International Research Journal Of Business and Strategic Management

Vol 6, Issue 2, pp 1-9, June 22, 2024, © International Research Journal Publishers, ISSN 2710-2742 (online) www.irjp.org

INFLUENCE OF STRATEGIC CONTROLS ON THE ORGANIZATIONAL PERFORMANCE OF FINANCIAL FIRMS LISTED AT THE NAIROBI STOCK EXCHANGE

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Accepted, June 20th, 2024

Abstract

Effective strategic controls serve as important mechanisms for optimizing organizational performance, facilitating the alignment of actions with strategic goals, and ensuring sustained competitive advantage. However, many firms have neglected strategic control measures leading to inefficiencies, thus jeopardizing their overall performance. This paper sought to examine the influence of strategic controls on the organizational performance of financial firms listed on the Nairobi Stock Exchange (NSE). The study applied a descriptive research design. The population for the study was 138 employees of financial firms listed on the Nairobi Stock Exchange. Stratified random sampling was applied in addition to the Taro Yamane formula to come up with a sample size of 103 respondents. The study gathered data through questionnaires which were administered both physically and online. Data collected was analyzed through both descriptive and inferential analysis. Results revealed a β of 0.643 and a p-value of 0.001, between strategic controls and the organizational performance of financial firms listed on the Nairobi Stock Exchange. The study concluded that strategic controls had a positive and significant influence on the organizational performance of financial firms listed on the NSE. The study recommended fostering robust feedback mechanisms for employees through digital platforms to enhance morale and productivity. Additionally, the study recommended for optimization of resource allocation to minimize wastage by redirecting resources toward strategic endeavors. Financial firms listed at the NSE should enhance analysis capabilities to detect deviations early and implement benchmarking against competitors for continuous improvement. Lastly, the study recommended for integration of strategic controls into organizational processes and decision-making frameworks.

Key Words: *Strategic Controls, Organizational Performance, Financial Firms, Nairobi Stock Exchange*

INTRODUCTION

Strategic controls form the framework that supports strategic goals of the organization, by providing the basis on which they are achieved. The implementations of these mechanisms are

aimed at guaranteeing that the strategies are executed in harmony with the central goals of the organization (Agegnew, 2020). Strategic control systems, which give firms a comprehensive approach to monitoring, measuring, and adjusting all strategic goals, allow them to successfully handle the dynamic nature of the business environment. They are also one of the most critical components of the company's management system (Aggarwal, 2019). Performance metrics, budgetary controls, and feedback mechanisms are among the set of tools and processes that allow clear decision-making at every level of the organization. Also, the importance of strategic controls cannot be overstated as their implementation helps to build accountability, transparency, and all the necessary alignment within the organization across different functional areas (Ahmad, Ismail, & Saleh, 2019). Strategic controls are the instruments through which the managers and employees receive directives and ensure coherence in relationships between what they do and the organizational goals that are set (George, Walker & Monster, 2019).

According to AlTaweel and Al-Hawary, (2021), strategic controls are critical for the survival and success of organizations since they serve as guides in an unpredictable and dynamic environment in which the organization aims to attain long-term goals. Through setting proper performance metrics, and measurement criteria, strategic controls ensure management keeps track of the progress and the aspects that may need some remedial measures to realign them with the overall plan (Ali & Anwar, 2021). This initiative helps firms to confront challenges, grab opportunities, and to withstand the challenges of adapting to market changes efficiently. In addition to this, strategic controls aid agility in an organization by promoting quick and precise decisions, and ready movements of resources to follow trends or threats in the industry (Bayraktaroğlu & Yılmaz, 2018). They also contribute to the establishment of coherent procedures of accountability and responsibility among employees as every worker is provided with detailed and aligned performance expectations that correspond to the strategic objectives of the organization (George, et al., 2019).

