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## Strategic Action and Performance of Small and Medium Sized Dairy Processing Firms in Kenya

**Joyce Muthoni Mbaya**

Ph.D. Student, Department of Business Administration, Kenyatta University, Kenya

**Dr. Samuel Maina**

Chairperson, Department of Business Administration, Kenyatta University, Kenya

**Dr. Mary Namusonge**

Senior Lecturer, Department of Business Administration, Kenyatta University, Kenya

### **Abstract:**

*The dairy sector plays a crucial role in the economic growth and development of Kenya. However, many firms in the sector, especially the small and medium sized, continue to face performance challenges such as competition from unregulated informal milk market, accessing markets and high industry barriers, poor policy environment among others. Although strategic action has received attention both in practice and scholarly, its effect on the performance of small and medium sized dairy processing firms remains uncertain. This study sought to determine the effect of strategic action on performance of small and medium sized dairy processing firms in Kenya. The study was anchored on the balanced score card model and adopted a positivism research philosophy. Descriptive and explanatory research designs were used. A census survey was conducted. Primary data was collected from the chief executive officer, finance manager, marketing manager and production managers. Descriptive statistics such as mean and standard deviation were used to explain data characteristics and multiple regressions were used to test the effect of strategic action on firm performance. The results showed that strategic action has a positive significant effect on performance of small and medium sized dairy processing firms in Kenya. It is thus perceived that strategic action is a key driving factor in the performance of small and medium sized dairy processing firms in Kenya through the capabilities and activities of managers in the implementation process that aids building of competitive advantage of the firms. The study contributes to the body of knowledge by filling contextual, empirical, and conceptual gaps identified in literature and establishes a link between strategic action and performance of small and medium sized dairy processing firms in Kenya. The study recommends that small and medium sized dairy processing firms in Kenya should invest in their brands, simplify business operations and strategically allocate resources to various firm activities to enhance firm performance.*

**Keywords:** Strategic action, firm performance, small and medium sized dairy processing firms

### **1. Introduction**

The actual outputs or results of a firms' performance are measured against its intended goals and objectives. Firm performance is the ability of a firm to efficiently and effectively convert resources within and without the firm to attain its set objectives (Gunday, Ulusoy, Kilic & Alpkan, 2011). According to Armstrong (2009), outcomes of specific work functions or activities, within a certain time, result in firm performance. It is vital that leaders measure their performance to gauge whether they are achieving their goals of operation and existence. Fry, Stoner & Hattwick (2001) discuss that measures of performance are interrelated to measure results in different parts of the firm. A firm's movement towards goal fulfilment and degree of goals achievement like financial, customer and employee performance and quality indicate effectiveness. The key is that the firm is effective when it obtains its goals. Effectiveness is measured on processes, outcomes and firm structures. Crowther and Seifi (2011) elaborate that a firm is considered to be effective when its results are evaluated in relation to the firm's resources, and specifically, as a reflection of the outputs produced based on cost incurred, reduced wastage and meeting timelines.

Efficiency, on the other hand, is largely a ratio of inputs to outputs. This shows that to achieve efficiency, firms ensure that maximum outputs are acquired from the resources it employs in operation. Equally, efficiency is realised through minimal use of resources in production of outputs and attainment of firm goals. Measuring efficiency is a ratio of outputs to inputs, (Fry, Stoner & Hattwick, 2001). Poor firm performance is more often associated with poor visioning by the firm's leaders (Pearce & Robinson, 2011). For a firm to realize superior performance, it is imperative for strategic leaders to create strategies which enable firms achieve efficiency and effectiveness to maintain a competitive advantage. The strategies formulated must also be employed within the existing firm's systems and structures for them to be executed by the members of the firm. Hrebiniak (2013) notes that strategic goals can only be attained by a well-strategized

approach for execution although its development is a formidable challenge to management because strategy is about an unknown future. (Hannagan, 2002).

