

# **STRATEGY IMPLEMENTATION AND ORGANIZATIONAL PERFORMANCE IN THE PHARMACEUTICAL INDUSTRY IN KENYA**

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## **ABSTRACT**

The purpose of this study was to investigate the strategy implementation and organizational performance in the pharmaceutical industry in Kenya. Specifically, the study sought to determine the effects of organizational structure, organizational resources and organizational culture on strategy implementation among the pharmaceutical industry in Kenya. This research applied a descriptive survey research design and the population target comprised of all the 64 pharmaceutical companies in Nairobi Kenya. A questionnaire was used to collect data which was then analysed using descriptive statistics. The findings were presented using tables and graphs for further analysis and to facilitate comparison. Multiple regressions were used to estimate the effect of strategy

implementation on organizational performance. The study found out that there is a significant influence of strategy implementation on organizational performance. The study established that organizational structure, organizational resources and organizational culture have a significant effect on the performance of the pharmaceutical industry. The study recommended that the senior management of pharmaceutical companies should empower employees and give them the freedom to succeed. The pharmaceutical companies should balance resource allocation and even allocate more funds to strategy implementation departments.

**Key Words:** *strategy, strategy implementation, organizational structure, organizational resources, organizational culture, organizational performance*

## **INTRODUCTION**

For companies to survive in a globalized and dynamic world, they must be able to swiftly and effectively adjust to new conditions (Cardinaels and Veen-Dirks, 2010). External and internal customers of a company such as shareholders, customers, employees, suppliers and technology exert pressure on the company's ability to adjust and drive internal and external advancement (Jaaskelainen and Sillanpaa, 2013). Pearse and Robinson (2011) indicated that for organizations to attain efficacy and productivity, there should be strategic change of structure. These can be achieved by retaining the traditional structures that are best as new structures that add value to the customers leverage human capital are embraced. Burnes (2014) further observed that organization design can be considered to be a strategic tool for executing business strategy. The management should consider it appropriate in designing structures that enables strategic goals' implementation in order to suit the demand of its market place, customers and business model (Aosa, 2008). Many businesses have been compelled to change their business strategies after increased advancement in technology, amplified competition, augmented demand on non-price competitive advantage and shifting economic regulations. The changes experienced in the businesses at the moment are greater than before and therefore there is need for companies to adapt to the changes (Burnes, 2014).

## **Strategy Implementation**

Strategy which is necessary and useful for managing organizations is a concept that is diverse and has been defined differently by different scholars. Strategy involves matching the resources available, skills of the organization, the risks involved, and the environmental opportunities with the goals and purposes of the organization (Thompson, 2013). The strategy of the organization has a mandate of guiding and providing direction for the events of the business. The businesses should therefore make strategic choices and define strategy in terms of its purpose to the surroundings because strategic decisions affect the business's response to the environment (Mintzberg and Lampel, 2009). The main objective of strategy is to offer directions to the business that allows it to attain the goals while reacting to the threats and opportunities in the surroundings (Pearce and Robinson, 2011).

Strategy is viewed in terms of the choices of the products and market and product. Additionally, strategy is said to be the regular thread among a business's market and activities (Aristotle, 2014). Furthermore, strategy is defined as the scope and direction of a business that matches ideally the consequences of its fluctuating surroundings particularly its customers and markets so as to meet the expectation of the stakeholder (Johnson and Scholes, 2008). Strategy is a combined and incorporated plan which relates the strategic benefits of the business to the drawbacks of the setting and that is planned to guarantee that the basic goals of the business are attained through appropriate accomplishment by the firm (Jordan and Messner, 2012).

