

**EFFECT OF STRATEGIC PLANNING ON PERFORMANCE OF MEDIUM  
ENTERPRISES IN KISUMU CENTRAL BUSINESS DISTRICT**

**BY**

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## DECLARATION

### Declaration by Student

This research paper is my original work and has not been presented for the award of Degree in this University or any other Institution of higher learning for examination.

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**MBA/BE/00007/2014**

### Declaration by Supervisor

This research paper has been submitted for examination with my approval as the university supervisor

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## **ACKNOWLEDGMENT**

I acknowledge God almighty for seeing me through the entire programme.

## **DEDICATION**

I dedicate this research paper and all that pertains to it to God.

## ABSTRACT

Medium enterprises play an important role in the Kenyan economy as this sector comprise of the largest number of businesses that contribute to economic growth. In 2016 the Kenya National Economic survey showed that five out of seven medium scale businesses fail within the first year while in 2006, the survey indicated that three out of five businesses fail within the first few months of operation. The reason of failure has not been established. While studies have researched on different aspects of strategic planning focusing on financial performance, external environment and market orientation as possible cause of failure, effect of strategic planning on performance of medium enterprises has not been investigated. Effect of environmental analysis on performance of medium enterprises, effect of establishment of organizational direction on performance medium enterprises and effect of strategy formulation on performance of medium enterprises remains unknown. The study was carried out in Kisumu because it is one of the regions that experienced post-election violence leading to closure of businesses hence unemployment, high poverty level, and poor standards of living. The purpose of the study was to examine the effect of strategic planning on the performance of medium enterprises in Kisumu Central Business District. The objectives were to determine the effect of strategic environmental analysis on the performance of medium enterprises, to determine the effect of establishment of organizational direction on the performance of medium enterprises and to find out the effect of strategy formulation on the performance of medium enterprises in Kisumu Central Business District. The study was anchored on systems theory and contingency theory. Correlation research design was used to establish the relationship between variables. The population comprised of 1783 owners and employees of medium enterprises and a sample size of 537. Quantitative primary data was collected using questionnaires. The respondents were selected through stratified random sampling. A pilot study was carried to test reliability with a threshold of 0.70 Cronbach's alpha. Validity of questionnaires was confirmed by expert review and data analyzed using regression analysis. Data was collected from 54 respondents in order to eliminate data collection problem that may lead to low data reliability. The study revealed that environmental analysis and organizational direction had a positive and a statistically significant effect ( $B=.827$ ,  $p=.000$ ,  $B=.601$   $p=.000$ ) respectively on performance. However, strategy formulation had a negative and significant effect ( $B= -.552$   $p=.006$ ) on the performance. The result indicate  $R^2 = .133$ , meaning that in overall, organizational direction, strategy formulation and environmental analysis account for 13.3% variation in performance of medium enterprises. The adjusted  $R^2 = .128$ . the change between  $R^2$  and adjusted  $R^2$  is less than 5%. The study concluded that there existed a positive and statistically significant relationship between organizations' direction and the performance of the MEs. However, strategy formulation had a negative significant effect on performance. It is recommended that the firms emphasis activities of environmental analysis and organization direction. However, operations on strategy formulation should be monitored due to the negative significance. This result may benefit the MEs, policy makers in government and future researchers. Further research should be carried on planning practices of medium enterprises other than the ones operating in the Central Business District.

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## **ABBREVIATIONS AND ACRONYMS**

CBD Central Business District

GDP Gross Domestic Product

MEs Medium Enterprises

## OPERATIONAL DEFINATIONS OF TERMS

|                                 |  |
|---------------------------------|--|
| <b>Strategic planning</b>       | Strategic planning is setting goals for the organisation to accomplish in the long term as well as strategies to be implemented to achieve the set goals including allocation of resources across the diverse projects |
| <b>Performance</b>              | Performance is as how efficiently and effectively a firm utilizes its resources in generating economic outcome   |
| <b>Environmental Analysis</b>   | This is the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market   |
| <b>Organizational direction</b> | This is the process of defining organisation's mission, vision and values to achieve the defined goals   |
| <b>Strategy Formulation</b>     | This is the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision and mission.                          |
| <b>Medium Enterprises</b>       | These are independent firms that employ less than a given number of employees varying across countries   |

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# **CHAPTER ONE**

## **INTRODUCTION**

This chapter presents the background of the study and explores the concept of strategic planning and its role on the performance of medium enterprises (MEs) with a focus on the MEs in Kisumu CBD. In addition, this chapter presents the research problem, research objectives, research questions, justification of the study, scope of the study and conceptual frame work.

