

# Influence of Employee's Skills on the Performance of Cement firms in Kenya

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**Abstract:** The purpose of this paper is to examine the influence of employee's skills on the performance of cement firms in Kenya.

**Design/methodology/approach** – Census enquiry was used to get the purposive sample of 120 sectional managers in all the 6 cement firms in Kenya, who filled out the questionnaire. The results were analyzed using descriptive research design, inferential statistical analyses and linear regression tests.

**Findings** – Correlation analysis established that employee's skills were positively and significantly correlated with the firm performance.

**Originality/value** – Skill shortages are often portrayed as a major problem for the economies of many countries. Yet, there is surprisingly little evidence about their prevalence, causes and consequences.

**Keywords:** McKinsey 7S framework, Employees' skills, Performance.

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## 1. INTRODUCTION

The McKinsey 7S framework developed in 1980s by McKinsey consultants; Tom, Robert and Julien with the help from Richard and Anthony; has the soft element of "Skills" in its matrix (Obiga, 2014). The framework provides the institutional framework within which strategy implementation takes place (Machuki, Aosa & Letting, 2012). Tracey and Blood (2012) argue that skills reflect what an organization does best; the collective competencies that are utilized to manage organizational systems, processes, technology and customers. As the rate of change accelerates and competition intensifies globally, Kit and Antony (2005) argue that the success and continuity of an organization will then depend on its strategies and performance. Employee's skills being essential to firm's performance, the cement firms in Kenya had strategies on nurturing employee's skills including investing in skills development, talent utilization and retention and attracting people with capability and talent (Company websites).

Cement industry plays a vital role in the socioeconomic development of a country. The need to understand the challenges affecting performance of the industry cannot be overstated. The RoK (2015) records indicated that the performance of the building and construction sector in Kenya improved with a growth of 13.1% in 2014 compared to 5.8% in 2013 and growth of 71.8% in wage employment in the period 2009/2014. Cement consumption grew by 21.8% in 2014 to stand at 5,197 thousand tonnes. Commercial bank credit extended to the real estate sector grew up by 13.6% from Kshs 70.8 billion in 2013 to Kshs 80.4 billion in 2014 (KNBS, 2015).

The building and construction industry's projection is very promising as the vision 2030 framework (RoK, 2007) envisaged massive infrastructural development in a range of sectors including ports, railways, special industrial zones, general housing, road construction and rehabilitation. All projects estimated to cost Kshs. 20 billion per annum over 10-year period. The Business Monitoring International (2015) report forecasts a 9% growth of the sector in Kenya over 10-year period (2015/2024).

There are 6 cement firms in Kenya namely; Athi River Mining Limited, Bamburi Cement Limited, East African Portland Cement, Mombasa Cement, National Cement and Savanna Cement (Dyer & Blair, 2012). The annual reports and financial statements of the cement firms listed on the Nairobi Securities Exchange denote variability and decline in performance. The

RoK (2015) records of 2009/2013 showed that the gross profit margin for Athi River Mining (ARM) averaged 31%; Bamburi, 30% and East African Portland Cement Company (EAPCC), 23%. The operating profit margin for Bamburi averaged 22%; ARM, 19% and EAPCC, 3%. The net profit margin for Bamburi averaged 16%; ARM, 12% and EAPCC, 5% while the return on assets averaged 15% for Bamburi; ARM, 5% and EAPCC, 3%. The continued decline in profitability of the firms was likely to have an adverse effect in the economy, such as decline in employment opportunities, job losses, loss of revenue to the government and adverse effects on the socioeconomic life of the employees.

Competencies are set of skills and abilities which are required for desired level of performance. Right competencies are the key to superior performance. The performance of companies depends mostly on the quality of their human resource. For economic and business reasons, organizations have always been concerned about the competence of its people. People with right abilities are able to perform better. These days most of the business organizations are dealing with the problem of competency mapping (Kaur & Kumar, 2013). Employee performance has not been effectively managed in many organizations. For example, Kenya airways loose between 5%-15% of sales revenue as a result of lack of attention on factors influencing employee performance (Ombego, 2015).