Zheng, Yang and McLean (2010) observed that strategic leaders must have ability to decode strategy into action, link people and firms, determine effective strategic intervention points and cultivate strategic capabilities. Strategic action capabilities are strategy formulation and implementation process that strategic leaders draw upon when they interact with competitors, suppliers, complementors and non-market players in an effort to build competitive advantages, (Kim, Burns and Prescott, 2009). Further, Hughes, Beatty and Dinwoodie (2014) note that strategic action is the commitment of resources to the building of sustainable competitive advantage. This decisive action sets a strategic direction of the firm even in the midst of ambiguity and uncertainty in the market. This means that strategic leaders use strategic actions which involve resource deployment, response strategies or moves, branding and investment developments to create competitive firms, (Gill, 2011) and thus firms gain superior competitive advantage.

## 2. Statement of the Problem

The dairy industry in Kenya according to Wambugu, Kirimi and Opiyo, (2011), is one of the best industries in Africa, with thirty milk processors with a range of products and contributing four percent of Kenya's Gross Domestic Product (GDP). The sector in Kenya has metamorphosed from a monopolistic market owned by the Kenya Government through Kenya Co-operative Creameries (KCC). The cooperative system significantly led to the development and growth of KCC which monopolized the market until 1992, when the industry was liberalized, (Wambugu, Kirimi & Opiyo, 2011). This led to an influx of privately-owned dairy processing firms, many being small-scale processors.

Since the liberalization, the number of dairy processing firms increased from the one KCC to 30 by December 2018. Of these 30 firms, there are 7 large dairy processing firms while the rest are medium to small dairy processing firms. According to the Kenya Dairy Board (2018), firms that process over 40,000 litres of milk per day are considered large, between 20,000 litres and 40,000 litres are medium sized while those that process less than 20,000 litres but more than 1,000 litres daily are categorised to be small dairy processing firms. The small and medium sized dairy processors in Kenya are however, being predated by the large companies. For instance, Brookside dairy that processes 750,000 litres of milk daily has organically grown from a small dairy in 1993 and acquired other processors such as Delamere Dairy, Ilara Dairy, Buzeki Dairy and Spin Knit Dairy (Food Business Africa, 2015). This dominance and predation have made it difficult for small processors to thrive through the competition to become large companies. Additionally, the predation has led to an increase in large processors owning milk sources from farms to factories, acquiring, distributing and accessing retail spaces in the major outlets. As such, the industry is increasingly becoming a heavy investment industry, with the smaller players being pushed out of business by the large processors who have access to internal and external sources of funds. This means that the industry is gradually erecting barriers of entry that younger firms will be unable to crack, and more medium processors being bought out (Kraja and Osmani, 2013).

In spite of the crucial role of the dairy sector in economic growth and development of Kenya, several firms in the sector, especially the small and medium sized, continue to face performance challenges (Wambugu & Kimuyu, 2017). Staal, Pratt and Jabbar, (2008) indicate that poorly managed formal milk market fails to provide an effective link between farmers and consumers as compared to the informal milk market, thus implying poor performance of SME dairy processing firms. Changes in consumer tastes and wants to plant-based alternatives coupled with need for healthier products have also affected the processing of milk products, (Food and Business Africa, 2020). According to Kariuki, Iravo and Kihoro, (2015), unregulated informal milk market sells approximately 56% of the 70% of the country's marketed milk. The remaining 14% is sold by registered milk processing firms, out of which 85% is processed by five large processing firms' processing more than 100,000 litres daily. These dairies consist of Brookside Dairy, New KCC, Githunguri Dairy Farmers Co-operative Society, Sameer Agriculture & Livestock and Countryside Dairy. This leaves only 15% for SME dairy firms to process, despite their large numbers. This not only reflects a dismal performance in terms of efficiency and effectiveness of the SME dairy processing firms but also a reduced market share.