Alam (2022) notes that the role of strategic controls in business effectiveness can be profoundly influential in the growth, profitability, and even survival of any organization (Donkor, et al., 2018). Business entities of diverse industries deploy control measures in their operations for a multitude of purposes such as operational efficiency, optimizing risk management, and yielding the best financial results. For instance, big companies such as Apple and Toyota make use of advanced performance management systems to regularly check KPIs and the consistency of corporate strategies. Equally, in Africa, companies such as the MTN Group in South Africa use strategic controls to heighten market competitiveness, enhance operational efficiency, and make more profits for their shareholders. In East Africa, companies like Dangote Cement Tanzania portray how the use of strategic controls can translate to industrial dominance and sustained economic growth. These examples illustrate the unique role of strategic controls in forming the model of performance and competitive edge in different markets and business environments.

In Kenya, firms listed on the Nairobi Stock Exchange are manifestations of a vibrant financial sector, which is the engine for economic growth and development. Prominent financial institutions, including Equity Group, KCB Group, and Safaricom are shaping the future of financial services in the region while leading the pack. Such corporations function in an environment with a high competition level which is characterized by the emergence of new technological developments, emerging changes in the regulations, and shifting trends for consumers. However, they have shown resilience and agility in the face of these challenges with robust financial performance and leading market positions in their niche market sectors (Mailu et al., 2018).

Financial firms listed at the Nairobi Stock Exchange are fundamental to Kenya's economic landscape, serving as key drivers of growth and stability within the financial sector. Collectively, these institutions encompass banks, insurance companies, and investment firms, offering a wide array of financial services to businesses and individuals alike (Ahmed & Nganga, 2019). However, financial firms in Kenya face various challenges, including regulatory changes, market competition, and technological disruptions, which necessitate strategic adaptation to maintain competitiveness (Mailu, et al., 2018). Strategic controls play a crucial role in this process, enabling firms to monitor resource allocation, manage risks, and drive sustainable growth.

Harsh economic conditions including high interest rates, inflation, and depreciation in the value of the Kenyan shilling against the dollar have become a blow to financial firms at the NSE whose main source of income is in borrowing and lending at interest (Odongo, et al. 2019). A financial report by Delloite (2022) indicated that more than $2 billion paid by the commercial banks listed at NSE went to adjustment for currency exchange and adjustment for inflation. The effect of this was a reduction in profit by an average of 7.5% of the financial firms at NSE. The volatility of the market has also seen a reduction in stock prices where financial firms are still yet to recover from COVID-19 which was a global pandemic that affected their trading volumes in buying and selling of shares. The unfortunate situation at the NSE has attracted the attention of academicians and policymakers who are working to find possible solutions. As such, there is a need to examine the Influence of Strategic Controls on the Organizational Performance of Financial Firms Listed on the Nairobi Stock Exchange. The results from this study will offer quality insights into how these controls can be harnessed to operational efficiency, maintain market competitiveness, and deliver sustainable value to shareholders (Abiodun, 2020).

LITERATURE REVIEW AND THEORY

Dynamic Capabilities Theory

Dynamic Capabilities Theory, pioneered by David Teece and his colleagues, posits that sustained competitive advantage derives not just from a firm's current resources and capabilities but also from its ability to adapt and innovate in response to changing market conditions. Central to this theory is the notion that firms must possess dynamic capabilities—specifically, the ability to sense changes in the environment, seize opportunities, and reconfigure their resources and capabilities accordingly. These dynamic capabilities enable firms to not only survive but also thrive in turbulent and uncertain environments (Laaksonen & Peltoniemi, 2018).

The idea of Dynamic Capabilities Theory in strategic controls is built on the understanding that firms can leverage strategic controls as mechanisms for fostering and enhancing their dynamic capabilities. Strategic controls provide the framework through which organizations can align their resources, processes, and activities with their strategic objectives. By implementing strategic controls effectively, firms can enhance their ability to sense market changes, make timely strategic decisions, and adapt their strategies accordingly. Moreover, strategic controls can facilitate the allocation of resources toward activities that promote innovation and learning, thus enhancing the firm's capacity to reconfigure its capabilities in response to environmental shifts (Salvato & Vassolo, 2018).