Skill shortages are often portrayed as a major problem for the economies of many countries; yet, there is surprisingly little evidence about their prevalence, causes and consequences (Healy et al., 2011). Hennekam (2016) affirms competencies to be an under-studied aspect of the human capital theory that is increasingly important in the changing work environment where individuals have to constantly develop themselves and keep their knowledge and skills up-to-date in order to stay employable and attractive in the labor market. The cement industry in Kenya was chosen as it was unique in the sense that it's a capital and energy intensive, highly automated with low labour intensity and an industry with a homogeneous product whose demand has increased considerably in the 20th century Cembureau (2016). This study contributes to the existing body of knowledge by looking at the employee's competencies and skills and their relationship with firm performance.

## **2. THEORETICAL FRAMEWORK**

The theoretical framework in this study is the resource-based view (RBV) theory developed in 1959 by Edith Penrose, which is a compatible framework for analyzing, identifying, exploitation and deployment of resources in an organization. Penrose argued that the development of a company is based on the uniqueness of its resources and the role of the management team in defining the company's objectives and in selecting and deciding the usage of company's productive resources, such as company possession and innovative management, to create productive goods or service (Nguyen, 2015). RBV theory pays attention to the internal resources of a firm in which they are the primary determinants of performance contributing to sustainable competitive advantage.

Sustained competitive advantage can only be achieved through firm resources. Those resources should be valuable; rare; imperfectly imitative and organized (VRIO) (Nguyen, 2015). An organization is a collection of unique resources and capabilities that provide the basis for its strategy and the primary source of its returns, which differentiate firms' performances across time and driven primarily by their unique resources and capabilities, rather than by their industry's structural characteristics (Obiga, 2014). Firm resources include; assets, capabilities, organizational processes, firm attributes, information and knowledge among others; controlled by a firm that enables it, to conceive and implement strategies that improve its efficiency and effectiveness (Omari, 2015).

In this study, the resource-based view theory was relevant in the cement industry as it emphasized that resources (especially employee's skills) are the ones used to create, produce, and offer products to the market in addition to detecting and responding to the market opportunities or threats. This was very useful in identifying the resource conditions and other organizational factors in the individual cement as the theory argued that firms which possessed unique resources achieved competitive advantage and superior long-term performance.

## **3. LITERATURE REVIEW**

### ***Managerial Cognition***

Uotila (2015) infer that Webster's dictionary suggests that cognition is the act of knowing. Cognition involves the mental processing that uses, changes, enacts, recalls, stores, sense, and transforms knowledge in a dynamic, recursive manner. To be cognizant is to be actively aware of a set of knowledge, including a framework, within which such knowledge might be used, based on environmental or mental cues. Cognition thus plays a role in which kind of knowledge is considered as a

noise and which kind of knowledge is further processed both consciously and unconsciously. Cognitions aim to understand the actions we make in everyday settings. It focusses on the processes inside the individual mind and their relation to one's environment and aids us to make visible the previously tacit or hidden elements that guide our actions (Uotila, 2015).

Cognitions are not static, but constantly co-evolve as individual interacts with the world. Therefore cognitions shape our surrounding world, while our surrounding world shapes our cognitions. Different beliefs managers hold guide their decisions in organizations. There is no single explanation about how managerial beliefs are formed. Variation in beliefs across an industry might help explain sustained competitive differences between close competitors (Johnson, 2003). However, there are two main explanatory mechanisms, namely individual and social processes that have effect on the formation of managerial cognition. First, there is inherent capability of humans to inductively understand and categorize their environment. Manager's interpretations of their organizational environment both external and internal, affect their actions and decisions. This finding or realization has turned the attention towards the frameworks managers use for decision making in organizations. Individuals shape the environment through their action and on the other hand environment builds a background which restrains individual through institutional and social means (Uotila, 2015).

Industries are socially constructed by industry members. Managerial cognition will influence the industry structure. However the underlying economics of an industry can force industry members to accept a reality they might not have enacted on their own. A central topic in business policy is why competing firms adopt different strategies and experience different levels of performance. Managers do not always make perfectly rational decisions and deploy capabilities optimally to maximize performance. Even if managers rationally deployed capabilities, this might lead to resource allocation that is inadequate for the opportunity or threat at hand (Johnson, 2003). Eggers and Kaplan (2013) adds that managerial cognition plays a major role in sensing, interpreting, encoding, and retrieving prior experiences to use in the construction of organizational routines.

This study applied the managerial cognition model mainly as a framework to understand the cement industry's employees' skills and competence levels and their impact in the performance of the cement firms in Kenya.