### **1.1 Background of the Study**

The concept of strategic planning traces its origin to military strategies as different military organizations across the world adopted differing strategies against their enemies as early as in the 1900s. Despite elements of strategic planning being witnessed as early as the 1900s, the broadly structured strategic planning was only extensively adopted from the 1950s basing on the models developed by Ansoff, Steinner and Mintzberg (Dolence, 2004). Trade related policies and economic planning strategies have acknowledged that medium enterprises have a great role as an economic development pillar in Kenya thus have been considered as one of the key pillars towards the attainment of vision 2030. Medium enterprises are independent firms that employ fewer than a given number of employees varying across countries, OECD (2005). Specifically, economic planners see medium enterprises as the driving force that speeds social and economic development, a situation in which has led to the government dedicating resources towards establishment, growth and promotion of such units of business so as to encourage increased involvement and participation of the private sector in such businesses..

According to Kombo, Murumba and Makworo (2011) MEs provide the pathway for attaining micro-economic objective towards achieving national goals as they create employment and reduce the unemployment rate at minimal cost. However, while this study focused on the economic benefits of MEs, in terms of employment creation, it did not provide any information on effect of strategic environmental analysis on performance on MEs, effect of establishment of organizational direction on performance of MEs and effect of strategy formulation performance on MEs. This present study seeks to fill these gaps.

Peacock (2004) also noted that MEs have played a major role in job creation in countries

categorized under the Organisation of Economic and Cultural Development (OECD) countries dating back to the 1970s when their significance was identified and enhanced. However, the study did not focus on effect of strategic environmental analysis on performance on MEs, effect of establishment of organizational direction on performance of MEs and effect of strategy formulation performance on MEs. The present study will therefore fill these gaps.

The Kenyan economy is one that has relied heavily on MEs sector to provide jobs for its highly increasing labour and for its GDP. Based on the 2011 economic survey report, MEs accounted for 80% of the total jobs created thus Kombo, Murumba and Makworo (2011) concluded that the MEs sector has been significant in fulfilling national objectives for sustainable economic development through jobs creation as well as income generation for improved livelihood among low income earners in the country. Successful contribution of MEs to job creation and economic advancement in the country indicates the good performance of this noble sector. However, the study did not research on effect of environmental analysis on performance of MEs, establishment of organizational formulation on performance of MEs and effect of strategy formulation on performance of MEs.

According to Jocumensen (2004), despite their significant and crucial role in the economy, majority of the MEs suffer poor performance leading ultimate failures. This emanate as early as within the first five months of establishment of such businesses. Further, although most MEs exhibit strong growth during the excitement stage immediately after start up, they fade of with only a minority showing sustained growth throughout the cycle (Mazzarol *et al.*, 2009). Although Jocumensen (2004) and (Mazzarol *et al.*, 2009) highlighted poor performance of MEs, the studies did not focus on effect of strategic environmental analysis on performance on MEs, effect of establishment of organizational direction on performance of MEs and effect of strategy formulation performance on MEs. The present study will therefore fill these gaps.

In business, according to Carter (1999) strategic planning is attributed to the Harvard Policy Model which outlined the methodologies inherent to commercial businesses as developed by the Harvard Business School during the 1920s. Moreover, strategic planning has been changing with focus moving from structure and policy to risk management and growth as witnessed from the 1950s. Thus, it had become imperative, by 1960s that each business organization sets up

strategic planning department to be able define and implement strategic plans.

Recent studies by O'Regan and Ghobadian (2007) showed that majority of the business organizations worldwide (81%) have embraced strategic planning practices with even more businesses (89%) in the USA having adopted the practice. With regard to medium business enterprises, Baker, Adams and Davis (1993) noted that strategic planning adoption and practices influence positively the performance, and ultimately growth, of medium firms with high potential for growth. However, in both studies of O'Regan and Ghobadian (2007) and Baker, Adams and Davis (1993), effect of environmental analysis on performance of MEs, establishment of organizational direction on performance of MEs and effect of strategy formulation on performance on MEs were not researched on therefore the present study seeks to fill the gaps.

In the case of developing countries, Berry (1998) and Aldehayyat and Twaissi (2011) noted that there is little research in the way of strategic management for medium enterprises. Specifically, Aldehayyat and Twaissi (2011) found that there exists a strong positive relationship between strategic planning and performance although not much attention has been accorded medium businesses among countries in the Middle East. Similarly, Dolence (2004) conducted a study on the relationship between planning and performance specific to MEs in Asia and established a positive relationship for manufacturing MEs. Dolence (2004) measured performance of the MEs based on their market share, profit margins and number of employees. However these studies did not research effect of environmental analysis on performance of MEs, establishment of organizational direction on performance of MEs and effect of strategy formulation on performance on MEs