Financial firms operate in a highly dynamic and competitive environment, characterized by rapid technological advancements, regulatory changes, and shifts in customer preferences. Therefore, The Dynamic Capabilities Theory applies to this study since it offers valuable insights into how financial firms listed at the Nairobi Stock Exchange can utilize strategic controls to develop and leverage dynamic capabilities by assessing their ability to respond effectively to market dynamics, mitigate risks, and capitalize on opportunities. Besides, such a study can shed light on

the specific strategic control mechanisms employed by financial firms to enhance their organizational performance, including measures related to strategic planning, performance monitoring, and resource allocation (Torres et al., 2018).

Empirical Literature Review

Oloko, Rambo and Orwa, (2018) sought to establish the influence of strategic planning on the performance of selected companies in Kenya. The study conducted a cross-sectional survey on 64 major selected companies over five years (2013-2017), the study sampled 38 companies and surveyed 152 senior managers using a purposive sampling technique. Pre-testing ensured questionnaire reliability, and data collection involved secondary sources and a semi-structured questionnaire. Analyzing data through descriptive statistics, Pearson's correlation, hypothesis testing, and regression analysis via ANOVA, the study found a significant positive relationship between strategic planning and overall company performance. The study concluded that strategic planning is important for navigating evolving business environments with the research recommending for the adopting strategies to formulate competitive market strategies, establish long-term objectives, and define key performance indicators. Additionally, it suggested exploring moderating or mediating variables in future research to enhance understanding of this relationship.

Alemu (2021) explored how internal control systems impact organizational performance. The study was a case study and employed a descriptive design gathering data through questionnaires to examine this relationship. The findings revealed that the organization generally enforced proper authorization and approval for transactions, although instances of unauthorized transactions were noted, potentially leading to fraudulent activities like misappropriation. Moreover, the study highlighted challenges in reconciling physical cash with cash book balances due to unrecorded transactions, complicating asset valuation for accountants. Based on these findings, the study recommended that management should devise more effective strategies to enhance internal controls and minimize fraudulent activities. Additionally, it recommended the organization focus on improving its internal control systems through regular account reconciliation.

van der Kolk, et al., (2019) examined how companies assess their operational processes and employee performance to enhance management control. Through descriptive analysis, differences between these concepts were explored. A targeted sampling method gathered data from 331 representatives of business firms which was then analyzed using SPSS 20. A 5-point scale was utilized to analyze the data. Strategic control and planning emerged as the most critical factor for employee performance, scoring a mean of 3.39. The study revealed a positive and significant relationship between strategic control and planning and employee performance variables such as planning, coaching, evaluation, and reward. The study also noted that advanced technology in other management control systems drives and enhances employee and overall organizational performance. This research offers novel insights that can significantly contribute to the growth and prosperity of organizations.

Agwu (2018) sought to determine how firms leverage strategic controls to improve their organizational performance while achieving sustainability and maintaining growth in the market. This article used a survey method for MSEs in Nigeria to understand how firms have employed strategic control techniques to compete effectively in the market. The authors used surveys from existing literature on strategic controls in Nigeria. The data was collected using a survey of firms operating in the manufacturing sector in Nigeria. The study noted that the use of strategic control models in manufacturing firms has helped firms improve their financial performance in terms of

increased revenues and expanded net profits. Furthermore, the study noted that controls are important in enabling firms to communicate their strategic efforts to the key stakeholders.

METHODS

This study applied a descriptive research design, to enable the researcher to answer questions on when? how? Which? When. The application of descriptive research design also allowed the researcher to establish the influence of strategic controls on the organizational performance of financial firms listed on the Nairobi Stock Exchange. The unit of analysis was 23 financial firms listed at the Nairobi Stock Exchange whereas the unit of observation was 138 middle-level managers of the companies listed at the Nairobi Stock Exchange. The study applied the Taro Yamane formula to come up with a sample of 103 participants.

