EFFECT OF STRATEGIC MANAGEMENT PROCESS ON THE PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN KENYA

Darius Oloo Otieno 1, Prof. G. S. Namusonge 2 and Dr Fred Mugambi 3

1 College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Mombasa CBD. P O Box 90420-80100, Mombasa, Kenya.  
E-mail: dariusotieno@gmail.com
2 Full Professor, College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, P O Box 62000-0200 JUJA, Kenya  
3 Kenya Revenue Authority (KRA), P O Box48240 - 00100 Nairobi Kenya.

ABSTRACT:
This paper investigates the effect of strategic management process on the performance of SME’s in Nairobi. Strategic management is a process of analyzing the current situation, developing suitable strategies, putting those strategies into action, and evaluating, modifying, or changing those strategies as required. This process is vital for the survival of any organizations. The major factors evaluated in the study were strategy formulation, strategy evaluation, environmental scanning and strategy implementation. Cross-sectional study design was used. Stratified and random sampling techniques were used to select 384 Small and Medium Enterprises located in Nairobi Central Business District. The findings indicated that strategy management process has a positive and significant effect on the performance of Small and Medium Enterprises albeit to a small extent. It’s thus important to train SMEs on the importance of strategy management process and to encourage the adoption of strategy management process.

Introduction
SMEs (Small-and-Medium-Enterprises) contributes significantly to a country’s economy with most business activities and employment opportunities generated by SMEs rather than large corporations. Therefore, the backbone of most nations and societies globally is SMEs. Notably, SMEs are critical to a nation’s economy because of the massive contribution they make to a country’s GDP (Gross-Domestic-Product) and also via the products they provide to most multinationals rely upon (Andrews et al., 2009). However, because of high vulnerability to market forces, the failure rate of SMEs is very high. SMEs survival is threatened by the volatile environment wherein they operate. The business environment in Kenya is continuously evolving making it difficult for SMEs to survive in such a turbulent environment. This necessitates the need for strategic planning which acts as cushion for protecting the enterprises against risks that are prevalent in the market (Aracıoğlu et al., 2013). As such, SMEs use strategic planning as a tool for enhancing survival and growth in the complex environment. Notably, strategic planning is an important survival tool for SMEs operating in the dynamic environment, a situation common in emerging countries such as Kenya. As such, strategic planning enables the enterprises to be focused and vigilant (Auka & Langat, 2016). Strategic-Management entails an analysis of the existing situation, development of appropriate strategies and implementing the strategies. Strategic planning in SMEs can take the form of informal strategic planning process or formal strategic planning process. However, formal strategy process are rare and implicit in most SMEs, literature suggests that unintended and emergent strategies are prevalent in such enterprises (Chandler, 2010).

Statement of the Problem
Strategic management process determines the long-term objectives of an organisation by developing and implementing decisions is critical for the survival of most firms. Besides being relevant to all types of organizations and different levels of management, the SM process enables firms to adopt the evolving environment Hudson-Smith & Smith (2007). A number of studies have been carried out on large corporations there has been minimal focus on SMEs. A fact collaborated by Babatunde and Emmanuel (2015). Awale, Namusonge & Warren. (2016) contends that the SME sector has witnessed minimal adoption of strategic planning practices. Moreover, the few SMEs that embrace strategic planning process adopt informal, unstructured and non-emergent strategic plans. (Awale, Namusonge & Warren (2016). There exists little evidence from studies on strategic planning process and performance in SMEs. Magaisa, Matipira and Kanhai (2014) also conquer that in spite of the extensive recognition of SMEs significance, research focusing on strategic planning process in SMEs is still scarce. Muhoho (2016) advances that there is need for systematic and structured studies to understand the relationship between strategic planning process and performance in SMEs. Although some researchers have made contributions towards this strategic planning process in SMEs, there is still no conclusion as to the relationship between strategic planning process and performance of SMEs. The aim of this study is to fill the research gap by providing more evidence on strategic planning process effect on SME.
Objectives of the study
The general objective of this research is to explore the role of SMP on SMEs performance in Kenya.

The specific objectives were to:

(i) Assess the effect of environmental scanning on the performance of SMEs in Kenya
(ii) Determine the effect of Strategy Formulation on the performance of SME’s in Kenya
(iii) Establish the effect of Strategy Implementation on the performance of SMEs in Kenya and
(iv) Analyze the effect strategy evaluation on the performance of SMEs in Kenya.

