Audit committee quarterly reviews	2.11	6
	Monitoring the strategic thrusts	4.07	8
	Rewards alignment to KPIs	4.24	8
Divestment	Board representation in EAPCC	4.34	7
	Board review and approval of investments and divestments	4.78	7
Vertical Integration	Audit committee quarterly reviews	4.38	6
	Monitoring the strategic thrusts	4.78	8
	Rewards alignment to KPIs	4.63	8
Capacity Expansion	Audit committee quarterly reviews	4.03	6
	Monitoring the strategic thrusts	4.11	8
	Rewards alignment to KPIs	4.78	8
Territory Expansion	Audit committee quarterly reviews	1.31	6
	Monitoring the strategic thrusts	4.38	8
	Rewards alignment to KPIs	4.81	8
Product Diversification	Monitoring the strategic thrusts	4.78	8
	Rewards alignment to KPIs	4.67	8
Sustainability	Audit committee quarterly reviews	4.38	6
	Monitoring the strategic thrusts	4.67	8
	Rewards alignment to KPIs	4.72	8
Mean of Means: Implementation Controls		**4.26**	

Source: Researcher (2013)

The study established that the board's audit committee convenes quarterly to review the progress of strategic thrusts and financial performance. Annual audits are performed by external and internal auditors to ensure there are no leakages and strategic risks are adequately managed by management. The internal audit function reports directly into the board's audit committee. Organizational performance is aligned to personal and functional targets and rewards.

4.4 Financial Performance of Bamburi Cement Limited

Bamburi Cement Limited is listed in the Nairobi Securities Exchange and publishes its annual and interim financial reports. The observations of the company's financial results were made from its published annual reports and financial results coupled with selected management reports from 2008 to 2012. Financial results of the Kenya segment consolidating BCL, BSP and LES operations, in line with the scope of study, were observed from the published management's discussion and analysis of financial conditions and results of operation, segment highlights and notes to the financial statements.

The company's financial performance in Kenya over the 5 years between 2008 and 2012 demonstrate resilience and growth. It was observed that despite increased price and penetration aggression by new entrants in the industry, the company's market share remains steady to its capacity share. Normalized EBITDA margin grew from 28.8% in 2008 to 29.8% in 2012 mainly on account of cost reduction efforts and strong turnover performance accentuated by strong market demand, vertical integration efforts through BSP, focus on key markets and exports coupled with competitive commercial strategies in the domestic market. The financials were also normalized at EBITDA level to eliminate impact of one off non-recurring items (appendix F).

Kenya's domestic cement market 5 year CAGR stands at 9.5% exiting 2012 at 3.7 million tons. The year on year market growth stood at 6% in 2012. Notwithstanding the EAPCC strike in early 2012, the domestic performance of BCL stood at 10.8% year on year and 1.4% cumulatively over 5 years. This performance in cement volumes is a clear indication of resilience and continued growth by the company. Furthermore, the vertical

integration efforts are bearing fruit with BSPs RMX volumes growing seven fold over the last 4 years to exit 2012 at 63,520 m^3 while the paving blocks volumes grew almost two fold at CAGR of 9.6% over 5 years to exit 2012 at 801,458 m^2. This has gone a long way to protect the company's cement business.

Bamburi Cement Limited turnover in Kenya grew by 12.1% year on year while the 5 year CAGR stood at 1.8% in 2012 to exit at Ksh 20.47 billion. The turnover is supported by BSP 5 year CAGR of 29.4% to exit 2012 at Ksh 1.45 billion and BCL 5 year CAGR of 1% to exit 2012 at Ksh 18.89 billion after elimination of intercompany sales of Ksh 3.99 billion. LES revenues have remained relatively flat at Ksh 0.13 billion. The turnover results of BCL demonstrate focus on both domestic and export markets with exports contribution to total turnover growing from 17.5% in 2008 to 20.9% in 2012. Observations of the management reports indicate that the contribution of bulk cement to total cement sales grew from 2.1% in 2008 to 7.0% in 2012 while the contribution to total turnover of new innovative products namely RMX and Powermax grew from 0.5% in 2008 to 10.9% in 2012.