To present the African perspective, Okpara and Wynn (2007) examined the reasons for business failure in Nigeria and found that lack of finance, inadequate training and managerial experience as well as rampant corruption at various levels of business was the contributing factor to failure. Thus Okpara and Wynn (2007) recommended diverse studies on the influence of strategic planning on performance of medium business units in other Sub-Saharan countries. However, this study did not research effect of environmental analysis on performance of MEs, establishment of organizational direction on performance of MEs and effect of strategy

formulation on performance on MEs

In Kenya, the Government acknowledges medium enterprises as a major employment sector with capability to uniformly spread investment to various regions of the country (Republic of Kenya, 2005). The medium enterprise sector is noted for its contribution in the provision of goods and services in addition to providing positive competition which enhances innovation for development in the various aspects of private sector. Overall, the MEs have absorbed 74% of the Kenyan labour market with immense contribution in the GDP of up to 18% annually. Today, the Kenyan ME sector is considered to be those that employ 10 to 50 people with investments ranging between KES 5 and KES 20 million and turnover of in the range of KES 500,000 and KES 5 million. Medium size enterprises employ more than 50 people but less than 100 (Republic of Kenya, 2005). Thus far, the Government of Kenya has acknowledged the role of the medium enterprises as evident in the policies and policy papers put in place since independence. As a cornerstone for poverty reduction and employment creation, strategies for enhancing the operations of MEs in various documents namely Sessional Paper No. 1 (1986), No. 2 (1996) and Sessional Paper No. 2 of 2005 (Republic of Kenya 1986, 1996, 2005).

Despite Medium Enterprises significance in Kenya past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of statistics 2007). According to Economic survey (2016), five out of seven new businesses fail with in the first year. In 2016 the number of failed business increased as compared to 2016 hence the need to research on effect of strategic planning on performance of medium enterprises in Kisumu Central business unit.

According to these studies, Kombo, Murumba & Makoro (2011) focused economic benefits of MEs, Jocumensen (2004) and Mazarol et al.,(2009) found out that MEs suffer poor performance leading to ultimate failure, Baker, Adam and Davis (1993); Bery (1998); Aldehayyat & Twaissi (2011); found out that strategic planning positively influence performance while Okpara & Wynn (2007) recommended diverse studies on strategic planning on performance. However, these studies did not research on effect of environmental analysis on performance of MEs, effect of establishment organizational direction on performance of MEs and effect of strategy formulation on the performance of MEs. The present study therefore seeks to research on effect



on strategic planning on performance of Medium Enterprises in Kisumu Central Business District.

## **1.2 Statement of the Problem**

Despite the role played by the medium enterprises in Kenya in contributing to the country's economy studies have indicated a relatively high failure. According to the economic survey of 2016, five out seven medium scale businesses fail within the first year leading to closure of businesses hence unemployment, high poverty level, and poor standards of living. While studies have researched on different aspects of strategic planning, effect of strategic planning on performance of medium enterprise is still unknown specifically on; effect of environmental analysis on performance, effect of establishment of organizational direction on performance and effect of strategy formulation on performance. The purpose of the study was to research on the effect on strategic planning on performance on Medium Enterprises in Kisumu Central Business. The objectives of the study focused on determining the effect of strategic environmental analysis on the performance, determining the effect of the establishment of organizational direction on the performance and finding out the effect of strategy formulation on performance

## **1.3 Research Objectives**

The main objective of the study was to determine the effect of strategic planning on performance of medium enterprises in Kisumu Central Business District

### **Specific objectives were:**

- i. To determine the effect of strategic environmental analysis on the performance of Medium Enterprises in Kisumu CBD
- ii. To determine the effect of establishment of organizational direction on the performance of Medium Enterprises in Kisumu CBD
- iii. To find out the effect of strategy formulation on the performance of Medium Enterprises in Kisumu CBD

#### **1.4 Research Hypothesis**

- i. **H1<sub>0</sub>**: Environmental analysis has no significant affect performance of Medium Enterprises in Kisumu CBD
- ii. **H2<sub>0</sub>**: Establishment of organizational direction has no significant affect the performance of Medium Enterprises in Kisumu CBD
- iii. **H3<sub>0</sub>**: Strategy formulation has no significant affect the performance of Medium Enterprises in Kisumu CBD