Research Hypothesis
H01 There is a relationship between environmental scanning and the performance of SMEs in Kenya
H02 There is a relationship between Strategy Formulation and performance of SME’s in Kenya.
H03 There is a relationship between Strategy Implementation and the performance of SME’s in Kenya.
H04 There is a relationship between Strategy evaluation and performance of SME’s in Kenya.

LITERATURE REVIEW/THEORETICAL UNDERPINNING
Environmental Scanning refers to understanding the causes and structure of issues that require to be addressed. This can be conducted through SWOT analysis and involves both internal and external assessment. External Assessment involves investigating the dynamics and structure of the environment surrounding enterprises (De wit and Meyer, 2010) like scanning market and broader environment. On the contrary, Internal Assessment entails analyzing an organization's internal capacity and functioning and concentrates on business process that create value for the firm and the organizational system geared to facilitate business system. Karami (2012) notes that environmental scanning entails evaluating and monitoring business environment information so as to make informed future decisions. This involves the conducting a SWOT analysis which focuses on the external environment and internal environment. The external environment focuses on the opportunities and threats while the internal environment deals with the organization’s strengths and weaknesses. Conducting an environmental scanning enables businesses to obtain critical information that enables the business to determine various changes in the market including economic, political, social and technological trends. This in turn allows the business to respond appropriately to the environment thus being able to meet its goals.

Strategy Formulation entails the planning process that focuses on the long-term impact of the business. In the words of Nyamwanza (2016) Strategy formulations is the process of defining what a business is in and means of achieving its goals. Strategy formulation in organization involves the process of developing mission, vision and objective statement of
the firm. Mission statement is focuses on giving an organization a unique purpose and scope of operations. According to Forbes and Seena (2006), a mission statement is crucial as it motivate the employees promoting employee commitment and guiding decision making. Besides mission statements, vision statement is key in strategic planning process since it provides clarity on what business wants to be. Through vision statement, an organization is able to know what it wants to be in future and work towards that.

Strategy implementation refers to the process of translating an organization’s policies and strategies into performance measures like procedures, budgets and programs. This is the most important part of the strategy management process in a firm. Hunger and Wheelan (2006) described strategy implementation as operational planning that is critical in determining the success of a business. Even with the best strategy without its operationalization it becomes worthless and adds no value to organization success. As Kazmi, (2008) points out, strategy implementation must not be treated as a distinct process of strategy implementation and it success is dependent on a number of factors that include: leadership, organization resources, organization culture, organization structure, and employee commitment (Magaisa, Matipira&Kanhai, 2014).

Kutllovci and Shala (2013) notes, strategy evaluation involves identifying the strategy implementation level of strategy implementation. In particular, the stage determine whether the organization is the organization is moving in the right direction and can realize its strategic objectives. Furthermore, as Carpenter & Sanders (2009) point out, strategic evaluation is a key primary indicator that enables the organization to identify early signals regarding factors that might interfere with the strategies success. Accordingly, by providing performance signals, strategic evaluation enables the management to respond promptly and begin questioning the strategy, the reliability and competency of leaders or the execution process(Nyamwanza, 2016). As such, strategy evaluation enhances the survival of a business through early identification of disruptions, thus prevent in the firm from making wrong decisions. Besides, strategy evaluation generates critical information that enables the management to anticipate problems associated with changes in the internal and external changes in the business environment (Elshamly, 2013). Strategic evaluation can be conducted effectively by setting objectives and evaluating actual results against the objectives As such, it is critical for the management to ask right questions and, thus, ensure their effectiveness (Sandada, 2015).

Business Performance.

In an organization, performance is perceived as the success the organizations success in realizing valuable outcomes, such as high returns (Memon& Tahir, 2012). As Smith &Sandada (2014) points out business performance refers to the organization's ability to meet the desired result that are set by the company’s major shareholders. In order for a firm to realize high business performance, organizations must attain and sustain competitive advantages. As such, most practioners and researchers contend that strategic planning provides firms with a competitive edge and the ability to remain in business in spite of competitors(Siddique, 2015). They need to realize that proper performance level is critical because it enables the organization to identify its present position and determine business improve mechanisms. Business performance can be measured in two ways through objective
performance measurement and subjective performance measurement (Skokan, Pawliczek & Piszczur, 2013). Objective performance measurement involves the use of financial indicators sourced from firm financial records while subjective measures focus on the perception of managers regarding the performance of the organization. These measures may include productivity and growth, effectiveness, efficiency, individual employee sales, profits, market share, organizational total assets and operation profit ratio as a measurement (Yusuf, & Saffu, 2005). Most researchers advocate for subjective measures because the data associated with objective measures could be misleading, inappropriate and difficult to obtain. In case the data is available, frequently the data may misrepresent the performance of the actual organization because the information is probably manipulated (Babatunde & Emmanuel, 2015). Besides, the data is determined by the industry factors, thus, making it unsuitable for cross industry comparison. Therefore, objective measures are unsuitable for research purpose. In fact, Karami (2012) points out that the objective and subjective measures provide the same outcomes. Consequently, the subjective measures due to its accuracy provides better information and is highly encouraged among SMEs.