The review of the company's cost performance in Kenya revealed that direct costs were growing faster than revenues at 5 year CAGR of 7.82% mainly due to impact of fuel and power costs which account for approximately 30% of the total direct costs. The energy costs grew at a CAGR of 9.09% over the 5 years under review. Despite a year on year reduction to 2011, imported clinker costs grew by 129% in 2012 mainly due to delays in implementation of bag filter project that limited the company's clinker production. Distribution costs were fully eliminated following a successful distribution remodeling in 2009. The five year CAGR decline of administrative costs stood at -4.6% in 2012

reflecting positively on productivity ratios and EBITDA margins. Staff costs to turnover intensity dropped from 8.6% in 2008 to 7.9% in 2012 while administrative costs to turnover intensity dropped from 16.3% in 2008 to 14.0% in 2012. Interest on bank deposits was bolstered by ARM's strategic divestment cash injection in 2009 resulting in interest income of Ksh 0.66 billion contrast to an interest cost of Ksh 0.06 billion in 2008.

4.5 Strategic Control Systems and Financial Performance Relationship

The data collected and analyzed as summarized in table 6 was applied to determine correlation coefficient and regression analysis.

Table 6: Summary of Data Collected and Analyzed

Code	Strategy Implemented	Strategic Thrust	SCS Intensity (Mean Score)	Annualized Financial Impact (Ksh billion)
S1	Focus	Exports growth	4.11	0.22
S2	Differentiation	Bulk cement growth	3.85	0.18
S3	Vertical Integration	BSP revenue growth	4.44	0.29
S4	Capacity Expansion[A]	Domestic volumes growth	4.08	0.23
S5	Territory Expansion	Paving blocks growth	4.13	0.23
S6	Product Diversification	Powermax and RMX revenue growth	4.46	0.31
S7	Cost Leadership	Admin and distribution cost reduction	4.33	0.14
S8	Capacity Expansion[B]	Clinker production growth	4.08	0.15
S9	Sustainability[A]	Alternative fuel substitution	3.58	0.01
S10	Divestment	Interest income growth (ARM cash injection)	4.50	0.14
S11	Sustainability[B]	LES profit growth	3.58	0.01
Source: Researcher (2013)			**4.14**	**1.92**

The SCS intensity represents the mean of means for each control system as applied on the strategies examined (appendix E). The annualized financial impact represents 5 year

annualized averages of financial impacts of strategies implemented. The financial impact covers turnover related strategic thrusts (coded S1 to S6), cost related strategic thrusts (S7 to S9) and other income (S10 and S11). Depreciation and amortization costs were excluded from the analysis since they are non-cash costs while fuel and power costs were excluded due to management's limited control over the costs. Capacity expansion and sustainability strategies have multiple impacts both on turnover and costs ($S4^A$ & $S8^B$); and costs and other income ($S9^A$ & $S11^B$) respectively. The overall intensity of examined control systems was at a mean index of 4.14 while the annualized financial impact of SCS applied strategies is Ksh 1.92 billion excluding depreciation and energy costs.

Pearson's product moment correlations coefficient was 0.747 (table 7a) indicating that strategic control systems and financial performance are significantly and positively correlated at 0.01 significance level. This means that strategic control systems have a significant relationship with financial performance of the company.

Regression analysis was performed to establish the relationship between the independent variable and the dependent variable. The regression model applied was as follows:

$Y = \beta_0 + \beta_1 X_1 + E$

Where:

Y = Financial Impact

β_0 = Constant Term

β_1= Beta coefficient 'B' (SCS intensity index coefficient)

X_1= SCS intensity index

E = Error term

Results of the regression analysis of the relationship between strategic control and financial performance are shown in table 7.