#### **1.5 Scope of the study**

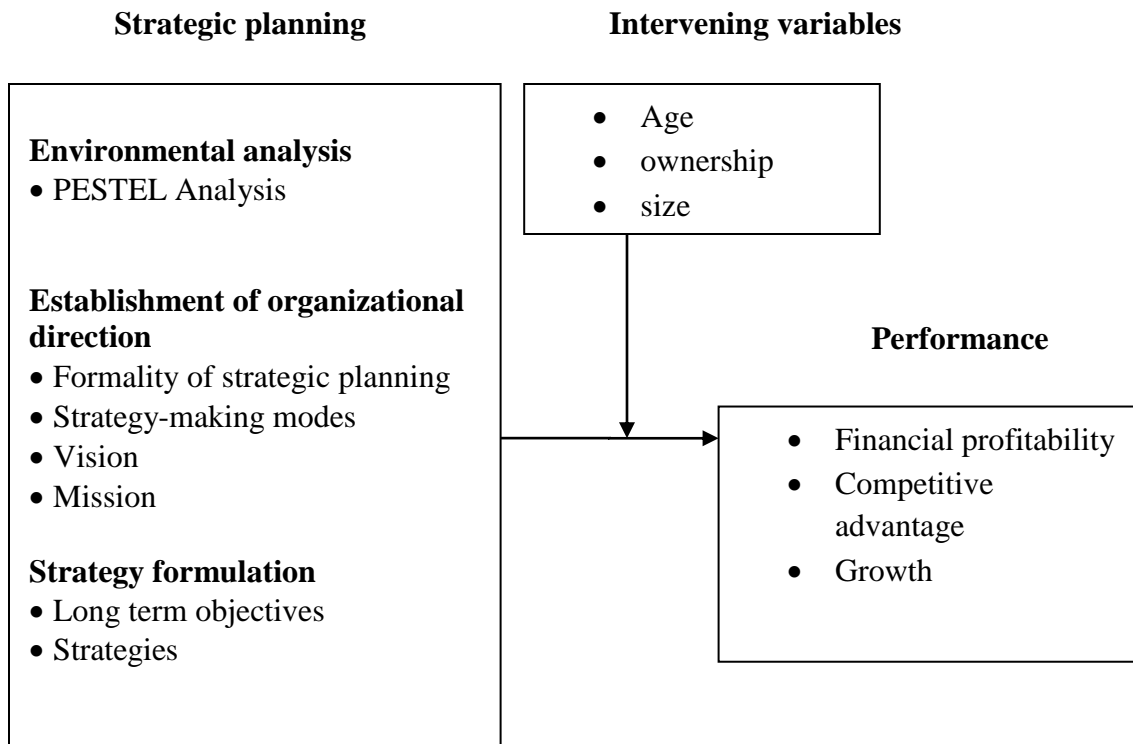
The study was conducted within Kisumu. The data was collected from MEs of different categories medium enterprises. Key variables within study were three independent variables namely strategic environmental analysis, establishment of organizational direction, strategy formulation and their effect on performance which is the only dependent variable. The MEs under study were categorized among communication, food and beverage, beauty shops, medical services, clothing and textile among others. In terms of time the study was conducted for a period of six months.

#### **1.6 Justification of the study**

This study is a source of knowledge to entrepreneurs when making decisions on MEs and attainment of competitive advantage leading to survival and growth hence decrease in failure rate of MEs. The study add knowledge to the concepts of strategic planning and performance. Lastly, the results of the study are envisaged to inform policy makers and those in academic of areas for intervention, especially in developing specific market based training needs for MEs entrepreneurs in advancing the competitive capabilities of MEs in the global landscape. This is important in Kenya, as it aims in its Vision 2030 to benchmark its development agenda with that of countries such as Malaysia and South Korea (Republic of Kenya, 2008). This study is important to students and future researcher for they will able to access information of effect of strategic planning on performance of MEs.

## **1.7 Conceptual Framework**

The conceptual framework has strategic planning as independent variable. This variable determines the mission and objectives, assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress and make adjustments. The mission statement describes the company's vision. Guided by the vision the business owners can define measurable financial strategic objectives hence measurement of sales targets and earnings growth. Environmental scanning identifies the firm's strengths, weakness, opportunities, threats as well external barriers such customers, competitors, substitute products etc. Strategy formulation helps the firm to match its strength to the opportunities that it has identified while addressing its weakness and external threats therefore a firm should develop a competitive advantage over its rivals. Strategy implementation is done by means of program, budget and procedures this is a crucial step as it will determine the success of the firm. Finally, implementation of strategy must be monitored and adjustments made whenever there are deviations. On the other hand, the dependent variable is the performance of MEs. Performance of MEs is measured in terms of Growth, profitability and sustainability. Finally, the relationship is subject to intervening variable is the environment. The operating environment comprising of social, political, and economic environment may influence strategic planning an unstable economy implies the strategic process was followed.



Source: Strategic Planning Model by Berry (1998)

Figure 1.1: Effect of strategic planning on Performance of MEs

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This section provides a review of the key concepts, the theories related to the study concept and review of empirical studies to be able to understand the concepts under investigation.

#### **2.1 Review of related theories and key concepts**

This section discusses various theories in the attempt to understand strategic planning and its influence on MEs performance. The applications of the theories given the variables contained in the conceptual framework are also discussed.