Strategy is defined by other scholars as a pattern or a concept that unites firm's main objectives, actions and policies into a cohesive whole (Mintzberg and Lampel, 2009). Furthermore, strategy is described as the conception of exceptional and susceptible situation of tradeoffs in competition (Porter, 2016). This involves a group of actions that show neatness match together, which reinforce one another, are consistent, and guarantee effort optimization. Moreover, strategy is defined as the scope and direction of a business over the long run that attains benefit for the business through its alignment of the required resources within a varying setting, and fulfills the expectations of the stakeholder (Johnson and Scholes, 2012). Strategic management can therefore be said to be either a skill or an art. For an organization to have better strategy management then it is needed that its managers have both clear thought and sound judgment. According to Perrow (2016), strategic management is the official and organized process by which a business inaugurates a position of strategic leadership. To develop a strategy, it requires rational analysis and intuition, experience, and emotion. Serfontein (2010) admitted that there is slight uncertainty as to the systematic analysis significance as a key input into the strategy process. The procedure of preparation of strategy predominantly at the level of senior management can be unruly with no basis for relating and assessing substitutes if analysis is not put in consideration (Ruth, 2013). Furthermore, Hill and Jones (2001) allege that critical resolutions become vulnerable to the fancies and likings of distinct managers, to contemporary fads, and to ambitious thinking.

The contentious issues in management theory are the mystery of where strategy came from and how it operates as witnessed by writers. There are majorly ten schools of formulation of strategy but only one attempt to categorize the subtly varying on offer approaches and vast literature (Mintzberg and Lampel, 2009). The implementation of strategy includes organizing of the business's resources and motivating the employees to attain goals. Ojwang' (2015) alleged that environmental conditions facing many companies have changed promptly. Today's global competitive surrounding is largely unpredictable, complex, and dynamic.

Parmenter (2010) advised that to be able to deal with this extraordinary level of change, a lot of brains have looked into how best to formulate strategies. Moreover, Ojwang (2015) claims that strategic management is being able to manage the future and therefore actual formulation of strategy is essential, since it helps guide the actions and attention of a business, even though in several instances real applied strategy can be very different from what was intended initially. Olson and Sayer (2009) say that it is fundamental for practitioners and scholars alike in order to conduct and appraise diverse formulation processes.

### **Organizational Structure**

Company configuration entails four elements of organizational culture. The elements are centralizing, formalizing, span control as well as departmentalization. According to Colombo and Delmastro (2012), breadth and depth are the most essential elements of the most necessary elements of portraying an organization's shape. The number of managerial levels in between the top management and operational employees is defined by depth. On the other hand, breadth portrays the total of supervisor's direct reports/reports (control span). The span of control is calculated at every managerial level as well as an average across an organization's levels (Teece et al., 2010). As such, depth is inversely associated with breath in relation to the size of an organization.

With regards to the type of structure selected, the choice relies on how big an organization is, (Wang, 2014). The structures of smaller organizations cannot be the same as those of bigger ones. Moreover, an increase in the number of employees leads to increase in work specialization as a result of greater labour division. This is why big companies/organizations organize job activities by making more use of standardization and therefore building an administrative hierarchy and increased formalization. The other thing to look at while coming up with an organization structure is technology. Technology is the means used by firms/organizations to make products and or services. Defining the most efficient structure for an organization can be very difficult because the process is constrained by variables that include size, technology, external environment and strategies employed. The most favorable structure could be determined by the complexity, stability, diversity or hostility of an environment (John and Meier, 2011).

## **Organizational Resources**

The types of resources needed to reach desirable objectives by companies are technological, physical, human and financial resources (David, 2013). Each of these resources defines the kind of actions needed to implement given strategies. The level at which operations are executed ought to possess the required resources in order to implement each of the strategic plans put in place (Harvey, 2008). More often, people commonly reduce resource requirement specification into finance terms (Copeland et al., 2010). Daft (2010) say that inability to translate purpose strategic statements for instance, market share gains, into identifying critical factors necessary for achievement of objectives is one of the major shortcomings of strategic implementation in firms and companies. In addition, resources that are intangible might cause unique drawbacks that are related to external accountability enforced by the authorizing environment.

The huge challenge during the implementation of strategy is insufficiency of any form of resources, such as scarce finance, equipment and facilities, and human resources abilities and familiarity. Sometimes to be able to attain the companies' strategic goals, there would be need to train, discipline, recruit, select, lay off some employees and possibly promote some (Swartz, 2012). Additionally, it was argued by Swartz (2012) that another important part of strategy implementation is the capacity of building and managing effective teams. It was concluded by Okuto (2011) that implementation of strategy could be hindered by labor relation.