Table 7: Regression Analysis of Strategic Control Systems and Financial Performance

Table 7a: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.747	.558	.509	.06908

Table 7b: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.054	1	.054	11.363	.008[a]
Residual	.043	9	.005		
Total	.097	10			

Table 7c: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	**Sig.**
	B	Std. Error	Beta		
(Constant)	-.753	.276		-2.730	.023
SCS Intensity Index	.226	.067	.747	3.371	.008

$p < 0.05$

The value of $R^2 = 0.558$ in Table 7a shows that strategic control systems are good predictors of financial performance. The R^2 output indicates that 55.8% of the total variability in financial performance can be explained by strategic control systems.

The standardized coefficients (B) value in Table 7c reveals that the independent variable is statistically significant at 0.05 significance level. Table 7b shows that the analysis of variance (ANOVA) of the regression equation is significant with F value of 11.363. Since the p-value is less than 0.05, it shows a statistically significant relationship between the variables at 95 percent confidence level. This means that strategic control systems have a significant impact on financial performance.

From the literature review, SCS application is dependent on the type of strategy pursued (e.g. Fiegener; 1994; Porter, 1980; and Miles & Snow, 1978). The findings from this study are consistent with the established body of knowledge to the extent that BCL control systems are uniquely applied to strategic thrusts while the intensity of SCS application in the company varies with the type of strategy pursued. Furthermore, the results of the study also support the findings of several other studies which have found a strong relationship between corporate performance and SCS application in strategy implementation (e.g. Kuye & Oghojafor, 2011; Livin et al., 2008; Pearce & Robinson, 2003; Fiegener, 1994).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the research findings whose objectives were to identify strategic control systems applied by Bamburi Cement Limited and examine the relationship between control systems applied and financial performance of the company. The chapter further presents the conclusions drawn from the research findings as well as recommendations for improvements and suggestions for further research.

5.2 Summary

The study established that Bamburi Cement Limited has a formalized strategic control and evaluation process which is integrated in the company's well understood strategic management cycle. It was further established that the company applies several strategic control systems in control and evaluation of strategies implemented. It was noted that these control systems are administrative structures, tools and activities that provide the company's management with feedback and feed forward necessary to manage strategies implemented. Strategic control systems applied varied depending on the strategies implemented indicating that control systems application should be specific as well as adaptive.

The study established that control systems are anchored on timely, consistent, accurate and accessible information flow as well as supportive organization structure and internal processes. The systems are managed by senior managers from the control and strategy

department whose mandate is to monitor and report strategic milestones of the company. It was noted that the intensity of strategic control systems application was influenced by internal perceptions of management as well as external situations like industry trends and macro economic factors. It was noted that the cost of instituting these controls is minimal.

Through descriptive and inferential statistical techniques, the study established that there exists a significant relationship between strategic control systems and the company's financial performance. More so, it was established that strategic control systems have a significant impact on financial performance. This means that the higher the intensity of strategic control systems application the higher the financial performance.

5.3 Conclusion

The success of a company is mostly embodied in financial performance enabling it to meet stakeholder obligations and survive competitive market forces. It is therefore imperative that companies proactively apply effective control systems in strategy management so as to ensure intended results are realized and any deviations corrected.

Bamburi Cement Limited has successfully instituted measures to ensure that all areas under its control are monitored on a regular basis providing feedback for learning and feed forward to interactively formulate future strategies. However, it also faces both internal and external challenges in execution of its strategies. Despite the benefits accrued from being part of a larger multinational Group, the company's local situations do not always rank highly with Lafarge SA which oversees several other business units across the world. It was noted that the company's capital expenditure budget is subjected to a global pool that is managed from the corporate office in Paris thereby delaying or locking out local projects that could have significant local impact. Furthermore, the cost of power

and fuel accounting for approximately 30% of the company's direct costs in Kenya has been on an upward trend due to a myriad of issues. Unfortunately the company has little control or influence over the challenge of oscillation and escalation of energy costs.

