Strategic Management within Kenya Firms

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This study investigated strategic management practices within large, private manufacturing companies in Kenya. A total of 73 companies (both local and foreign) were surveyed. Personal interviews were conducted with top managers in all these companies. The findings revealed that large manufacturing companies had adopted strategic management. However, there were variations in the practices. Foreign companies were more involved and committed to strategic management than the local ones. The local companies (especially family ones) exhibited heavy financial orientation in their plans (cash flow projections and extended budgeting). Differences in organizational factors were cited as explanations for the observed variations in strategic management practices.

Key words: Strategic Management, Firms, Development, Planning, Kenya

INTRODUCTION

Although our knowledge of strategic management has increased greatly over the last three decades, most of it has been accumulated in developed country contexts. As Haines (1988) pointed out, the foremost thinking in strategic management reflects business circumstances in developed countries. Little has been written on strategic management practices in less developed countries as a whole and more so on Africa. Glueck and Jauch (1984) recognized this knowledge gap by noting that little was known about strategic management processes in developing countries. Blunt and Jones (1986) similarly pointed out that little research and analysis had been done on managerial processes in Africa.

A few studies have been carried out in Africa to document strategic management practices there. These include Woodburn (1984), Adegbite (1986) and Fubara (1986). The first of these was based in South Africa while the other two were based in Nigeria. These studies gave us valuable insights into aspects of corporate planning in Africa.

It has been pointed out that strategic management is very useful to organizations during turbulent times (Ansoff and McDonnel, 1990). Where the external environment is changing rapidly, managers have to constantly re-examine and change their product/market scope if organizations have to remain successful. Over the past decade, a lot of external changes have taken place in Kenya. The country was affected by such international trends as the recession and globalization of competition. Locally, the government has been
implementing a very ambitious economic reform programme. In the face of these and other external developments, one would expect organizations in Kenya to turn to strategic management as a way of securing future success.

DEVELOPMENT OF STRATEGIC MANAGEMENT

Formal strategic planning seems to have its beginnings in the early 1950s in the United States of America. Peter Drucker (1954) appears to be one of the first to address the issue of strategy and strategy formulation as an approach to managing organizations. His concern was primarily with identifying the business of a company. Little attention was given to this concept of strategy until 1962 when Chandler defined it and outlined the processes by which strategy could be formulated. The ideas of Chandler were then further developed by Ansoff (1965) and Andrews (1971). These writings were no doubt instrumental in triggering off the adoption of strategic planning by business firms during this time.

From the late 1960s, studies carried out indicated that strategic planning was practiced both in the United States and abroad. Ringbakk (1969), in a study on organized planning in the United States found that corporate long range planning was being practiced. The practice was not uniform across the firms studied. There was a heavy financial orientation in the plans, making them resemble the traditional budgets that were already in use.

Taylor and Irving (1971) carried out a similar study in the United Kingdom and observed the same phenomenon as Ringbakk had in the United States i.e. though some corporate planning was being practiced; it was not as well developed as publicized. Denning and Lehr (1971) observed the same phenomenon as Ringbakk and Taylor and Irving. It therefore appears that in the initial stages, firms were slow in adopting strategic planning.

The situation soon changed as a series of studies in different countries revealed increasing and widespread adoption of corporate strategic planning practices (Rue, 1973; Grinyer and Norburn, 1974; Eppink et al., 1976; Henry, 1977; Al-Bazzaz and Grinyer, 1980; Boulton et al, 1982; Woodburn, 1984; Fubara, 1986; Adegbite, 1986; Caeldries and Van Dierdonk, 1988; Wee et al., 1989). From evidence provided by these studies, it appears that over the years, as managers increased their familiarity with strategic planning, they increasingly adopted it (both in USA and abroad).

In the mid-1970s, managers started expressing dissatisfaction with strategic planning. The general feeling was that strategic planning was not delivering the benefits it promised. These critics included Higgins, 1976; Hobbs and Heany, 1977; Peters and Waterman, 1982, Steiner, 1983; Barrie, 1984; Taylor, 1986; Giles, 1991 and Robert, 1991.