**Theoretical Framework**

Various theories have been used to explain the survival of organizations in different business environments. According to Processualists strategy is a pattern in a stream of decisions and actions that emerge as a result of pragmatic processes of forecasting, learning and compromise. However, processualists proponents argue that strategy emerges, and can be explicitly defined after the occurrence of an event. Furthermore, the proponents focus on the interactions amongst culture, context and process within the organization. As such, proponents contend that external and internal context in important in business performance thus the importance of environmental scanning (Chia & MacKay, 2007).

Additionally, the study considers the change management theory. Based on the CMT instability and volatility in the business environment enables an enterprise to adopt strategic planning as a change management process, which in turn, affects the business performance of SMEs. Change management theory is crucial in understanding the process of strategic management and the impact of strategic planning process on business performance (Ruta, 2005).

The resource based theory emanates from the principle that the source of firms’ competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. As such, instead, of evaluating threats and opportunities in conducting business, competitive advantage relies on the unique capabilities and resources that a firm possesses (Priem & Butler, 2001). The firm’s view based on the theory predicts that some resources owned and controlled by organizations have the capability and promise to generate competitive advantage and eventually superior firm performance. These resources include strategic plans adopted and operationalized by firms (Wernerfelt, 1995).
CONCEPTUAL FRAMEWORK

![Conceptual Framework]

**Figure 1: Conceptual Framework**

**METHODOLOGY**

The study used cross-sectional descriptive study design which entails selecting a subset of the population from which data is collected at a particular point in time and eventually data is generalized for the whole population. Stratified sampling was used to categorize the various SME businesses while purposive sampling was used to select SMEs and individuals to participate from each SME. Primary data was collected from selected SMEs operating in Nairobi CBD. Descriptive and inferential statistics were used for analysis. Multiple regression analysis was used in the study to test the relationship between variables, specifically ANOVA was used.

**PRELIMINARY TESTS**

Cronbach’s alpha is a reliability coefficient that show the correlation between variables. Results from table 1 below indicates that cronbach alpha for the study variables was higher than the baseline of 0.7 indicating internal consistency and validity of questionnaire items.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Sample Size</th>
<th>Reliability coefficient alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Scanning</td>
<td>9</td>
<td>39</td>
<td>0.9723</td>
</tr>
<tr>
<td>Strategy Formulation</td>
<td>9</td>
<td>39</td>
<td>0.8945</td>
</tr>
<tr>
<td>Strategy Implementation</td>
<td>9</td>
<td>39</td>
<td>0.9045</td>
</tr>
<tr>
<td>Strategy Control and Evaluation</td>
<td>9</td>
<td>39</td>
<td>0.8670</td>
</tr>
<tr>
<td>Performance</td>
<td>9</td>
<td>39</td>
<td>0.8543</td>
</tr>
</tbody>
</table>

*Table 1: Results of Cronbach’s alpha for Reliability assessment*

**Multicollinearity**

The multicollinearity assumption was tested with the correlation matrix and with ‘Tolerance’ and ‘Variance Inflation Factor’ (VIF). To meet the assumptions of multi-collinearity, the VIF factor of all the independent variables must be 0.4 and above. This was achieved in the study as shown in the table below.
### Muticollinearity Tests

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>F-Statistic</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>Environmental Scanning</td>
<td>0.455</td>
<td>2.199</td>
</tr>
<tr>
<td>Evaluation</td>
<td>0.7</td>
<td>1.429</td>
</tr>
<tr>
<td>Implementation</td>
<td>0.575</td>
<td>1.738</td>
</tr>
<tr>
<td>Formula</td>
<td>0.63</td>
<td>1.588</td>
</tr>
</tbody>
</table>

**Table 2: Muticollinearity Tests**

**Normality, Linearity and Homoscedasticity**

In order to examine the normality, linearity and homoscedasticity assumptions, a histogram, a plot of standardized residuals against predicted values of the dependent variable and a scatterplot are provided in Figure 1.