5.4 Recommendations

Recommendations have been drawn from the gaps identified in the study of control systems application as well as the challenges faced by the company in execution of its strategies and by extension the limitations to its financial performance.

5.4.1 Recommendations with policy implications

Despite recording relatively strong strategic control system index, the company's mean index for strategic surveillance was lowest at 3.91 mainly due to lower index scores recorded on business intelligence sourced through sales and field staff. It is important for the company to enhance and entrench the field team feedback process by integrating related KPIs in the performance management system. Management also needs to enhance premise control systems related to sustainability strategies.

The value of global strategic assessment in multinationals cannot be overemphasized. However, it would be important for the company in collaboration with Lafarge SA to improve the process of capex approvals, deployment and commissioning to ensure the organization does not miss out on local market opportunities and efficiency enhancements so as to continuously improve its financial performance.

Lastly, energy quality and costs remain a major challenge to the company's financial performance. The company needs to institute and fast track energy related projects and enhance its lobbying efforts to mitigate against escalating energy costs.

5.4.2 Limitations of the study

It is worth to note that despite accessing all the targeted interviewees, it took a long wait mainly due to the manager's busy work schedules. Furthermore, the research planned timelines were stretched due to a long clearance process to access selected management reports to supplement publications mainly due to the sensitive nature of the information.

Despite the study relying on cross functional managers, there could be an inherent risk of inadequate institutional knowledge cover that would inhibit interpretation of findings due to the small number of interviewed managers and the period spent by the managers in the organization.

5.4.3 Recommendations for further research

Future research directions stem from the findings and missed opportunities in this paper. It would be worthwhile to expand the study longitudinally to cover the entire industry, companies in different strategic groups or different countries.

Secondly, future research could be carried out to establish the relationship between other variables such as non-financial performance, organization culture, government policy and technological advancement in relation to strategic control systems.

Lastly, future studies could consider sampling company's based on their characteristics like age and size in study of strategic control systems application.

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APPENDIX A: LETTER TO INTERVIEWEES

Ephantus W. Ndegwa

School of Business

University of Nairobi

TO WHOM IT MAY CONCERN

Dear Sir/ Madam,

RE: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi. I am conducting a study on "Strategic Control Systems in Strategy Implementation and Financial Performance of Bamburi Cement Limited, Kenya" as part of the requirement for the award of my Master of Business Administration degree. To enable me collect research data, you have been selected as a participant of the study.

The research is for academic purposes only, and your responses will be treated with utmost confidence. Your input in the process as an interviewee will be valuable in identification of the control systems in strategy implementation and their relationships and financial performance. You will receive a copy of the final paper upon request.

Your assistance and co-operation will be highly appreciated.

Yours Sincerely,

Ephantus W. Ndegwa
MBA Student

Prof. Martin Ogutu
University Supervisor
School of Business

APPENDIX B: INTERVIEW GUIDE

Section I: Interviewee Profile

Interview #..... Date: ……

Interviewee Name (Optional): .....

Department: ..... Position Held: .....

Section II: Company Profile and Strategies Implemented

1. What major issues has Kenya's cement industry experienced in the past 5 years?
2. How has BCL handled the issues? What Strategies have been deployed over 5 years?
3. Describe the process of strategy formulation in BCL. Who and What is involved?
4. What cost leadership strategies have been deployed? Which year? Which subsidiary?
5. What differentiation strategies have been deployed? Which year? Which subsidiary?
6. What focus strategies have been deployed? Which year? Which subsidiary?
7. Have you divested or invested/ acquired businesses? Which year? Which subsidiary?
8. Have you integrated business vertically? Which year? Which subsidiary?
9. Have you expanded capacity or territory? Which year? Which subsidiary?
10. Have you diversified your product portfolio? Which year? Which subsidiary?
11. Have you employed any sustainability strategy? Which year? Which subsidiary?
12. Over the 5 years, has the company experienced emergent strategies? Which ones?
13. Based on the strategies mentioned earlier, has any been unsuccessful? Why?