##### **2.1.1 Systems Theory**

Systems theory was originally proposed by Hungarian biologist Ludwig Von Bertalanffy in 1928 (Kast & Rosenzweig, 1972; Scott, 1981; Olum, 2004). The foundation of systems theory is that all the components of an organisation are interrelated, and that changing one variable might affect many others, or if one sub-system fails, the whole system is put in jeopardy. Organisations are viewed as open systems, continually interacting with their environment. These parts that share feedback among each other can be looked at as consisting of four aspects namely: inputs which comprise resources such as raw materials, money, technology, and people; processes, such as planning, organising, motivating and controlling; outputs, such as products and services and enhanced systems, productivity. This implies that when one part of the system is removed, the nature of the system is changed as well. Systems theory helps managers to look at the organisation more broadly and recognise the interrelationships among the various parts.

Systems theory is important in examining how strategic planning and actions influence activities within the organisation and how this translates to improved internal business processes. These effects are likely to create value for customer in terms of efficient delivery of services and quality products. For instance, consensus management and decision making in organisations, especially medium organisations, rely on a systems approach. The strategic planning and implementation models are based on processes and systems approach. It was of interest to find out the extent these processes and systems are applicable in medium businesses and in the ever-changing environment. One of the most salient arguments against systems theory is that the

complexity introduced by nonlinearity makes it difficult or impossible to fully understand the relationships between variables. Dawson (2006) views models as mechanistic and he argues that the business practice today is working off models and working on open-ended creative processes as organisations can be viewed as living organisms. This theory is relevant to the study because it seeks to find out if failure in environmental analysis, establishment of organizational direction or strategy formulation can cause success or failure in performance.

### **2.1.2 Contingency Theory**

Galbraith (1973) states that in contingency theory, there is no one best way to organise and any one way of organising is not equally effective. Chandler (1962) studied four large corporations and proposed that organisations would naturally evolve to meet the needs of their strategies. Implicit in Chandler's ideas is that organisations act rationally, sequentially, and in a linear manner to changes in the environment and that effectiveness was a function of management's ability to adapt to environmental changes. Contingency theory is guided by the general orienting hypothesis that organisations whose internal features best match the demands of their environments will achieve the best adaptation. The term "contingency" was coined by Lawrence and Lorsch (1967) who argued that the amount of uncertainty and rate of change in an environment impacts the development of internal features in organisations.

The rate of change and uncertainty in the environment questions the application of this theory and especially for medium businesses, which may not have the resources and the time to make changes and adapt to the fast-paced environment. Similarly, it can be argued that a failure in one sub-system will not necessarily thwart the entire system. Yet this theory is very important in pointing out the critical role of the environment in an organisation's survival and that it cannot be ignored even by a medium enterprise. This theory is relevant to the study because it seeks to find out if performance is dependent to environmental analysis, establishment of organization direction and strategy formulation. Changes in strategic planning variables can cause positive or negative changes to financial profitability, competitive advantage and growth.

### **2.1.3 Strategic planning**

Strategic planning involves setting goals for the organization to accomplish in the long term as well as strategies to be implemented to achieve the set goals including allocation of resources across the diverse projects (Stonehouse & Pemberton, 2002). The aim of strategic planning thus becomes to attain competitive advantage and for the business to achieve efficiency in its operations thus enhancing performance. Strategic planning is therefore an important aspect of modern day business especially MEs with operational challenges.

According to Upton et al. (2001), if an organization or business enterprises is innovation oriented, it will definitely adopt strategic planning practices in development and patenting of its new products, technologies and processes to ensure growth. The growth in this sense is realized in market size, production, capital and number of employees.

Bracker et al. (1988) concluded that the difference in performance across MEs is attributed to adoption or not, of strategic planning practices. The MEs adopting strategic planning exhibit improved sales, returns on assets and profit margins compared to their competitors.

### **2.1.4 Performance**

Firm performance is arguably the most important construct in management research. Barney, (2007) refers performance as how efficiently and effectively a firm utilizes its resources in generating economic outcomes. In the business strategy literature there are two major streams of thought on the determinants of firm performance. One is based on factors that exist in the firm's external environment, and the other is based on internal organizational factors. Performance can be determined in various ways. It might stand for financial performance, market performance, customer performance or overall performance (Smith et al, 2001). Most firms measure performance based on monetary success which is measured by sales turn over and profitability.

Hofstrand (2009) posit that profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. Businesses that gain profit are destined for success. The harsh environment however limits the ability of MEs to constantly earn these profits hence the need to adjust to operations that allow them to perform at a limited cost. The use of internet marketing allows them to maintain customer loyalty while expanding their niches

hence improving their chances of sales turn over and profitability. The firm's ability to gain profit is established after returns are made on investment. Return on Investment is important to firms for continuity for their ability to return that which was borrowed.