## **Organizational Culture**

Culture and behaviours of an organization is a challenge to strategy implementation. This includes meager combination of activities and dwindled feelings of ownership and devotion (Aaltonen and Ikåvalko, 2012). Meanwhile, Corboy and O'Corrbui (2014) point out the adverse sins of strategy implementation. These include; failing to understand how strategy should be executed; lack of strategy appreciation from customers and staff; failure to recognize challenges and obstacles and looking down on the day-to-day business imperatives. Marginson (2012) agrees that strategy implementation begins from gaining the commitment of a group by way of coalitional process of decision-making, or from full coalitional contribution of implementation staff through a tough corporate culture. When we speak of Organizational culture, we are talking of managers' leadership styles inclusive of how they use their time, what they give attention to, what and how they question their employees, their way of making decisions and also organizational culture. Organizational culture involves beliefs, values, norms and leaders' actions (codes of dressing, corporate jets, meeting with employees informally).

Firms usually have stiff cultures and inherent traditions which are necessary for a collaborative model of implementing strategies. Inability to cultivate stiff cultural values necessary for obtaining and changing organizational needs poses a threat to the success of implementing strategies (Marginson, 2012). Differences between those who only think and those who act fades but does not completely go away. Firms that adopt a culture that stresses lower levels of

employee participation in formulating strategies and executing them separates thinkers from actors. It seeks to execute strategy by infusing corporate culture in the whole firm (Teece et al., 2010). The cultural model negates and tasks the basic aims from the economic perception of a firm (Marginson, 2012). A “clan-like” (Ouchi, 2015) organization is projected to succeed, in which a strong culture causes employees to reconcile their personal goals with those of the firm (Aaltonen and Ikåvalko, 2012). An elevated level of organizational slack is necessary for instilling and maintaining a cultural model. Such a model has a number of disadvantages in that it presumes versed and clever participants, loss of focus by companies with this sort of model, expensive prices when there is need to shift culture, loss of diversity due to high homogeneity and lack of creativity (Marginson, 2012).

### **Organizational Performance**

Organizational performance is a recurrent theme in strategic management research (Aosa, 2008) and is often identified with effectiveness and efficiency (Lufthans, 2012). However, performance, as argued by March and Sutton (2007), extends to a wide range of research that seeks to understand organization’s competitive survival. Neely (2013) postulates that performance refers concurrently to the action, the action results, and to the triumph of the outcome matched to some standard. Kaplan and Norton (2012) defined performance, therefore as a set of factors that describe the procedure by which countless outcomes and results are attained.

The importance of organizational performance can be seen from theoretical, empirical and managerial lenses (Venkatraman and Ramanujam, 2016). The theoretical lens focuses on the effectiveness of strategies that influence the level of performance they cause while the practical lens brings to light the various constructs that have been utilized to capture performance (Mintzberg and Lampel, 2009). The managerial perspective focuses on the quality of the day-to-day decisions made by managers (Venkatraman and Ramanujam, 2016). Irrespective of this importance, the research outcomes on performance stay inconclusive, and several reasons have been advanced for the indecisive results including methodological defects, snubbing organizational characteristics in performance relationships and related application of models (Mugambi and K’Obonyo, 2017). Measuring performance is one of the utmost problematic issues in the study of strategic management.

Strategic management scholars, in their mission for establishing performance associations of the strategic behavior of businesses, continue to measure performance of the business using a broad range of operationalizing schemes (Mugambi and K’Obonyo, 2017). However, there is no any research informed systematic deliberation among researchers as to what constitutes a valid set of criteria. Most of the strategic management studies have measured performance using traditional financial measures (Walsh and Margolis, 2013). The main issue associated with traditional performance measurement is the failure to embrace non-financial and less tangible aspects such as employee morale, quality, client satisfaction and (Kaplan and Norton, 2012). Nowadays, there is a belief that the traditional financial methods are still effective and relevant (Taylor, 2017).

However, these need to be balanced with more modern, intangible and externally adapted measures.