Section III: Control Systems applied

14. Are there systems in place for evaluating and controlling strategy implementation?
15. How often does the company evaluate strategies deployed?
16. Name the tools and mechanisms used to control strategy implementation.
17. What control systems are in place to monitor the external environment?
18. What control systems in place continuously check validity of strategy assumptions?
19. Have you encountered any sudden or unexpected events/ crisis in the company?
20. What control systems have been deployed to evaluate such events? When?
21. What control systems have been deployed to monitor and review strategy milestones?
22. Rate the control systems in terms of degree/ intensity of application (year on year)?

    Very Loose____ Loose_____ Blended_____ Tight_____ Very Tight_____
23. Are employees engaged in the development of strategic control systems? How?
24. Are the strategic objectives communicated? How? How often? By who?
25. Are the results achieved communicated? How? How often? By who?
26. What is the cost of maintaining the control systems vis-à-vis the benefits accrued?
27. In your opinion, is there a relationship between the controls applied and the organizations performance?
28. How would you relate the control system applied under the following headers:

    Turnover_____ Operating Costs_____
29. Describe the relationship above with reference to financial performance over 5 years (Year on Year).
30. Any other comments?

APPENDIX C: DATA COLLECTION FORMS

1. Strategies Implemented Collection Form

Strategy	Strategic Thrusts	Subsidiary	Launch
Focus			
Cost Leadership			
Differentiation			
Divestment			
Vertical Integration			
Capacity Expansion			
Territorial Expansion			
Product Diversification			
Sustainability			

2. Strategic Control Systems (SCS) Applied Collection Form

Strategy (S^1 to S^7 separately)

SCS Type	Tools/ Activities	Degree / Intensity of Control (tick selection)					Year
		Very Loose	Loose	Blended	Tight	Very Tight	
Strategic Surveillance							
Premise							
Special Alert							
Implementation							

APPENDIX D: STRATEGIES IMPLEMENTED

Table 8: Strategies Implemented by Bamburi Cement Limited, Kenya

Strategy	Strategic Thrusts	Subsidiary	Launch
Focus	Exports to Great Lakes region growth	BCL	2009
	IHB (Individual Home Builders) and contractor market segments	BCL, BSP	2009
Cost Leadership	Distribution remodeling to self collect	BCL	2009
	Administrative cost intensity reduction	ALL	2008
Differentiation	Bulk cement: Branded Bulkers and mobile Dumbo Silos	BCL	2008
	Service Proposition: M-Service, Contractor capacity building	BCL	2010
Divestment	Strategic divestment of Athi River Mining Ltd for capital gain and cash injection	BCL	2009
Vertical Integration	Manufacture of paving blocks and other pre-cast products	BSP	2006
	Introduction of Ready Mix Concrete and Solutions	BSP	2009
Capacity Expansion	Installation of kiln 1 clinker cooler at Mombasa to increase clinker production	BCL	2008
	Installation of a Pozzolana dryer at NGP to increase cement output	BCL	2009
	Acquisition of additional truck mixers and boom pumps	BSP	2011
	Installation of new block making facility at Athi River	BSP	2010
Territorial Expansion	Set up pre-cast plant in Mombasa, Kampala and Kigali	BSP	2011
	Set up remote RMX batching plants in Nairobi and Kampala	BSP	2012
Product Diversification	Introduction of Power Max	BCL	2010
	Introduction of RMX concrete and solutions	BSP	2009
Sustainability	Health & Safety: Zero LTI, fatalities & occupation illnesses for all staff, contractors and partners	ALL	2006
	Environment: Rehabilitation of Quarries - Haller park	LES	
	Environment: Dust emission control through bag filters installation	BCL	2012
	Alternative fuels substitution (Bio-fuels, Tyres etc)	BCL, LES	2009
	Community engagement through tree seedlings supply and rehabilitation efforts	LES	2007

Source: Researcher (2013)