$n=N/ (1+Ne^2)$ ……………………………………………….………………...……equation (i)

$n= 138/ [1+ 138(0.05^2)] =103$.

The study used a questionnaire to collect data through electronic and physical administration methods. Primary data gathered was analyzed through descriptive analysis (Mean, standard deviation, frequency, and percentages). Additionally, the study applied regression analysis to determine the influence of strategic controls on the organizational performance of financial firms listed at the NSE.

$Y=B_0+B_1+e$……………………………………………….…………………………equation ii.

Where Y was the organizational performance of financial firms listed at the Nairobi Stock Exchange, *BO* was the constant, *B1* was the coefficient for strategic controls and *e* was the error term.

RESULTS AND DISCUSSIONS

Response Rate: The study fully administered 103 questionnaires, the researcher was however able to get feedback from 92 questionnaires which represented a response rate of 89.32%.

Descriptive Statistics

Descriptive Statistics on Strategic Controls

Table 1 revealed that respondents agreed that they obtained feedback on their plan of action as shown by a mean of 4.16. Respondents also agreed that they had a budgetary allocation on their resources to reduce wastage indicated by a mean of 4.12. Moreover, respondents agreed that they carried out an analysis to determine deviation from the expectation as indicated by a mean of 3.92. Lastly, respondents agreed that they carried out benchmarking in setting standards against their competitors indicated by a mean of 4.08.

Agwu, (2018) agreed with the findings of the study in an exploration to determine how firms leverage strategic controls to improve the organizational performance of MSEs in Nigeria. The study revealed that the use of strategic control models in manufacturing firms helped firms improve their financial performance in terms of increased revenues and expanded net profits. Furthermore, the study noted that controls played an important role in enabling firms to communicate their strategic efforts to the key stakeholders.

Table 1: Descriptive Statistics on Strategic Controls

	We obtain feedback on our plan of action	We have a budgetary allocation on our resources to reduce wastage	We carry out analysis to determine deviation from the expectation	We carry out benchmarking in setting standards against our competitors
Mean	4.16	4.12	3.92	4.08

Std. Deviation	.855	.947	1.008	.855
	Frequency (%)	**Frequency (%)**	**Frequency (%)**	**Frequency (%)**
Strongly Disagree	3(3.3%)	3(3.3%)	3(3.3%)	2(2.2%)
Disagree	-	4(4.3%)	8(8.7%)	2(2.2%)
Neutral	9(9.8%)	6(6.5%)	8(8.7)%)	12(13.0%)
Agree	47(51.1%	45(48.9%)	47(51.1%)	47(51.1%)
Strongly agree	33(35.9%)	34(33.0%)	26(28.3%)	29(31.5%)
Total	**92**	**92**	**92**	**92**

Descriptive Statistics on Organizational Performance

Table 2 revealed that respondents on average agreed that their companies' revenues were relatively higher than those of their competitors indicated by a mean of 4.08. Additionally, respondents revealed that their companies reported higher profits compared to their competitors as is shown by a mean of 4.18. Moreover, respondents agreed that they had a great market share compared to their competitors as indicated by a mean of 3.90. Lastly, respondents agreed that their companies had more employees compared to their competitors as is shown by a mean of 4.19.