The increasing significance of sustaining shareholder requirements has seen the development of the Sustainable Balanced Score Card (SBSC) as a contemporary stakeholder-centric measure (Heath, 2013). The SBSC encompasses six perspectives of financial, customer, internal business, learning, social and environmental. This is in line with the emerging stakeholder theory, which calls for the assessment of organizations' performance measured against the expectations of various stakeholder groups that have particular interests in the effects of the organizations' activities (Lufthans, 2012). The customer standpoint indicates an organization performing based on its clients' view. Internal processes are those critical micro actions that enable organizations to satisfy customers' needs (Karimi and Kadir, 2012). Global competition is such that organizations need to have the ability to innovate and hence learning key. Social perspective measures the impact a firm has on communities in which it works (Kerzner, 2011).

Many firms are struggling to implement their corporate strategy. Raps and Kauffman (2015) expounds that the problem is shown by the indecisive low level performance which is approximately 10% to 30% of envisioned strategies. Bititci et al (2015) additionally argued that most organizations are stunted before expected advantages are understood as the strategy moves into execution stage. Fruitful implementation is a challenge that requires the managers to have patience, determinations and energy. The implementation process integrative view is essential for success (Raps and Kauffman, 2015). The process strategy formulation and implementation should be successful in the survival of pharmaceutical industry companies since the industry plays a significant part in our economy (Awino, 2017).

However, a knowledge gap generally exists in middle income countries such as Kenya as a result of narrow empirical and theoretical reviews on the matters relating to strategic implementation; most of which had been conducted on the banking industry with non on pharmaceutical industry. This study therefore sought to fill the gap by exploring association between organizational performance and strategy implementation in the pharmaceutical industry in Kenya.

### **The Agency Theory**

Heath (2013) asserts that agency theory is a theory in management whereby one party referred to as agent acts on behalf of another party known as the principal. Therefore, the agent's core mandate is to progress both the principals' welfares and his own welfares in the business. Armstrong and Baron (2010) articulates that equilibrium of these welfares ought to be amalgamated so as to attain the core business objectives. These objectives can only be attained through the collaboration with the business agent since he/she is in charge of the massive resources of the institution. This theory is significant in strategic management because the action preferred by the agent impacts on several other parties and the principal in particular (Laffort and Martimost, 2012). Hence, the part of the agents in the formulation of strategies and the overall

process of management cannot be underrated (Alice et al. 2013). It is said that the organization is always described as a connection between the explicit and implicit agreements associating the administration and its different stakeholders.

In addition, this model holds the opinion that there should always be a good collaboration between the executive of an organization and its stakeholders for the essence of working towards the mutual objective. It has also been illustrated as the essential approach to managerial conduct. According to Eisenhardt (2008), agency theory is normally utilized in the management literature because it offers a theoretical framework for the management and structuring contract. This is among the emergent concerns in the management of strategies. The theory thus provides a detailed explanation between the associations of the agents and their principals in management performance contracting (Ahmadi et al., 2012).

The superfluity of implementation of strategy utilizes the practical aspects of the agency theory at all levels of the process of strategic management process (Krueger, 2014). Additionally, Krueger (2014) still opposes that beginning from the corporate strategy to operational strategy; the goals planned should be overseen by the business agents or in order for the business to meet its mandates. Management by goals which notes that organization must frame purposes at all levels of the strategic hierarchy as quoted by Henry and Saul (2006) who actually insists that for these purposes to be attained there has to be combined efforts between the managers as agents and subordinates.

The agency theory usually demonstrates to be more superior compared to other theories related to strategic management. Serfontein (2010) illustrated that there has to be an agent charged with the obligation of representing other stakeholders at each level of strategy implementation hierarchy levels (Striteska, 2012). It is therefore sensible to put in mind that there should be collaboration between the principal and the agent for the business to attain its purposes proficiently and effectually (Shapiro, 2015). Therefore to enhance organizational performance, there is need for the pharmaceutical industry in Kenya to incorporate agency theory principally at the strategy formulation level of strategic management and generally to the overall process of strategic management.