APPENDIX E: STRATEGIC CONTROL SYSTEMS APPLIED

Table 9: Strategic Control Systems applied by Bamburi Cement Limited, Kenya

Table 9a: Strategic Control Systems applied on Cost Reduction Strategy

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Business trends through Bloomberg and other internet sources.	2.90	3
	Industry trends: EACPA, Analysts reports subscription	4.67	6
Premise	Documentation & communication of budget and planning assumptions	4.53	5
	Assumptions monitoring in CDP	4.30	8
	R&O analysis and reforecast process	4.56	8
Special Alert	Contingency plans	3.98	4
	Controllers and Crisis committee reviews	4.17	8
Implementation	Audit committee quarterly reviews	4.21	6
	Rewards alignment to KPIs	4.73	8
Mean of Means		**4.33**	

Table 9b: Strategic Control Systems applied on Focus strategy

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Consumer satisfaction surveys are done annually	4.43	5
	Monitoring of industry activities by empowering the sales and field staff	2.34	6
Premise	Documentation & communication of budget and planning assumptions	4.79	5
	Tracking assumptions in CDP	4.51	8
	R&O analysis and reforecast process	3.90	8
Special Alert	Contingency plans	4.54	5
	Controllers and Crisis committee reviews	4.64	8
Implementation	Audit committee quarterly reviews	2.41	6
	Monitoring the strategic thrusts	4.57	8
	Rewards alignment to KPIs	4.60	8
Mean of Means		**4.11**	

Table 9c: Differentiation strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Consumer feedback mechanisms and brand health tracker	4.21	5
	Monitoring of industry activities by empowering the sales and field staff	2.14	6
Premise	Documentation & communication of budget and planning assumptions	4.64	5
	Tracking assumptions in CDP	4.62	8
	R&O analysis and reforecast process	4.57	8
Special Alert	Contingency plans	2.24	4
	Controllers and crisis committee reviews	4.40	8
Implementation	Audit committee quarterly reviews	2.11	6
	Monitoring the strategic thrusts	4.07	8
	Rewards alignment to KPIs	4.24	8
Mean of Means		**3.85**	

Table 9d: Divestment strategy control

SCS Type	Tools/ Activities	Mean	N
Surveillance	Due diligence outsourcing	4.42	4
Premise	Not Applicable	-	8
Special Alert	Stock Market trending report	4.48	6
	Controllers reviews	4.45	8
Implementation	Board representation in EAPCC	4.34	7
	Board review and approval of investments and divestments	4.78	7
Mean of Means		**4.50**	

Table 9e: Vertical Integration strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Monitoring of industry activities by empowering the sales and field staff	4.48	6
Premise	Documentation & communication of budget and planning assumptions	4.61	5
	Tracking assumptions in CDP	4.43	8
	R&O analysis and reforecast process	4.74	8
Special Alert	Contingency plans	3.42	7
	Controllers and Crisis committee reviews	4.42	8
Implementation	Audit committee quarterly reviews	4.38	6
	Monitoring the strategic thrusts	4.78	8
	Rewards alignment to KPIs	4.63	8
Mean of Means		**4.44**	

Table 9f: Capacity Expansion strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Monitoring of industry activities through business intelligence	4.43	7
	Monitoring macro-economic indicators that may affect project eg interest rate trend on financing	3.42	6
Premise	Documentation & communication of budget and planning assumptions	4.61	4
	Tracking assumptions in CDP	3.31	5
	Project review process	3.78	8
Special Alert	Contingency plans	3.90	5
	Controllers and Crisis committee reviews	4.21	8
Implementation	Audit committee quarterly reviews	4.03	6
	Monitoring the strategic thrusts	4.11	8
	Rewards alignment to KPIs	4.78	8
Mean of Means		**4.08**	