Hofstrand (2009) explains expansion is subject to the firm's ability to sustain itself on initial capital; for expansion businesses require to borrow further and their ability to return previously acts as a guarantee to the financier. Other measures are based on the market share established in an industry by these firms with market leaders gaining most favor from the shared clientele. A market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. The growth share matrix explains the market share and market growth rate of a firm where the Boston Consulting group (1970) analyzes a firm's business units, and their product lines. This helps the company allocate resources and is used as an analytical tool in brand management, product management, strategic management, and portfolio analysis. Customer loyalty is a key contributor in ensuring success which is a measure of performance in MEs. The loyalty business model used in strategic management in which company resources are employed to increase the loyalty of customers and other stakeholders in the expectation that corporate objectives will be met or surpassed. A typical example of this type of model is: quality of product or service leads to customer satisfaction, which leads to customer loyalty, which leads to profitability.

Customers trust brands that have been established and are hesitant to venture into new ones; firms therefore invest highly on the establishment of its brand. Branding is defined by Porter (2001) as the process of creating a unique image for a product in consumers mind. Strategic planning among the MEs has allowed firms ability to establish brands for cheaper cheap option with access to larger masses. Increased number of accessed customers will increase the potential sales for the firm's hence better performance. Burke et al (2004) explains that strategic planning has allowed the globalization of economies which has lessened the geographical barriers previously experienced by firms. This also allowed an increased market niches for firms. Firms today are exposed to international standards so as to cater to all clientele across the world. Performance is both measurable and perceptive which allows firms a competitive advantage over their counter parts in the industry.



## **2.2 Review of empirical literature**

### **2.2.1 Environmental Factors Analysis and performance of MEs**

Environmental analysis is the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market. The firm's external environment is divided into three major areas: the general, the industry, and competitor environments. Hitt, Hoskinson and Ireland (2007) assert that the general environment is composed of dimensions in the broader society that influence an industry and the firms within it includes several environmental segments, such as demographic, economic, political/legal, socio-cultural, technological (PEST) and global. For example, technological factors such as new innovation, internet speed connections, networking and other technological changes affect the way an organisation runs its business (Coulter, 2008).

Sussman *et al.*, (2006) carried out a study to assess the link between strategic planning aspects of external environment and overall corporate performance in manufacturing MEs in the USA. The study was a review of literature in strategic management and MEs as well as interview of successful MEs. Their findings indicate that the degree of awareness of external environmental threats and opportunities is associated with the degree of overall emphasis on the strategic planning process, and that strategic planning in MEs is positively linked to overall corporate performance. The study notes, however, reveal that an overemphasis on environmental issues at any level of the strategic planning process could lead to reduction in financial performance.

Jasra, Khan, Hunjra, Rehman and Azam (2011) carried out a study among in Pakistan to determine the role of key factors, such as financial resources, marketing strategy, technological resources, government support and entrepreneurial skills in the success of MEs. Convenient sampling technique was used to access the study participants and questionnaires used to collect the subjects responses and analysed with the aid of SPSS software. Regression analysis was used to determine the relationship between business success and other predictor variables. The study concluded that all these factors have positive and significant impact on business success and that financial and technological access plays a vital role in the productivity of firms. MEs should thus adapt technology system in their businesses.

Aluko (2005) carried out a study to examine the impact of the environment on organisational

performance in selected textile firms in Nigeria. The main objectives of the study were to identify the impact of four environmental variables: the economy; the socio-cultural; the political and the technological and determine which of the four variables had the strongest impact on organisational performance. In all, 630 respondents were used for the study. The study showed that the organisations under focus were not performing very well because they appear to be operating in an unfavorable economic and technological environment in the period between 1993 and 1998. Only the socio-cultural environment appears to be favorable but this did not help to enhance organisational performance.

In conclusion, the study by Sussman et al., (2006) carried out in USA focused on external environment and corporate performance as independent variables. The findings showed that strategic planning is positively linked to external environment and corporate performance. However, there was no research on organizational direction on performance of MEs and strategy formulation on performance of MEs therefore this study seeks to fill the gap. The study by Jasra et al., (2011) carried out in Pakistan focused on role of key factors such as financial resources, marketing strategy, technological resources, and government support and entrepreneurial skill as independent variables. The study concluded that these factors have a positive relationship on business success. However, there was no research on organizational direction on performance of MEs hence this study will fill the gaps. The study by Aluko (2005) carried out in Nigeria focused on four environmental variables; economy, socio cultural, political and technological. The findings showed that impact of the environment is negatively linked to organizational performance. However, this study did not research on organisational direction on performance of MEs and strategy formulation on performance on MEs hence this study will fill the gaps.