**Figure 2: Histogram**

Figure 1 indicates that the shape of the distribution with the bell-shaped histogram approximates to the normal distribution with no much kurtosis and thus the study shows that the data meets the assumption of normality.

**Figure 3: Normality Plot**

Points clustered around a straight line in a probability plot support the normality assumption of residuals, as shown in Figure 2. All the points in the normal P-P plots were roughly in a straight diagonal line from bottom left to top right. These results verify a normal distribution of errors in testing the model.
The scatterplot of standardised residuals in Figure 3 exhibits that most of the scores are concentrated in the centre along the 0 point. If the residuals are randomly and evenly dispersed throughout the scatterplot, assumptions of linearity are met (Cleveland & McGill, 1984). Therefore, the assumptions of normality, linearity and homoscedasticity have not been violated in this statistical analysis.

Homoscedasticity is related to the assumption of normality because when the assumption of multivariate normality is met, the relationships between variables are homoscedastic and thus from figure 1, 2 and 3 it can be concluded that the assumption of homoscedasticity was met in the study.

RESULTS AND DISCUSSION

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.451a</td>
<td>0.2034</td>
<td>0.1768</td>
<td>0.74382</td>
</tr>
<tr>
<td>a.</td>
<td>Predictors: (Constant), STRATEGY FORMULATION, STRATEGY EVALUATION, STRATEGY IMPLEMENTATION, ENVIRONMENTAL SCANNING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Dependent Variable: PERFORMANCE</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In table 3, model summary show the predictive ability of the study model. In the study R value of 0.451 has been established indicating that there is a small correlation between the predictor variables, all lumped together into one model. This model explains 17.68% of the variances in performance of SMEs in the present study. The study used adjusted R squared since the sample size was more than 300, this minimize overestimation problems in the model.
Table 4: ANOVA

The output obtained from the SPSS analysis also gave a F-ratio of 4.861 which is significantly greater than 1 thus showing that the model is appropriate in explaining their relationship between the predictor variables and outcome variables. This was also supported by p-values of 0.001 that shows that the model is significant and therefore the null hypothesis that the model is not suitable for explaining the relationship between dependent and independent variables was rejected.

Table 5: Correlation Coefficients

An interpretation of the coefficients in Table 4 shows that environmental scanning had a significant coefficient (p-value = 0.039, r= 0.18). Strategy formulation had a significant coefficient with p-value = 0.027 and r value of 0.187. Strategy Implementation had a significant value of 0.045 and r-value of 0.126. Strategy evaluation also had a significant relationship with SME performance as shown by p-vale of 0.041 and r-value of 0.143. The study therefore fails to accept the null hypothesis: H_{01}, H_{02}, H_{03} and H_{04}.

From the estimated regression equation:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \]

Where \( \beta_0 \) is the constant = 2.868, \( \beta_1 = 0.18, \beta_2 = 0.187, \beta_3 = 0.126 \) and \( \beta_4 = 0.143 \). The fitted regression equation of the model becomes;

\[ Y = 2.868 + 0.18X_1 + 0.187X_2 + 0.126X_3 - 0.143X_4 \]
DISCUSSION
This paper provides evidence that strategic planning does matter in firm growth as indicated through the study findings. The regression coefficient of environmental scanning was positive and significant in predicting the business performance of small and medium firms. This could be explained by crucial role that environmental scanning plays in cushioning business in a changing environment. Strategy increases the likelihood of a firm to succeed in a business environment as the firm will know what to focus on to wade threats and challenges. Through environmental scanning, firms are able to monitor the general happening in the business environment, remain alert to existing and emerging threats in the market and know key areas to pay attention to in the environment. Thus, in a dynamic environment environmental scanning enhance the survival of the firm. These findings are consistent to the findings of Siddique (2015) who found that environmental scanning impacts positively on business performance of SMEs.

The regression coefficient of strategy formulation was positive and significant in predicting the performance of small and medium enterprise firms. This result could be attributed to what Sandada (2014) argues that strategy formulation lays the foundation for SMEs to have a platforms from which it can measures the achievement of its organization goals. In addition strategy formulation helps in keeping an organization in focus thus limiting it from various distraction towards achieving its goals. Such focus comes through mission statement and vision statement. It has been argued that strategy formulation through the contents of its mission and vision statement shows the firm where its emphasis are on: long term profit, survival and growth, customer satisfaction. This results in affecting the firm performance. These results are similar to the findings of Nyanwanza (2016) who examined the impact of strategic formulation on organizational performance and survival of SMEs. The findings indicated that strategy formulation planning enhances better SME, thus increasing the survival of SMEs.