Despite the dissatisfaction, it soon became clear that strategic planning was still useful to organizations. Strategic planning needed to be revived and improved. Chief among the revivalists was Porter (1987) who did admit that strategic planning had fallen out of fashion in the 1970s. However, it needed to be rediscovered and not discarded. Strategic
planning needed to be recast to meet today's environmental challenges.

It is evident that strategic planning originated in USA and then spread to other parts of the world. As a result of this pattern, American companies would be expected to take the lead in practicing strategic management. Similarly, in Kenya, foreign companies would lead local ones in strategic management practices. This was tested as a proposition in this study;

H1: Foreign companies will be more involved in strategic management than local ones.

THE STUDY

This study investigated strategic management practices within private manufacturing companies in Kenya. Strategic management was defined as the formulation and implementation of strategy to achieve corporate success. The focus of the study was on the formulation (strategic planning) phase of this process. The following strategic planning aspects were studied;

a. Existence of written mission statements
b. Presence of strategic plans
c. Planning horizons
d. Financial orientation in planning (mix of plans)
e. Conduct of management training
f. Presence and use of goals
g. Formality in planning
h. Planning history
i. Flexibility of plans
j. Collection of external data

A survey was conducted within large, private manufacturing companies in Kenya. The population was all large, private manufacturing companies in Kenya. A sampling frame was constructed with the help of three directories: the Directory of Industries (Kenya Industrial Development Research Institute), Register of Industries (Ministry of Commerce and Industry) and the Members' List of the Kenya Association of Manufacturers. There was a total of 548 companies. All of them were contacted. 73 fully participated in the survey (24 foreign and 49 local companies).

Interviews were conducted by the researcher in all the companies. Respondents were top managers in these companies. The questionnaire used was prepared after thorough review of relevant literature. It was pre-tested before being used.

Data were analyzed using the nonparametric chi-square and mann-whitney techniques. Preliminary analysis had indicated that the data violated several assumptions underlying parametric analysis. Comparisons were made between the various groups of companies that participated in the survey to check for variations in strategic management practices. The groups compared were Foreign, Indigenous Kenyan and Asian Kenyan companies.

RESULTS

Mission statements
Out of the 73 companies, one third had written mission statements (Table 1). This suggests that a big proportion of the large manufacturing companies do not prepare written mission statements. When foreign and local companies were compared, a larger proportion of foreign
companies had such statements. Within the local group, indigenous Kenyan companies tended to have mission statements more than Indian Kenyan companies. The differences observed here were all statistically significant (Table 2).

**Strategic plans**
A small proportion of companies had strategic plans (Table 1). A larger proportion of foreign companies had such plans compared to local ones. Very few of the latter had such plans. The difference between foreign and local companies in having strategic plans was statistically significant. Within the local companies, although the Indigenous ones had strategic plans more than the Indian Kenyan ones, the difference were not significant (Table 2).

**Mix of plans (Financial orientation)**
The type and mix of plans developed varied across companies. In some companies, we had several plans developed. These included companywide plans, functional plans, budgets, project plans, short term plans and long term plans. Other companies had basically financial plans i.e. budgets and cash flow projections. As table 1 show, 68% of all the companies prepared several plans. The remainder prepared basically financial plans i.e. budgets.

All foreign companies indicated they prepared financial and other plans. About half of the local companies had basically financial plans. Indian Kenyan companies tended to have more of such plans than the indigenous Kenyan ones. The differences between foreign and local companies were statistically significant (Table 2).

<table>
<thead>
<tr>
<th>Table 1: Strategy involvement</th>
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<tr>
<td>Strategy Aspect</td>
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<tr>
<td>Written mission</td>
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<td>Mix of plans</td>
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<tr>
<td>Strategic plans</td>
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<td>Management training</td>
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Foreign companies (FF); Indian Kenyan companies (LI); Indigenous Kenyan companies (LK)

*Note:* 5 joint local companies are omitted from the individual group tabulations.