### **2.2.2 Establishment of organizational direction and performance MEs**

According to Mintzberg (1996) organisational direction is the process of defining organisation's mission, vision and values to achieve the defined goals. Sorooshian *et al.*, (2010) asserts that financial performance improvement is central in strategy. In a research survey among 250 Iranian medium businesses to examine the structural relationship between strategy implementation (one of the elements of strategic planning) and financial performance in terms of sales revenue and gross profit, the authors found strategy implementation drivers namely; leadership, structure and human resource were found to have significant link to performance. The study however, did not take into account forces outside the organisation. Rue and Ibrahim (1998) examined the relationship between planning and financial performance of medium business. They found that planning was associated with growth in sales and no significant relationship was found with respect to the return on investment.

Schayek (2011) carried out a study on the effect of strategic planning and entrepreneurship, human and financial resources, and market orientation on business performance among 135 trade and service businesses in Israel. The researcher found significant positive correlation between strategic planning and financial performance. Strategic planning was measured in terms of whether plans were written or not, the detail and scope of strategic planning and period of time it covered, while performance was measured in terms of financial performance and operational performance. On the other hand the researcher found insignificant positive effects of strategic planning on performance. The researcher called for more research on the effects of strategic planning on firms due to these mixed results.

In conclusion, the study carried out by Sorooshian *et al.*, (2010) focused on leadership, structure and human resource as independent variables with positive findings showing that strategy implementation is linked to performance. However, they did not research on environmental analysis on performance of MEs and strategy formulation on performance of MEs therefore this study seeks to fill in the gap. On the other hand Rue and Ibrahim (1998) focused on growth and sales as variables and found out that there was no relationship between planning and financial performance. However, the study did not research on environmental analysis on performance, organizational direction on performance and strategy formulation on performance hence the present study seeks to fill in this gap. Schayek (2011) carried out a study focusing on written or

unwritten plans, detail and scope and time of strategic planning. The findings showed significant positive correlation between strategic planning and performance. However, this study did not research on environmental analysis on performance of MEs, organizational direction on performance of MEs and strategy formulation on performance of MEs which the present study seek to fill the gap.

### **2.2.3 Strategy formulation and performance of MEs**

According to Bonger and Thomas (1193) strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision and mission. Berman, Gordon and Sussman (1997) argue that enterprises that plan strategically obtain better financial results. This implies that expenditures related to planning activities would be compensated financially. Ansoff (1991) and Mintzberg (1990) also found that Planning is positively related to profitability. When informant source is used, Planning is measured without referring to any written documentation, quality of assessment is high, and Environment is turbulent, correlation under these conditions is 0.43. But if archival data is used, planning become standardized and formalized, low quality assessment strategy is used and environment are moderately turbulent, correlation falls to zero. Findings by (C. Chet Miller and Laura B. Cardinal, 1994p. 1658) indicate that there exist a stronger correlation between planning and profitability. Planning is positively and strongly correlated to growth when industry effects were controlled. His conclusion was consistent with expectation that positive correlation exist between strategy planning and profitability.

Meta-analyses conducted by Robinson and Pearce (1984) and Schwenk and Shrader (1993) showed that the existence of strategic planning is significantly positively correlated with the success of an enterprise. Medium firms can benefit from strategic planning particularly if it involves long-range thinking and systematic screening of opportunities (Schwenk & Shrader, 1993). Berman et al (1997) found that firms that plan produce better financial results than firms that do not plan. Lerner and Almor (2002) contended that planning lays the groundwork for developing the strategic capabilities needed for high performance.

Wang, Walker and Redmond (2007) argued that while it is certainly true that MEs performance success is driven by more than strategic planning alone, findings generally support the contention that there are, on balance, greater advantages to planning than not planning. However, given all

the evidence, it is well recognized that strategic planning is rare or non-existent in the majority of MEs. In practice, MEs tend to orientate towards short-term operational rather than long-term strategic issues and decision-making tends to be reactive rather than proactive.

Kraus, Reiche and Reschke (2007), in their study, claimed that planning instruments are usually only used by a small number of individuals. These shortcomings point towards the importance of examining the value of strategic planning for MEs in more detail. Given the role of strategic instruments in large companies and the notion that rational decision-making should prevail in enterprises regardless of size, practitioners and academics have recently called for an increased use of strategic planning in MEs. Thus, the application of formal planning instruments is often missing in MEs so it is the time to train them about the 12 effective strategic planning which is about formulation as well as the implementation of it.

Veskaisri *et al.* (2007) stated that many studies have generally shown that planning is not only important for large organizations but for MEs as well and it was found that firms that plan produce better financial results than firms that do not plan because planning lays the groundwork for developing the strategic capabilities needed for high performance. Planning does not guarantee business success if it is not effective and also if other factors are not considered. However, it is maintained that many of the contributing factors to business failures may be predicted and effectively address during the infancy of medium business development when strategic planning is employed, thereby decreasing the failure rate for medium business. However, an extensive review of the literature shows that research on the impact of strategic planning on SME success is inconclusive.