Several studies have been carried out on the relationship between strategic action and performance. However, there are existing gaps in literature as some studies have not focused on the causal effect of strategic action and performance, but rather, have focused on the direct relationship of these variables, (Serfontein, 2010; Kim, Burns & Prescott, 2009). The conceptualization of strategic action has also varied from study to study where some have operationalized it through strategic decisions, strategic implementation, cognitive views of strategic action, strategic action capabilities or abilities and strategic operations among others, (Nadkarni & Barr, 2008; Kim, Burns & Prescott, 2009; Serfontein, 2010). Additionally, the studies have been conducted in other countries and contexts (Nadkarni & Barr, 2008; Kim, Burns & Prescott, 2009; Serfontein, 2010, Jooste & Fourie, 2009). As such, this study establishes the existence of contextual, conceptual and empirical gaps in literature. This study therefore sought to fill these gaps by investigating the effect of strategic action on performance of small and medium sized dairy processing firms in Kenya.

## 3. Literature Review

### 3.1. Theoretical Literature Review

Strategic action capabilities are strategy formulation and implementation processes that strategic leaders draw upon when they interact with competitors, suppliers, complementors and non-market players in a quest to build competitive advantage for their firms, (Kim, Burns and Prescott, 2009). The decisive action sets strategic direction for a

firm even amidst ambiguity and uncertainty in the business environment, (Hughes, Beatty & Dinwoddie, 2014). The strategic actions that a strategic leader takes in a firm are based on contingencies which are concrete expressions of uncertainties that threaten actions taken by a firm. Firms ought to identify, recognise and accept contingencies so as to achieve efficiency. Additionally, the firms should not implement strategies to avoid contingencies but rather adapt to them, (Babini & Masino, 2017).

Contingency theory of leadership encompasses diverse management theories advanced simultaneously in the late 1960s. Fred Fiedler was the first theorist to develop a model in 1967 that deviated from behavioural period theories. The theorist advanced that a group's effectiveness is dependent on relationship between leadership style and how much a situation allows leaders to exercise influence. Fiedler's model mirrors Stogdill (1948) ideas that every leadership situation be assessed so that leaders can determine the degree of control they have in the decision-making process. In a nutshell, the contingency theory of leadership entails leadership styles and situations.

The contingency theory of leadership presented changes in leadership studies from concentrating on leaders alone but to study the leader and the circumstances they work in (Fiedler, 2015). This means that an ideal leadership style is not brought about by situational leadership but a leader's ability to adapt to their environments (Battilana & Casciaro, 2012). Therefore, since the theory gives the indication that there is no one ideal way or approach to manage firms, then firms should cultivate managerial strategies from the situations and conditions experienced. According to Northouse (1999), there is a lot of empirical research on contingency theory of leadership since the 1980s that have reliable predictions on effectiveness of leadership. Using the theory, one can determine the probability or success of a leadership situation in a firm and as such this study found the theory applicable in assessing the strategic actions taken by the strategic leader and the performance achieved by the firm.

### 3.2. Empirical Literature Review

Nyaberi (2004) through secondary data from KCC publications, board minutes, newspaper cuttings and Hansard reports of parliament and a case study research design to conduct an analysis of the effect of political interference by the government of Kenya in the strategic decisions and actions of KCC between independence in 1963 and 2003. The study concluded that KCC had undergone a lot of turbulence, political interference and change. The study was conducted in a public firm, but the present research is based in the private SMEs. Additionally, used secondary data was used in the study but present study obtained primary data. Strategic action shall also be moderated by firm characteristics in which the political environment is a factor.

Nadkarni and Barr (2008) also studied how speedily top managements respond to environmental events. The study sought to address the apparent disconnect between the economic view and cognitive view of strategic action. The economic view contends that the structure of an industry is the primary influence on strategic action, while the cognitive view suggests that managerial cognitions drive strategic action. To study the relationship between industry velocity, the structure of top management's cognitive representation of the environment, and the speed of response to environmental events, the authors developed a model to answer the questions: does industry context affect managerial cognition; does managerial cognition mediate the relationship between industry context and strategic responses to environmental changes? They established that speed of response to environmental factors is an influence of cognitive representations by the industry velocity that in turn influence the speed of response to environmental events. The results supported the authors contention that both industry and cognition variables are vital in the development of explanations of strategic actions. The study treated strategic action as the responding variable while in the present study it is an independent variable.