*Source: Interviews*
Table 2: Strategy involvement: Prob values and significance levels

<table>
<thead>
<tr>
<th>Strategy Aspect</th>
<th>All Firms</th>
<th>FF&amp;LI Firms</th>
<th>FF&amp;LK Firms</th>
<th>LI&amp;LK Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written mission</td>
<td>0.0000**</td>
<td>0.0000**</td>
<td>0.0189*</td>
<td>0.1001</td>
</tr>
<tr>
<td>Mix of plans</td>
<td>0.0000**</td>
<td>0.0000**</td>
<td>0.0040**</td>
<td>0.1447</td>
</tr>
<tr>
<td>Strategic plans</td>
<td>0.0000**</td>
<td>0.0000**</td>
<td>0.0009**</td>
<td>0.4386</td>
</tr>
<tr>
<td>Management training</td>
<td>0.0000**</td>
<td>0.0000**</td>
<td>0.0069**</td>
<td>0.0246*</td>
</tr>
<tr>
<td>Planning horizon</td>
<td>0.0001**</td>
<td>0.0000**</td>
<td>0.0420*</td>
<td>0.1429</td>
</tr>
<tr>
<td>Planning history</td>
<td>0.0030**</td>
<td>0.0007**</td>
<td>0.0150*</td>
<td>0.3554</td>
</tr>
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</table>

Foreign companies (FF); Indian Kenyan companies (LI); Indigenous Kenyan companies (LK) * and ** represent significance at the 5% and 1% levels respectively.

Planning horizons

The companies operated with varying planning horizons. The average planning horizon for all the companies was 3 years. The shortest was 1 year while the longest was 20 years. The most popular range of planning horizons was 3-5 years (49% of the companies). 45% of the companies had planning horizons less than 3 years while 6% had horizons longer than 5 years. Foreign companies operated with the longest planning horizons while Indian Kenyan companies had the shortest horizons.

The difference in planning horizon between foreign and local companies was significant. Such a difference did not exist between the two groups of local companies. It was also observed that foreign companies had a significantly longer planning history than the local ones i.e. they had been planning for a longer time.

Goals

All the companies indicated they had goals. Some prioritized their goals but most of them did not do this. Commitment to goals set differed across companies. In some cases, it was not clear what the purpose of the goals was while in others, goals were very important in managing companies. The following were the goals most frequently present (in order of frequency): profitability, volume growth, production, market share, return on investment, quality improvement, manpower, survival, production development and procurement.

Goal setting differed across the companies. Some reported high levels of participation while others had very low levels of participation. The majority of companies reported low levels of participation. Owners or top managers set goals. Goal setting was a top-down affair.

The same was the case for the entire strategy development process. Participation was lowest among Indian Kenyan companies and highest in foreign ones.
Formality in planning
Some of the companies had very formal planning processes while others were rather informal. By formal planning we mean deliberateness in planning as evidenced by planning timetables and production of written plans. A majority of companies reported high levels of formality in planning. Foreign companies exhibited higher levels of formality followed by indigenous Kenyan companies. Indian Kenyan companies had the lowest levels of formality in planning.

Flexibility of plans
Although many companies reported having goals and plans, they stressed that flexibility was important in running their companies. This meant that plans could change at any time. 9% of the companies indicated they monitored operations and held discussions daily. 7% said they held weekly management meetings to review operations. 38% reported they held monthly management meetings to discuss operations. The remaining companies either had no schedules for review meetings (i.e. they could be held at any time) or held such meetings less frequently e.g. quarterly, semi-annually etc. The outcomes of such meetings would lead to plans and goals either being upheld or revised. This indicates that despite the number of plans that companies had, they still paid a lot of attention to very short term operational issues.

External data
All the companies reported that accounting and other internal data were not adequate for planning purposes. Attempts were made to gather external information. The performance of this function varied greatly across the companies. In many of them, external information gathering was more informal than formal. Top managers used their personal contacts to get pertinent information. Such information, once obtained, was not necessarily communicated to other managers in the company.