Table 9g: Territorial Expansion strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Monitoring of industry activities	3.98	7
	Monitoring macro-economic indicators that may affect project eg interest rate trend on financing	3.72	6
Premise	Documentation & communication of budget and planning assumptions	4.56	5
	Tracking assumptions in CDP	4.48	8
	R&O analysis and reforecast process	4.68	8
Special Alert	Contingency plans	4.42	5
	Controllers and Crisis committee reviews	4.43	8
Implementation	Audit committee quarterly reviews	1.31	6
	Monitoring the strategic thrusts	4.38	8
	Rewards alignment to KPIs	4.81	8
Mean of Means		**4.13**	

Table 9h: Product Diversification strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Consumer satisfaction surveys are done annually	4.28	6
	Monitoring of industry activities by empowering the sales and field staff	4.21	3
Premise	Documentation & communication of budget and planning assumptions	4.76	5
	Tracking assumptions in CDP	4.03	8
	R&O analysis and reforecast process	4.67	8
Special Alert	Contingency plans	4.12	5
	Controllers and Crisis committee reviews	4.37	7
Implementation	Monitoring the strategic thrusts	4.78	8
	Rewards alignment to KPIs	4.67	8
Mean of Means		**4.46**	

Table 9i: Sustainability strategy control

SCS Type	Tools/ Activities	Mean	N
Strategic Surveillance	Monitoring of industry activities	4.41	7
	Community engagement and outreach resource focusing on community issues	4.38	4
Premise	Documentation & communication of budget and planning assumptions	1.32	4
	Tracking assumptions in CDP	1.20	6
	R&O analysis and reforecast process	1.04	8
Special Alert	Contingency plans	4.41	5
	Controllers and Crisis committee reviews	4.58	8
Implementation	Audit committee quarterly reviews	4.38	6
	Monitoring the strategic thrusts	4.67	8
	Rewards alignment to KPIs	4.72	8
Mean of Means		**3.58**	

APPENDIX F: FINANCIAL PERFORMANCE

Kenya Operations	2008	2009	2010	2011	2012
Clinker production (Kt)	772	950	878	956	870
Cement volumes (Kt)	1,855	1,896	1,790	1,873	2,027
Pre-cast volumes (m^2)	506,856	517,351	506,169	733,277	801,458
RMX volumes (m^3)	193	9,766	27,190	48,731	63,520
Financial Performance - Kshs Billions	**2008**	**2009**	**2010**	**2011**	**2012**
Turnover	**18.73**	**19.95**	**17.58**	**18.26**	**20.47**
Energy costs	(2.77)	(3.68)	(3.39)	(4.52)	(4.28)
Maintenance costs	(1.20)	(1.09)	(0.96)	(0.82)	(0.82)
Raw materials freight costs	(2.43)	(2.57)	(2.30)	(2.84)	(3.06)
Imported clinker	(2.78)	(2.11)	(1.40)	(1.51)	(3.45)
Supplies & additives	(1.34)	(1.43)	(1.52)	(1.70)	(1.87)
Cement packaging	(0.74)	(0.86)	(0.81)	(0.98)	(1.02)
Others direct costs	(0.28)	(0.04)	0.28	(1.54)	(1.92)
Intercompany eliminations[1]	3.01	3.53	3.03	3.63	3.99
Direct costs	**(8.53)**	**(8.25)**	**(7.07)**	**(10.27)**	**(12.43)**
Distribution costs	**(1.77)**	**(0.72)**	**(0.23)**	**(0.17)**	**0.03**
Marketing expenses	**(0.09)**	**(0.09)**	**(0.13)**	**(0.09)**	**(0.10)**
Staff costs	(1.61)	(1.70)	(1.61)	(1.58)	(1.63)
Professional & technical fee	(0.38)	(0.55)	(0.43)	(0.12)	(0.11)
Telecommunication costs	(0.11)	(0.28)	(0.13)	(0.12)	(0.10)
Transport & travelling costs	(0.20)	(0.20)	(0.10)	(0.09)	(0.10)
Rentals, security & licenses	(0.21)	(0.08)	(0.23)	(0.21)	(0.22)
Bank charges & other costs	(0.17)	(0.07)	(0.03)	(0.02)	(0.01)
Technical fees	(0.31)	(0.33)	(0.31)	(0.26)	(0.69)
Other costs	(0.05)	(0.17)	(0.04)	(0.02)	(0.01)
Administrative costs	**(3.05)**	**(3.37)**	**(2.86)**	**(2.41)**	**(2.87)**
Depreciation and Amortization	**(0.52)**	**(0.66)**	**(0.73)**	**(0.77)**	**(0.85)**
Interest (costs)/ income	**(0.06)**	**0.09**	**0.13**	**0.31**	**0.66**
Other (costs)/ income	**(0.87)**	**1.07**	**(0.12)**	**0.61**	**0.58**
Profit Before Tax (PBT)	**3.85**	**8.02**	**6.56**	**5.47**	**5.49**
PBT analysis:					
Bamburi Cement Limited	3.83	7.99	6.47	5.37	5.42
Bamburi Special Products	0.01	0.01	0.08	0.12	0.06
Lafarge Eco Systems	0.01	0.02	0.01	(0.03)	0.01
Reported PBT	**3.85**	**8.02**	**6.56**	**5.47**	**5.49**
Normalizations[2]	1.00	(2.76)	(1.96)	(0.50)	1.00
Normalized PBT	**4.85**	**5.25**	**4.59**	**4.97**	**6.48**
Depreciation (+)	0.52	0.66	0.73	0.77	0.85
Interest & Dividend income (-)	0.03	(0.10)	(0.14)	(0.31)	(1.24)
EBITDA	**5.40**	**5.81**	**5.18**	**5.42**	**6.10**