Kim, Burns and Prescott (2009) through cross sectional research design, appraised how structure of boards impact strategic action capabilities of top management teams (TMTs). In their study, data collection was done by use of electronic questionnaires. Descriptive statistics was adopted. The study identified, four board configurations and each configuration differentially influence TMT strategic action abilities. However, the study was done in communitarian economies and not in a capitalist economy like Kenya. Additionally, the study only showed the relationship between board structure and top management team strategic action capability by using descriptive statistics but did not establish the cause and effect of the association. The current study also carries out inferential analysis to determine the strength of the relationship that exists between strategic action and firm performance. Meanwhile, Jooste and Fourie (2009) found that strategic leadership is lacking in top South African organisations. This is an obstacle implementing strategies in an effective manner. They identified that strategic actions of decisive strategic directions, balancing organisational control and effective management of resources and sustaining effective organisational culture is vital in strategic actions implemented by strategic leaders in goal attainment. They sampled strategic leaders in South Africa from a respected financial magazine. Random sampling gave a total of 930 respondents with a response rate of seven percent which is very small thus rising biasness.

Serfontein (2010) conducted a study to examine the impact of strategic leadership on the operational strategy and performance of business organisations in South Africa. The author established that there is a gap in the study of the link between strategic leadership on the operational strategy and performance of business organisations in South Africa. To address this gap, extensive review of literature showed that strategic leadership concepts of action, coherence and discipline affect performance. The author refers to strategic leadership as a component of vision, organisation control through development of strategic and financial controls, building of culture of greatness and learning through people development using proactive thinking patterns of visionary leaders. It was found that strategic leadership has a direct and

positive relation to organisation performance. Data was collected through structured telephone interview method, using self-reports by the CEOs of the businesses sampled. This could have introduced bias in objective measurement of performance.

From the reviewed literature, the current study established that there is limited scholarship on strategic action especially in the Kenyan context. Although the studies gave an insight to the various strategic action variables that affect performance, the studies were majorly carried out in the developed countries with differing methodologies. There was a wide thread of literature that was theoretical but which lacked empirical backing and the conceptualization of strategic action was also varied. From the varied and vast literature review conducted, the conceptual framework in Figure 1 was developed.

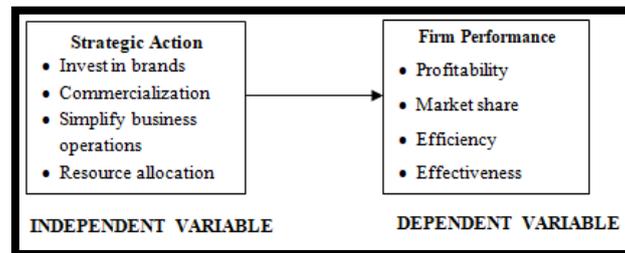


Figure 1: Conceptual Framework  
Source: Author (2019)

Figure 1 illustrates the conceptual framework developed from reviewed literature. Strategic action is the independent variable, while firm performance, measured through profitability, market share, efficiency and effectiveness. The study hypothesised that:

- H01: Strategic action has no effect on performance of small and medium sized dairy processing firms in Kenya.

#### 4. Research Methodology

A research philosophy is a belief about ways that data on a phenomenon should be collected, analysed and used, (Bajpal, 2011). Epistemology is the study of development of knowledge that is acceptable in a field of study, (Bryman, 2012). This study was guided by a positivism epistemological research philosophy. This research philosophy is found applicable since the study tests hypotheses to form decisions on the relationships existing amongst the variables under study. The positivist research philosophy similarly enables researchers to empirically test hypothesis to establish facts (Koul, 2008). Further, the positivism paradigm involves working with observable social realisms and quantifiable observations whose results can be generalised, and allows use of structured methodology to allow replication, (Saunders, Lewis & Thornhill, 2009). Additionally, positivism paradigm upholds factual and non-abstract knowledge therefore predictions on knowledge are based on what is observed and experimented (Robson & Neuman, 2014). In line with this postulation, this study collected factual data which was analysed using available models to extract their meaning to confirm or disapprove the existing knowledge. As outlined in the philosophy, the findings of the current study are grounded on quantitative data from SME dairy processing firms in Kenya.