The regression coefficient of strategy implementation and performance of small and medium firms was significant and positive in the study. The main role of strategy implementation is to translate plans into actions and the intended results. Strategy implementation is key to determining the degree to which performance meet the set out target thus impacting organization performance. Failure to meet performance expectation may mean weak implementation of strategy and vice versa. These findings are consistent with the findings of Gića & Negrusa (2011) and Kutilovci and Shala (2013) who established that strategy implementation affect SME performance positively. The regression coefficient of strategy evaluation and performance of small and medium firms was not significant in the study. According to Muhoho (2016) strategy evaluation is important in strategy management process as it allows organization to develop emerging strategy in line with dynamic conditions. However, they further argue that the importance of strategy control and evaluation are dependent on quality of evaluation and control. This they argue is a problem in SMEs due to lack of resources, poor leadership commitment and poor management. Auka & Langat (2016). These results contradict the results of Sandanda, (2015) who established a positive correlation between strategy evaluation and business performance of SMEs in Malaysia.
Finally, we provided some empirical evidence that the use of strategic planning practices (strategy formulation, strategy implementation, strategy implementation and strategy control and evaluation) influence the performance of SMEs. However, it emerged that the influence of strategy planning process is relatively small, at 17.64%. Strategic planning process in SMEs is relatively informal with no proper organization structure to operationalize strategic plans (Karami, 2012). The results effect is weak strategy-performance relationship. This findings were confirmed by Muhoho (2016).

Implications to Research and Practice
The study has practical implications for business entrepreneurs who need to be aware that strategic planning process can be beneficial for growth of the firm. In order to grow their firms, entrepreneurs need to adopt strategic planning process, particularly environmental scanning, strategy formulation and strategy implementation. Strategic planning efforts should be reinforced with best practices for sustained growth among SMEs. The positive relationship between strategic planning and SME performance should encourage SMEs to practice strategic planning more and more. By doing so, they enhance their performance, increase their chances to grow, and consequently strengthen the national economy.

This results affirm the need for entrepreneurs to scan the environment due to high levels of competition, uncertainty and turbulence. This will assist them to gathering useful information thus making their strategic management process effective. SMEs need to pay more attention to strategy formulation and in particular the content of their mission and vision statement. Owners/managers of SMEs need to adopt emergent and integrated strategic planning process to better realize effective strategic management process.

CONCLUSION
This study examined strategic management and SME performance in Kenya. It was established that strategic management variables have positive and significant effect on SME performance. This means that the adoption of strategic management process can lead to performance improvement of SMEs. In light of the study results, a set of prescriptions which may be useful not only to Managers/owners of SMEs are provided. The managers and owners of the SMEs should develop an awareness of their industry and competitors, and consequently scan the environment regularly. Environmental scanning is a prerequisite for strategy formulation and performance. The result of this study show that that successful SMEs have clear goals, vision and mission statement that they work towards. They should be aware of the firm’s strengths and weaknesses and be ready to exploit the firm’s strengths and improve weaknesses. Being aware of the firm’s opportunities and threats is a crucial factor in the formulation of the business strategies. Managers in SMEs should be aware of new products and keep up-to-date with changes in the market. Frequently analyzing the industry in which the SMEs operate and the competitors’ business strategies, as well as reacting to the customers’ comments fast and precisely, will positively impact on the firm performance. The study found that a positive and significant influence exists between strategy implementation and SME performance. It can thus be concluded that the strategy implementation is an important variable in SME performance. This means that SMEs implementing their strategies are more likely to have superior performance.
Future Research
While the results of this study develop our understanding of the relationship between strategic planning and the business performance of SMEs in Kenya, there are many potential areas for further research. First, there is need for more studies that use both quantitative and qualitative methodologies contrary to the use of only quantitative methodology. This will allow for the validation of quantitative responses. Secondly, this study focused on perceptual measures to measure business performance. Future research could use both objective and subjective performance measures thus providing rich and valid results. This study only focused on SMEs in Nairobi County and thus there is need for more studies across other counties in Kenya.

REFERENCE