No company had an environmental scanning unit. Instead, where environmental scanning was more formal, it was the responsibility of the management team i.e. the chief executive and department heads. Each function head gathered information pertinent to their department. The information was then discussed in management meetings and was recorded as minutes. The highest level of attention was given to external data gathering where the chief executive co-ordinated the exercise.

Companies reported they had problems in performing external analysis. There were no information bureaus in Kenya. The most frequently used sources of information were published sources, associations, parent companies, personal contacts, consultants, suppliers, customers and field sales people. The activity was not performed in a systematic manner in many of the companies. Only in one foreign company did we have a management information system. Here, all internal and external information was stored and available for use by managers.

Others felt scanning was too expensive to carry out formally. They favoured informal scanning. Many companies reported that their top managers maintained informal contacts for purposes of gathering information. Some of
these contacts were kept secret. This partly explains why scanning was informal. Critical information was obtained through top level informal contacts. Such information was not widely communicated in the company.

The difficulties experienced in conducting external analysis were reported in this study. A managing director of an American company explained thus:

"The accounting side is relatively easy. The biggest problem is not the sheer accounting and numbers. It is the assumptions e.g. What is really going to happen to the economy? The birth rate? What is going to be the role of exports in the company? What is going to develop politically? What are interrelationships between countries going to be? These tend to have major impacts and these tend to be the difficult ones."

Some respondents lamented that not enough was being done on environmental scanning. A general manager of a British multinational subsidiary expressed this clearly.

"We do not collect statistics on environmental factors. I do not know why we do not collect such statistics."

The difficulty in conducting external analysis was attributed to environmental uncertainty. The general manager of another foreign company expressed this clearly:

"The Kenyan business environment is erratic. It is difficult to predict what is going to happen."

Management training

Over half of the companies reported they undertook management training and development for their employees (Table 1). The purpose was to increase management ability to perform and to prepare employees to take on increasing responsibilities. Again, foreign companies led in carrying out this activity. Indian Kenyan companies did very little training. The difference between foreign and local companies in carrying out management training was significant. The same was the case between the two groups of local companies.

DISCUSSION

Foreign companies were compared with local companies with respect to their involvement in strategy development i.e. their practices. The practices were preparing written mission statements and strategic plans, length of planning horizons, length of time for which they had been planning (planning history), degree of financial orientation and undertaking management training. In all these strategy aspects, foreign companies were significantly different from Kenyan companies. They had written mission statements and strategic plans more than Kenyan companies. They operated with longer planning horizons and had been planning for a longer period than Kenyan companies. They also had a lesser financial orientation in their plans and carried out more management training than Kenyan companies.
One factor which may explain the differences between foreign and Kenyan companies is that the former were subsidiaries of bigger international companies. Their activities were therefore supported and influenced by their parent companies. Pugh et al (1969) call such relationship dependence and argue that dependent companies tend to differ from independent companies in their management approaches. Such parent company influence was reported widely by the foreign companies in this study. One managing director of an American multinational subsidiary explained this clearly.

"Policy, in terms of strategy is set by our head office. They would formulate strategy for the corporation. Then with divisional vice presidents, they formulate for divisions. Then divisional management with the subsidiaries together formulates strategy for the individual subsidiaries. It is pretty structured as it goes."

He went on to point out that,

"There are many things in our kind of corporation which you cannot change and that is not unusual in big corporations. There are certain things that are laid down in the strategy that have to be done."

The local companies were not subjected to such influences. However, in foreign subsidiaries, management activities were influenced by parent company practices.

Foreign and local companies differed in the amount of management resources available to them. The former had access to managerial resources throughout the international corporate network. Foreign companies in this study reported having such access. One chief executive of a British multinational subsidiary emphasized this point.