The study used both cross-sectional survey and explanatory research designs as recommended by Saunders, Lewis and Thornhill (2009). Cross sectional survey design is used for descriptive research and allows collection of large amounts of data in an economical way from a sizeable population through questionnaires at a time. Additionally, Kothari (2004) indicates that cross-sectional survey is concerned with hypothesis construction and testing and can be used in census surveys, which is used in the current study. Sekaran and Bougie (2016) highlight that explanatory research design is used in assessment of the consequence of certain variations of a norm or process while focusing in the analyses of a situation or problems to illustrate the linkages in variables. As noted by (Saunders, 2011), explanatory study establishes causal relationships between variables. Sekaran and Bougie (2010) note that explanatory research design is used in assessing the effect of precise changes on prevailing processes and focuses on analysis of a situation or problem so as to explain relationship patterns between variables. Based on this the explanatory research design was found suitable in identifying the degree and feature of cause-and-effect relationship present between strategic action and performance of small and medium sized dairy processing firms in Kenya.

The targeted population was all the 23 SME dairy processing firms in Kenya as registered by the Kenya Dairy Board of Kenya as at December 31, 2018. A census survey of all the 23 SME dairy processing firms registered by the Kenya Dairy Board was used. From each of the SME dairy processing firms, the managers consisting of the CEO, finance manager, marketing manager and production manager were obtained. The total sample size was therefore 92 respondents. Primary data was collected by use of self-administered questionnaires, with a Likert scale of 1 to 5, where 1 represented responses listed as 'No extent', 2 represented 'Little extent', 3 indicated 'moderate extent', 4 represented 'large extent' while 5 indicated 'Very large extent' agreements to the statements. The validity of the questionnaire was confirmed through the use of expert's opinion in strategic management and extensive review of literature in the field of strategic management. The reliability of the questionnaire was measured through Cronbach Alpha where a coefficient of greater than 0.7 was

accepted as reliable. According to Mugenda (2008), a coefficient of 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability. The results were as shown in Table 1.

Variable	Cronbach's Alpha	
	Cronbach Alpha Coefficients	Remarks
Strategic action	0.851	Reliable
Performance	0.934	Reliable
Overall	0.820	Reliable

*Table 1: Reliability Coefficients*

*Source: Research Data (2019)*

From these results in Table 1, all the variables had a Cronbach's alpha coefficient greater than 0.7. Therefore, basing on these recommendations, the research instrument was found to be reliable.

## 5. Descriptive Results

The descriptive statistics that summarized major characteristics of the study variables were mean scores and standard deviation. The study sought to establish the extent to which strategic action affects performance of small and medium sized dairy processing firms in Kenya. The descriptive results are presented in Table 2.

	Mean	Std. Dev
The firm endeavours to develop and improve product reputation.	4.19	.502
The firm has simplified operation processes	4.17	.487
Product development and improvement is based on market research by the firm	4.07	.636
The firm always seeks to obtain the relevant resources that help the firm achieve its goals.	3.95	.930
The firm encourages feedback from customers on products	3.90	.688
Firm processes are understood by all firm members	3.71	.687
The firm strive to improve the delivery channels to ensure products reach the intended customers.	3.70	.724
Allocation of resources (money, staff support, time, etc.) in the firm is informed by specific firm needs	3.67	.900
The firm constantly advertises its products	3.55	.900
Aggregate mean score and standard deviation	3.88	0.717

*Table 2: Descriptive Statistics for Strategic Thinking*

*Source: Survey Data (2019)*

Table 2 indicates that the respondents agreed to a large extent that: dairy processing firms endeavours to develop and improve product reputation, have simplified operation processes, product development and improvement in the dairy firms is based on market research as shown by mean scores of 4.19, 4.17, 4.07 and standard deviations of 0.502, 0.487 and 0.636 respectively. The respondents also agreed to a large extent that the firms encourages feedback from customers on products, all firm members understand firm processes, firms strive to improve the delivery channels to ensure products reach the intended customers, as shown by mean scores of, 3.95, 3.90, 3.71, 3.70, 3.67 and 3.55 respectively. There were variations in the opinions of the respondents as to the extent to which these statements affected performance of SME dairy processing firms as shown by standard deviations of 0.636, 0.930, 0.688, 0.687 and 0.724. However, respondents had varied opinions on the statements that: the firms always seek to obtain the relevant resources that help them achieve their set goals, allocation of resources in the firm is informed by specific firm needs and that the firm constantly advertises its products as indicated by standard deviations of 0.930, 0.900 and 0.900 respectively. The respondents agreed to these statements to a large extent based on the means of 3.95, 3.67 and 3.55.