## **RESEARCH METHODOLOGY**

This research applied a descriptive survey research design. According the Pharmacy and Poisons Board records, 64 pharmaceutical companies had been registered and operating within Nairobi County as at December, 2016. This was the target population of the research. Data was collected by the researcher using questionnaires. The researcher further employed data editing, data coding, as well as data tabulation to detect any animosities in the responses and assigned precise numerical values to the responses for further analysis.

Descriptive statistics was then used to analyze the data. Multiple regression was used to estimate the effect of strategy implementation on organizational performance The regression equation assumed the following form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Where: Y= Organizational Performance, X<sub>1</sub>= Organizational Structure, X<sub>2</sub>= Organizational of Resources, X<sub>3</sub>= Organizational Culture, e= Error, β<sub>0</sub> = The constant term is the value of dependent variable when all the independent variables are 0. While B<sub>i</sub> = the regression coefficient or change induced by X<sub>1</sub>, X<sub>2</sub> and X<sub>3</sub> on Y.

## RESEARCH FINDINGS

The study investigated the effect of strategic implementation proxies by organizational structure, organizational resources and organizational culture on organizational performance. To summarize the regression model, the table below was generated

**Table 1: Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.698	0.487	0.373	7.798

Multiple linear regression model, overall fit statistics and regression are indicated in the table above. In this case, the study established that the adjusted R<sup>2</sup> was 0.373 with the R<sup>2</sup> = 0.487. This indicated that 48.7% of the variance in the data being analyzed was explained by the linear regression.

**Table 2: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	857.702	4	214.425	3.526	.009
Residual	7602.175	57	60.817		
Total	8459.877	61			

F-test output is the one depicted in the above table. The linear regression's F-test has the null hypothesis that the model explains zero variance in the dependent variable (performance). Since the significance level 0.009 is less than the cut-off value 0.05 the model is significant. This means the F-test is highly significant; hence, we can assume that the model describes a significant amount of the variance in performance of pharmaceutical industry in Kenya.

To understand how different variables affected the performance of pharmaceutical industry in Kenya, the table below was generated.

**Table 3: Coefficients**

Model	Coefficients		T	Sig.
	B	Std. Error		
(Constant)	61.36	5.484	11.189	0.000
Organizational Structure	1.138	.342	3.325	0.001
Organizational Resources	0.905	.399	2.268	0.025
Organizational Culture	1.040	.260	0.154	0.038

From the above table, the constant is highly significant ( $p = 0.000 < 0.05$ ), as well as organizational structure, organizational resources and organizational culture which are also significant as indicated by the p- values 0.001, 0.025 and 0.038 which are all less than 0.005. Therefore, all the independent variables used in the model have a significant effect on the dependent variable;

$$Y = 61.36 + 1.138 X_1 + 2.169 X_2 + 0.905 X_3 + e$$

From the above model, a unit increase in Organizational structure, increases performance by 1.138 units, a unit increase in organizational resources increases performance by 2.169 units, a unit increase in Organizational culture increases performance by 0.905 units. Therefore it's evident that all the strategies have a positive impact on the performance of pharmaceutical industry in Kenya.

## DISCUSSION OF FINDINGS

These findings are comparable to Chiuri and Taku (2015) who studied the challenges of strategy implementation in Higher Education Institutions in Kenya. Establishing institutional culture; external environment; organizational structure; managerial skills and human resource development on strategy implementation were the key objectives which the study aimed to establish. The survey found a statistically insignificant relationship between managerial skills and strategy implementation at 0.05 level of confidence. However, these findings contradict Kibicho (2015) who studied the determinants of strategy implementation in insurance firms in Kenya. He examined the effect of managerial competencies, resource strength, corporate culture and innovation on strategy implementation success. He found leadership to be number five determinant of strategy implementation.

The findings also agreed with a study by Serfontein (2010) who indicated that strategic leadership is both directly and indirectly positively related with operational strategy and organizational performance. In addition the findings agree with a study by Taylor (2017), who found that good leaders will always ensure that major changes take place such that they can obtain the highest level of improvement in activities related to the organization. To succeed, such leaders communicate to both external and internal members through the use of an open style of

management, whose main objective is the development of new corporate cultures which employees can fit in to.