"We have an overall strategic plan which focuses our attention on the direction the company should take. It stretches throughout the manufacturing side, sales force, distribution, plant design to the marketing side. It is coherent. At each level, we have project and planning committees where we take the strategy and decide how to best implement it. In trying to do things better, we rely on expertise from the centre in appropriate areas. It is interchange of ideas all the time. We don't work in separate compartments. We work across not only divisions within this particular company but also across transnational divisions."

Many foreign companies received corporate support in developing and implementing their strategies. Such support was not available to local companies.

Foreign companies were largely professionally run. They had formal structures, management
approaches and employed professional managers. They relied on the skill and talent of their managers. This induced them to carry out management training and development to improve performance. Many of the local companies were family companies. Managers were largely recruited from within the family. Training was on the job and was of an experiential nature. There was little formal management training. These family companies had inclinations towards less formality in management with a focus on short term operations. Their strategy activities were more implicit than explicit. A general manager of a local company had this to say about family companies.

"A lot of industrial companies in Kenya were set up within family control. They have not yet outgrown the "duka" (small shop) mentality. There are no objectives to gauge efficiency. There are no forward plans. Modern management approaches are very new in such companies."

Thus the differences between professional and family companies in part explain the differences in strategy practices between foreign and local companies.

The indigenous Kenyan companies showed significantly higher involvement in strategy than their Indian Kenyan counterparts. The former carried out more management training than the latter. However, there were no significant differences in the performance of other strategy activities. Most of the Indian Kenyan companies were family run while the indigenous Kenyan ones were professional. This may explain some of the differences in management approach between the two groups.

The influence of foreign culture and administrative practices may also explain some of these differences. Henley (1973) and Blunt (1978) observed that East African organizations closely resembled Western bureaucracies. This was largely due to the influence of the colonial administration in this region. Even when these colonial administrators left, the indigenous people who took over retained existing systems. The indigenous organizations therefore retained the features the Europeans had implanted in them. Such influence did not extend to Indian Kenyan companies.

The results of the study are in line with earlier findings that foreign companies led local ones in practicing strategic management. Frederick (1983) found that Canadian companies lagged behind USA ones in practicing strategic management. In South Africa, Woodburn (1984) established that foreign companies led South African ones in strategic management. Similarly, Adegbite (1986) found that Nigerian companies lagged behind foreign ones in carrying out strategy activities. These results conform to the pattern of diffusion of strategic planning i.e. originating in USA and then spreading to Europe, Japan and the rest of the world.

The variation in strategic management practice is in line with the proposition that management is sensitive to the context in which it is practiced. Pugh et al (1963) and Pugh et al (1969) pointed out that environmental and organizational factors influenced management processes in organizations. Hussey (1990) suggested that environmental and organizational differences across countries may
affect the way strategic management is practiced. Hoffman and Hegarty (1989) pointed out that even where there were no environmental differences, variations in management practice could still be brought about by organizational differences.

The companies in this study were all drawn from Kenya. Environmental variations were minimal. The companies exhibited differences in their strategic management practices. These variations could largely be attributed to differences in company characteristics.

Managers reported they had difficulty in carrying out external analysis. This appears to be the experience in other contexts. Rue (1974) found that although strategic planning was popular in USA and Canada, managers tended to shy away from conducting external analyses. Similarly, Frederick (1983) established that Canadian managers gave little attention to environmental analysis when developing strategic plans.

CONCLUSIONS

Kenyan companies have adopted strategic management. However, there are variations in company practices here. Foreign companies have taken the lead in strategy practices. There are still instances of implicit, informal planning within the large private companies in Kenya. For some of the companies, basic financial planning (extended budgeting) is the only formal planning activity that is carried out. Foreign companies are playing a leading role in the spread and adoption of strategic management in Kenya.

In using the results of this study, it is important to keep in mind its limitations. The study was cross-sectional and it is therefore difficult to draw conclusions about causality. Industry effects were not controlled. This means some of the variations observed in strategy practices may be attributed to industry variation. Despite these limitations, the study provides insights into the practice of strategic management in Kenya.

REFERENCES


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