Table 2: Descriptive Statistics on Organizational Performance

	Our company revenues are relatively higher than those of our competitors	Our company reported higher profits compared to our competitors	We have a greater market share compared to our competitors	Our company has more employees compared to our competitors
Mean	4.08	4.18	3.90	4.19
Std. Deviation	.759	1.037	1.017	.714
	Frequency (%)	**Frequency (%)**	**Frequency (%)**	**Frequency (%)**
Strongly disagree	2(2.2%)	0	2(2.2%)	2(2.2%)
Disagree	11(12.0%	2(2.2%)	9(9.8%)	10(10.9%)
Neutral	0	10(10.9%)	13(14.1%)	0
Agree	55(55.8%)	37(40.2%)	40(43.5%)	48(52.2%)
Strongly agree	24(26.1%)	43(46.7%)	28(30.4%)	31(33.3%)
Total	**92**	**92**	**92**	**92**

Regression Analysis

Table 3 reveals that 66.1% of the changes in the organizational performance of financial firms were explained by Strategic controls as indicated by an r-square of 0.661. Additionally, results indicated an F-statistics value of 42.394 with an associated p-value of 0.001, which suggested that the simple linear regression model applied by the study was a significant fit in predicting the performance of financial firms. Furthermore, the table shows a beta coefficient of 1.497 and a p-value of 0.001 which indicates that the constant in the model was statistically significant in the prediction of the performance of financial firms. Additionally, results revealed a beta value of 0.643 and a p-value of 0.001 between strategic controls and the performance of financial firms listed at the Nairobi Stock Exchange which implied that strategic controls significantly influenced the performance of financial firms listed at the Nairobi Stock Exchange because the

calculated p-value of 0.001 was less than the critical chosen value of 0.5. The findings of the study are in agreement with the previously conducted study by Oloko, Rambo & Orwa, (2018) on the influence of strategic planning on the performance of selected companies in Kenya. The study found a significant positive relationship between strategic planning and overall company performance. The study established that strategic planning is important for navigating evolving business environments by adopting strategies to formulate competitive market strategies, establishing long-term objectives, and defining key performance indicators.

Table 3: Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.813a	.661	.645	.47269

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.889	4	9.472	42.394	.000[b]
	Residual	19.439	87	.223		
	Total	**34.440**	**118**			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.497	.266		5.619	.000
	Strategic Controls	.643	.067	.714	9.662	.000

a. Dependent Variable: Performance of the Company

b. Predictors: (Constant), Strategic Controls

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that financial firms listed at the Nairobi Stock Exchange provided feedback on the plan of action to their employees. Besides, the study concluded that financial firms listed at the Nairobi Stock Exchange had a budgetary allocation of their resources to reduce wastage. Additionally, the study concluded that financial firms listed at the Nairobi Stock Exchange carried out an analysis to determine deviation from the expectation. Further, the study concluded that financial firms listed at the Nairobi Stock Exchange carried out benchmarking in setting standards against their competitors. Lastly, the study concluded that the organizational performance of financial firms listed on the Nairobi Stock Exchange was significantly and positively affected by strategic controls.

The conclusion therefore supports the Dynamic Capabilities Theory which suggests that strategic controls provide the framework through which organizations can align their resources, processes, and activities with their strategic objectives to enhance their organizational performance, including measures related to strategic planning, performance monitoring, and resource allocation. The theory also suggests that sustained competitive advantage derives not just from a firm's current resources and capabilities but also from its ability to adapt and innovate in response to changing market conditions. The Dynamic Capabilities Theory also explains the importance of strategic controls in creating a sustainable business model in the market.

The study recommended fostering robust feedback mechanisms for employees through regular sessions and digital platforms to enhance morale and productivity. In addition, the study

recommended that financial firms listed at the Nairobi Stock Exchange should optimize resource allocation to minimize wastage by redirecting resources towards strategic endeavors to maximize efficiency. Besides, the study recommended that financial firms listed at the Nairobi Stock Exchange should enhance analysis capabilities to detect deviations early and implement benchmarking against competitors for continuous improvement. Lastly, the study recommended for integration of strategic controls into organizational processes and decision-making frameworks including clear performance metrics and regular reviews, fostering a culture of accountability and continual advancement which will collectively enable the financial firms to leverage strategic controls effectively, positioning them for sustained success and competitiveness in the market.

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