On organizational resources, the study found out that Information, Communication and Technology (ICT) as a resource contributed greatly towards improvement in strategy implementation; This is because, utilization of ICT helps in enhancing the overall planning process, accountability as well as improving the internal communication which are all main issues in successful strategy implementation. Additionally, it was established that the company had sufficient financial resources to initiate, implement and execute the overall strategy implementation leading to good organizational performance. On organizational structure, the study established that the company indicated high level of respect in terms of people's ideas, and opinions (as they allowed their staffs to participate in the organizational decision-making process); this mean that staffs at every level of the organization are completely aware of their personal roles as well as other inter-dependent functions in achieving the company vision; decisions are made at the corporate level and communicated to departments and regional centres for implementation; The free flow of information in our company was inhibited by the nature of our company structure which was critical to strategy implementation; many hierarchical levels lead to few workers reporting to one manager and there exist proper rules, procedures as well as responsibilities that provide company staffs with the necessary during strategy implementation.

On organizational culture, the study found out that adaptive culture had facilitated fast execution of tasks and by easily adopting to changes in environment they are able to teamwork and implement strategies efficiently. On financial performance, the survey found out that strategy implementation positively impacts company financial performance. Likewise, the survey found that implementation of strategy influence firm financial performance to a great extent while it results to improved positive feedback from customers; growth in customer base; opening of new branches; enhanced repeated purchase and new products and services development.

## **CONCLUSIONS**

The huge challenge during the implementation of strategy is insufficiency of any form of resources, such as scarce finance, equipment and facilities, and human resources abilities and familiarity. No project venture can operationalize any superior competitive project idea at a resource disadvantage, for ideas may just remain so, if there are no resources to set them in a motion. Project success is not only determined by other factors of production, but with sound resource base, an organization is good to go. Therefore, the level at which operations are executed ought to possess the required resources in order to implement each of the strategic plans put in place.

Faced with a highly dynamic business environment, increased competition, more demanding stakeholders, government policies, the survival of pharmaceutical companies had been shown to depend on development of sustainable strategies. The main element of the success of these

strategies is the organizational culture. Therefore, the study concluded that organizational culture does influence the implementation of strategy. Some of the organizational culture included cordial working relations between line and staff, dynamism, entrepreneurship and creativity, well defined employee roles, flexibility of culture and policy as well as adapting to changes in environment.

## **RECOMMENDATIONS**

The study recommends that organizational resources are a significant issue in the determination of how effective the entire process of implementing a strategy will be. Therefore, pharmaceutical firms should capitalize on balancing the allocation of resources as well as allocating more funds to the departments responsible with strategy implementation. The organizations should allocate funds towards strategy implementation as it is the key towards achieving other reforms and if successfully attained, it could penetrate down to the entire organization. It should thus be noted that the allocation of financial resources should be undertaken such that it is consistent with the pursued strategic fit in the organizations, absent of unnecessary bureaucracies and red tape.

The study also recommends that it was fundamental for organizational culture to be aligned with multi-branch strategy implementation. With the variety in regards to size, origin as well as race within pharmaceutical organizations in Kenya, the key task with strategy implementation is to evaluate and create a strategic policy that encourages social values, defines ethical criteria and creating workplace support strategies as well as higher achievements motives in the organizational culture. Pharmaceutical companies should have a tight culture strategy fit that facilitates execution of strategy, provides clear guidance on roles, responsibilities and procedures that stronger staff identification with the organization commitments towards its overall vision, target performance as well as the strategy.

The study further recommends that the organizational structure of the pharmaceutical companies should be aligned to the strategy being implemented. The companies should train middle level management on the new strategy that is being introduced. It is also important for pharmaceutical companies to institute organizational structure that supports strategy implementation and one that ensures that there is overall coordination in inter-departmental linkages and flow of communication. The pharmaceutical companies should also ensure that their organizational structure follows strategy in order to ensure effective strategy implementation hence good organizational performance.

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