### ***The Balanced Scorecard***

The Balanced scorecard (BSC) is the most popular and widely used in organization performance measure (Hilman, 2014). Kaplan and Norton (1992) introduced the BSC on the realization that firm executives understood that the traditional financial accounting measures like return-on-investment (ROI) and earnings per share (EPS) can give misleading signals for continuous improvement and innovation. Kaplan and Norton (2005) affirm that managers need a balanced presentation of both financial and operational measures.

Mackay (2004) explains that BSC's guiding concept is to move managers away from focusing purely on financial outcomes and to consider a more balanced portfolio of multiple financial and non-financial measures closely linked to strategic objectives. Mackay alluded that no single performance indicator can succinctly capture the complexity of how an entire organization is performing. The Scorecard encourages managers not to rely solely on historical measures, but emphasizes the need for 'lead' indicators that point to the future direction of the organization. The generic Balanced Scorecard proposed by Kaplan and Norton in 1996 consists of four interrelated perspectives, namely: Financial, Customer, Internal Processes, Learning and Growth. The scope of these perspectives is designed to cover the whole of the organization's activities both internally and externally, both current and in the future.

The Financial perspective acts as the focal point of all the three perspectives and can readily accommodate both operational and shareholder derived measures. The customer perspective is crucial in today's competitive markets as the key emphasis for most executives is the customer. Many firms focus on customer satisfaction, identifying customer needs and re-engineering their business capabilities from the customer interface. The internal business processes perspective, focus on the operational aspects of an organization's activity and measures the organizational skills, competencies, and processes that are most critical for the strategy to be effectively executed (Kaplan & Norton, 2005).

Non-financial measures commonly used for monitoring operational processes include; quality, timeliness and output volumes. The learning and growth perspective, focus on enabling the organization and deals with the cultivation of an infrastructure for future development and organizational learning. These objectives deal with the strategic investment in people, processes, information systems and organizational culture (Mackay, 2004).

The BSC's most obvious benefit arises when managers use it to design a customized reporting and performance management system, that enables management reports to focus on measures specifically selected to represent the

organization's strategy. The BSC also influences other organizational systems when managers use it to align their planning, budgeting, and resource allocation systems, and their incentive and reward systems to strategy (Kaplan, 2005).

The balanced scorecard has problems with some of its key assumptions and relationships. For instance, there is no causal relationship, but rather a logical one among the areas analyzed. For example, customer satisfaction does not necessarily yield good financial results. Assessing the financial consequences of increased customer satisfaction or quality improvements requires a financial calculus. Therefore, the balanced scorecard makes invalid assumptions, which may lead to the anticipation of performance indicators which are faulty, resulting in sub-optimal performance. In addition, the balanced scorecard is not a valid strategic management tool, mainly because it does not ensure any organizational rooting, but also because it has problems ensuring environmental rooting. Consequently, a gap must be expected between the strategy expressed in the actions actually undertaken and the strategy planned (Norreklit, 2000).

### ***Firm Performance***

Machuki and Aosa (2011) explain that firm performance refers to the achievement of an enterprise with respect to some criterion (or criteria). They pointed out that a substantial disagreement exists concerning the measurement of performance; as they observed that performance is a multidimensional construct and thus, any single index may not be able to provide a comprehensive understanding of the performance relationship relative to the constructs of interest and therefore, it is important to look at multiple indicators.

Firm performance (Chorn, 2007) lacks a common measure and is applied differently by various stakeholders to include: profitability, market share, good value for money products and stable employers. Drivers of firm performance and effectiveness include competitive situations, strategies and styles capable of consistently producing good performance. Specific firm cultures and leadership styles are only appropriate in given strategic situations. This firm performance principle is understood and makes sense, but is difficult to operationalize and apply. The management of a complex firm requires managers to measure performance and analyze the impact of different performance dimensions of firm excellence (Kit & Antony, 2005). Kaplan and Norton (2005) created the balanced scorecard that allows managers to look at the business and measure its performance on the basis of four perspective areas: financial, customer, internal business and learning and growth perspectives.

### ***Employee's skills***

Skills reflect what the organization does best, the collective competencies that are utilized to manage organizational systems, processes, technology, and customers (Tracey & Blood, 2012). For instance, Holcim Ltd strived to successfully enhance the skills of each individual with regular trainings at a continuous process and motivated by offering attractive and challenging jobs with development potential (Ryf, 2011). The council for scientific and industrial research institute recognized inadequacy of skills for its staff and continued to create alliances with national and international organizations to offer staff opportunity to engage at the cutting edge. Many stakeholders perceived staff of CSIR as renowned for high skills and innovation, making them very competitive (Garbrah, 2013). Tsalidis (2010) pointed out that in King Toys, their staff needed not have any special technical prowess, abilities or knowledge but most importantly their experience in the toy industry.