Overall, the study established that the respondents agreed to a large extent that elements of strategic action are present in the SME dairy processing firms as shown by a mean score of 3.88 and a standard deviation of 0.717. This is in line with Stewart and Posey (2007) that firm performance is enhanced through clear strategic actions. Additionally the findings are in agreement with Kim, Burns and Prescott (2009) that superior firm performance is more likely when strategically engaged boards enhance the strategic action capabilities of top management teams.

## 6. Inferential Analysis

The study sought to determine the effect of strategic action on performance of small and medium sized dairy processing firms in Kenya. To achieve this objective, regression analysis was done and the results are shown in Table 3.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.056	.086		.655	.514
Strategic Action	.329	.030	.325	10.863	.000

Table 3: Coefficients for Multiple Regression  
Source: Survey Data (2019)

The results in Table 3 shows that the coefficient for the constant is 0.056 implying that if all other factors are kept constant, performance of the SME dairy processing firms would be equal to 0.056. Similarly, if other factors are held constant and strategic action are increased by one unit, performance of SME dairy processing firms would increase by 0.329. The coefficient for strategic action had a P value of  $0.00 < 0.05$  indicating that strategic action was significant in affecting performance of small and medium sized dairy processing firms in Kenya.

The findings on this variable are consistent with the findings of Jooste and Fourie (2009) that identified that strategic actions of determining strategic direction, establishing balanced organisational controls, effective management of the organisation's resources and sustenance of effective firm culture are part of important strategic actions employed by strategic leaders in attainment of organisational goals. In addition, Nadkarni and Barr (2008) established that industry velocity influences the structure of cognitive representations, which in turn influence the speed of response to environmental events and that cognition variables are vital in the development of explanations of strategic actions, thus confirming that both industry and cognition variables are critical in developing explanations of strategic actions.

The findings on this variable are also in line with the postulations of Contingency theory of leadership which is reliant upon the relationship between leadership style and the degree to which the situation enables the leader to exert influence. During the process of strategy formulation, implementation, and evaluation, these main strategic management theories will be applicable to management of firms as tools to assist them in making guided decisions. The theory is applicable in assessing the strategic actions taken by the strategic leader and the performance achieved by the firm.

## 7. Conclusions

The study sought to establish the effect of strategic action on the performance of small and medium sized dairy processing firms in Kenya. From the findings, the study concluded that strategic action has a positive significant effect on performance of SME dairy processing firms in Kenya, and perceived to be a key driving factor in the performance of Small and medium dairy processing firms in Kenya through the capabilities and activities of managers in the implementation process that aids building of competitive advantages.

## 8. Recommendations

The findings of this study have important implications for policy and practice that can be used to enhance the performance of small and medium sized dairy processing firms in Kenya. The study therefore recommends that strategic leaders of SME dairy processing firms should develop strategies based on the situation while investing in their brands, simplifying their business operations and strategically allocating resources to various activities to enhance firm performance. The study recommends that product development and improvement should be based on market research and customer feedback on their products. Further, to build a larger market share, the small and medium dairy processing firms should not only strive to improve the delivery channels to ensure their products reach their customers, but also allocate resources to firm needs. Additionally, the small and medium dairy processing firms in Kenya should constantly advertise their products as part of investing in their brands and business.

The findings and conclusions of this study are however, limited to the small and medium sized dairy processing firm in Kenya. Other studies should therefore be conducted in the large dairy processing firms in Kenya to establish whether similar results will be obtained. Future research should focus on validating the findings and conclusion of this study by undertaking replicative researches in other organizations and sectors in Kenya.

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