Financial Ratios	2008	2009	2010	2011	2012
EBITDA Margin	28.8%	29.1%	29.5%	29.7%	29.8%
ROCE	32.9%	29.3%	24.3%	26.2%	21.7%
Asset Turnover	87.7%	89.2%	74.1%	76.2%	73.9%
Energy to direct costs ratio	32.5%	44.6%	47.9%	44.0%	34.4%
Imported clinker to direct costs ratio	32.6%	25.6%	19.8%	14.7%	27.7%
Staff costs to sales ratio (intensity)	8.6%	8.5%	9.1%	8.7%	7.9%
Admin. costs to sales ratio (intensity)	16.3%	16.9%	16.3%	13.2%	14.0%

Normalizations[2]	2008	2009	2010	2011	2012
ARM divestment gain		(1.20)			
Mombasa Fire Insurance Claim	1.00	(0.22)			
One off distribution re-modeling gains		(1.24)	(0.80)		
KPLC power rate drop impact			(0.51)		
One off realized foreign exchange gains		(0.10)	(0.30)	(0.50)	
Other book adjustments			(0.35)		
Additional imported clinker used due to bag filter project delays					1.00
Normalizations[2]	**1.00**	**(2.76)**	**(1.96)**	**(0.50)**	**1.00**

Segment assets	21.36	23.38	24.07	23.84	31.57
Segment liabilities	6.53	5.79	5.72	6.08	7.42
Capital additions	2.31	0.46	0.85	0.63	0.72

[1] Intercompany based eliminations represent sales between subsidiaries in the Kenya segment. These are mainly cement sales from BCL to BSP.

[2] Normalizations represent one off (non-recurring) entries in the segment's books. These include significant outliers in both the internal and external environments.

APPENDIX G: LIST OF CEMENT COMPANIES IN KENYA

Company Name	Abbreviation	Launch	Brand
1. Athi River Mining Limited	ARM	1996	Rhino
2. Bamburi Cement Limited	BCL	1951	Nguvu
3. East African Portland Cement Company Limited	EAPCC	1933	Blue Triangle
4. Mombasa Cement Limited	MCL	2009	Nyumba
5. National Cement Limited	NCL	2010	Simba
6. Savannah Cement Limited	SCL	2012	Savannah

Source: Researcher (2013)