In Kenya, early years of Kenya Airways were characterized by large market share of regional routes and a decent share of international routes, but technical skills were misused and underutilized leading to weaker sales and marketing. After commercialization period, there was efficient use of fleet in Kenya Airways with strategic alliance of KLM, stakeholder driven culture, attraction of business class customers and consistent profitability (Fleisher & Bensoussan, 2007). Based on this theory, the following is hypothesized:

***Hypothesis H<sub>1</sub>: Employee's skills do not influence performance of cement firms in Kenya.***

## **4. METHODOLOGY**

### ***Sample***

The study adopted purposive sampling; a non-probability sampling technique. Saunders, Lewis and Thornhill (2009) aver that business and management research projects may dictate usage of non-probability sampling. It provides a range of alternative techniques to select samples based on researcher's subjective judgement. This sample would provide the researcher with an information-rich case study and gain theoretical insights. Purposive sampling (Mugenda & Mugenda,

2003) allows a researcher to use cases that are informative and have required characteristics. The respondents in the study were the senior managers who were section heads of business units of the respective cement firms in Kenya. The rationale was that senior managers play a key role in strategic formulation and implementation. They also play crucial role in managing resources, providing information to decision makers, giving emotional support to their subordinates and communicating the strategic intent of executive management throughout the organization (Salih & Doll, 2013). The characteristics of the sample are displayed in Table 1.

**Table 1: Sample sizes**

Departments	Kenya's Cement Firms						Total
	ARM	BCL	EAPCC	SCC	MCL	NCL	
Production							
Sales and Marketing							
Finance	20	20	20	20	20	20	120
Human Resources							
Supply Chain							

**Pilot Study**

This study undertook pilot testing. Kothari and Garg (2014) explained that pilot testing is the replica and rehearsal of the main survey. It is a survey being conducted by experts and brings to the light the weaknesses (if any) of the questionnaires and also of the survey techniques. Specifically (Saunders, Lewis & Thornhill, 2009) pilot testing is essential in determining the time needed to complete the questionnaire. In this study the pilot survey involved a randomly selected sample of 24 respondents representing 20% of the sample size and as pointed out by Saunders, Lewis and Thornhill (2009), most student questionnaires requires a minimum number of 10 respondents for a pilot.

**Instruments**

Primary data was collected using a questionnaire that measured the influence of the employee's skills on performance of cement firms in Kenya. Primary data are those which are collected afresh and for the first time, and thus happen to be original in character (Kothari & Garg, 2014). The questionnaire is the most widely used primary data collection technique within the survey strategy in which people are asked to respond to the same set of questions in a predetermined order. It provides an efficient way of collecting responses from a large sample prior to quantitative analysis (Saunders, Lewis and Thornhill, 2009). It is considered as the heart of a survey operation and has the following advantages: it's a low cost method of data collection and free from the bias of the interviewer. The respondents have adequate time to give well thought out answers and the respondents who are not easily approachable can also be reached conveniently. Larger samples can be made use of and thus the results can be made more dependable and reliable (Kothari & Garg, 2014).

Saunders, Lewis and Thornhill (2009) stated that rating questions in a questionnaire most frequently use the Likert-style scale in which the respondents are asked how strongly they agree or disagree with a statement or series of statements, usually on a four, five, six or seven-point rating scale The Likert-type scale has several advantages in that it is relatively easy to construct and is considered more reliable and provides more information and data than other types of scale (Kothari & Garg, 2014). In this study, a 5 rating Likert scale was applied whereby the respondents selected a statement of their choice and entered the respective number in the provided column.

**5. RESULTS**

Table II provides the correlation analysis under study. The correlation analysis established that employee's skills was positively and significantly correlated with the firm performance at ( $r=0.618$ ;  $p=0.000$ ). This indicates that firms with better employee's skills experience high performance. A similar study by Hawi (2015) found a positive relationship between strategic skills competency and the performance in the airline organizations in Jordan. Hayton (2015) study averred that the skill sets that are most consistent and strongly associated with good management practice and performances are entrepreneurship skills and leadership skills. Both skills are positively related to strategy formalization and responsiveness – key drivers of performance and growth. Further, across all firm types and contexts, the entrepreneurship skills of top managers are positively and significantly associated with turnover and productivity.



**Table II: Correlation Matrix**

		Employee's Skill	Firm Performance
Employee's Skill	Pearson Correlation	1	0.618**
	Sig. (2-tailed)		0.000
	N	97	97
Firm Performance	Pearson Correlation	0.618**	1
	Sig. (2-tailed)	0.000	
	N	97	97

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Regression analysis was performed. The results are shown in Table III. The result showed  $R^2=0.382$  which meant that 38.2 per cent of the variation in firm performance could be explained by employee's skills. The remaining 61.8 per cent was explained by other variables. The results of regression analysis revealed a significant positive relationship ( $\beta=0.460$ ,  $p=0.000$ ) between employee's skills and firm performance.  $P$ -value of 0.000 was less than the set level of significance,  $\alpha$  at 0.05. This means that the alpha level is greater than the  $p$ -value. This led to conclusion that the null hypothesis ( $H_0$ ): "Employee's skills do not influence performance of cement firms in Kenya", should be rejected. Employee's skills therefore influence performance of cement firms. A similar study by Hawi (2015) regressed management competence skills and performance in the airline organizations in Jordan and found that performance is affected by 36% from the total variance of the managerial competencies with correlation  $r=0.602$ . The study concluded that there was sufficient evidence at level  $\alpha \leq 0.05$  that there was an impact for managerial competencies on performance.

**Table III: Regression Analyses**

Model	R	R Square	Adjusted Square	RSig.	Unstandardized Coefficients B
1	0.618	0.382	0.376	0.000	0.460

## 6. DISCUSSION

This study examined the influence of employee's skills on performance of cement firms in Kenya. A regression analysis was used to analyze the 120 surveys. It was found that employee's skills had a positive relationship with firm performance.

### *Theoretical and practical implications*

The findings have implications for the various theories used in the literature review. The resource-based view theory emphasis that resources are the ones used to create, produce and offer products to the market in addition to detecting and responding to the market opportunities or threats; manifested with the outcome of the research. Additionally, managerial cognition relevance was based on the principle that managers do not always make perfectly rational decisions but deploy capabilities optimally to maximize performance.

Notably the cement firms encouraged their employees to keep developing their skills. Tasks in the firms were distributed based on specific competencies. The firms created learning environment by providing space, time and resources for employees to gain necessary skills. However, competency gap analysis and skills mapping were generally not done in most cement firms and failure to tolerate risk taking behaviour was evident. Employees in the cement firms were not granted the opportunity to effectively utilize their talents, skills and resources in most of the firms. It was logical to conclude that employee's skills influenced performance of the cement firms in Kenya. All firms faced a multitude of environmental challenges. As such, the need to establish priorities was critical for creating and sustaining a strong competitive position. In order to enhance employees' skills in the cement firms, so as to obtain superior performance, the study recommends for the undertaking of competency gap analysis and skills mapping by the cement firms. Employees needed to be granted the opportunity to effectively utilize their talents, skills and resources.

### *Limitations and suggestions for future research*

The study focused on the cement industry in Kenya while there was value in exploring the influence of employee's skills in other industry types and countries where similar conditions prevailed. This infers that other industry types and the cement industry in other countries excluded in this study posed the limitation to the extent on which these results could be generalized across them. Donselaar (2012) argued that the problem of generalization is to infer whether a causal relationship

holds over variations in units, treatments, outcomes and settings. Meaning that the causal relationships might only hold for the unit of analysis (in this case the cement firms in Kenya) and not for all other cement firms in the world or other industries. Moreover, the study examined the influence of employee's skills on performance of all cement firms in Kenya. However, each firm presents distinctive position with unique resources and capabilities. Some factors could be more relevant when analysis is done on individual case basis. Future research into each of the cement firms on the influence of employee's skills would provide detailed tailor-made strategic solutions to individual firms.

The other limitation is that the study adopted a cross-sectional research design whereby averages of corporate performance data for a five year period (2009/2013) for cement firms listed on the Nairobi Securities Exchange were used to infer variability and decline in performance for all the cement firms in Kenya. Machuki, Aosa and Letting (2012) explain that information about the subjects gathered in a cross-sectional study represents what is going on at only one point in time. The interpretation of the results of this study was therefore limited to the cross-sectional data obtained for the stated period. This provided an opportunity for replicative studies through either longitudinal or case study research designs.

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