Sexton and Van Auken (1985) found in their longitudinal analysis that the survival rates of MEs that apply formal strategic planning are higher. Boyd (1991) found that the probability of survival is substantially smaller for non-planning enterprises. Birley and Niktari (1995) found an association between the failure of medium firms and a lack in business planning. Castrogiovanni (1996) linked the lack of strategic planning with higher mortality rates of MEs. Miller and Cardinal (1994) claimed that planning produces better results than non- planning. Michalisin *et al* (1997) stated that firms can achieve sustainable competitive advantage from such resources as strategic planning. The studies that examined the nature of business planning activities undertaken by medium firms suggest that a relationship exists between enhanced sales growth

and the implementation of sophisticated business planning techniques (Berman *et al*, 1997). A further study by Olson and Bokor (1995) of 442 start-up firms supported the case for formal planning enhancing business performance, although this was found to be context dependent. Characteristics of the entrepreneurs – prior management experience or previous work history – were found to be significant.

Rutan (2007) commented that it might have been decided that a company needs a comprehensive, formal strategic plan, but they must be ready for the challenge. Just as important as their willingness to plan is also their commitment to expend the resources (time, creative energy and money) required to do it right. Proper planning always involves significant resources for implementation. One should be committed to following through before committing any time to the first planning meeting.

In conclusion, the study carried out by Ansoff (1991) and Mintzberg (1990) focused on planning and profitability with results showing positive correlation. However, this study did not research on effect of environmental analysis on performance, effect of organizational direction on performance of MEs and effect of strategy formulation on performance of MEs therefore the current study seeks to fill in the gaps. Robison and Pearce (1984) found out that planning is significantly positively correlated with the success of an enterprise. However, their study did not look into the effect of environmental analysis on performance, effect of organizational direction on performance of MEs and effect of strategy formulation on performance of MEs therefore the current study seeks to fill in the gaps. Wang, Walker and Redmond (2007) found out that strategic planning is rare or nonexistent in the majority of MEs. However, this study did not research on effect of environmental analysis on performance, effect of organizational direction on performance of MEs and effect of strategy formulation on performance of MEs therefore the current study seeks to fill in the gap. Veskaisri et al., (2007) found out that firms that plan produce better financial results than firms that do not plan.

## **CHAPTER THREE**

### **METHODOLOGY**

This chapter focuses on research design, study area, target population, sampling technique, data collection, instruments and tools, Research procedure, data analysis, data presentation and research ethics.

#### **3.1 Research Design**

Nachmias and Nachmias, (1996) assert that research design refers to the master plan that was used in the study in order to answer the research questions. According to Cooper and Schindler (2006), a correlation research design attempts to establish the relationship between research variables or interactions. The research design is suitable in this study since it established the relationship between strategic environmental analysis, establishment of organization direction and strategy formulation to MES performance.

#### **3.2 Study Area**

This study was conducted in Kisumu town. Kisumu town is within Kisumu County. This is one of the new devolved counties of Kenya. Its borders follow those of the original Kisumu District, one of the former administrative districts of the former Nyanza Province in western Kenya. The headquarters is Kisumu City. It has a population of 968,909 (according to the 2009 National Census). The land area of Kisumu County totals 2085.9 km<sup>2</sup> The study was conducted within the Central Business District of the town due to ease of accessibility, it is one of the busiest parts of the town and has several MEs that are close to each other. The study was carried out in Kisumu because it is one of the regions that has experienced post-election violence leading to closure of businesses hence unemployment, high poverty level and poor standards of living.

#### **3.3 Target Population**

Population is the entire set of units for which the study data are to be used to make inferences (Kothari 2003). Target population defines those units for which the findings of the study are meant to be generalized from (Dempsey 2003)

The population of this study comprised of MEs such as communication, food and beverage, beauty shops, medical services and clothing and textiles within Kisumu CBD. Respondents in this study were owners and employees of MEs since they are in a position to provide the required information.

The target population of this study comprised 1783 owners and employees of MEs operating in Kisumu Central Business District (as per Kisumu City Council 2012). According to Mugenda and Mugenda (1999), target population in statistics is the specific population about which information is desired. A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. Table shows summary of target population in terms of the sector in which the MEs are found.

*Table 3.1: Target population*

| <b>Type of MEs</b>         | <b>Target Population</b> |
|----------------------------|--------------------------|
| General supplies           | 382                      |
| Professional consultancies | 169                      |
| Building and construction  | 241                      |
| Hospitality                | 344                      |
| Transport                  | 391                      |
| Manufacturing              | 256                      |
| <b>Total</b>               | <b>1783</b>              |

Source: Kisumu County Strategic Plan, 2013

### **3.4 Sampling and Sampling Technique**

In this study, the sampling frame was the list of the all the ME's in Kisumu CBD. The sampling frame describes the list of all population units from which the sample is selected. The researcher used stratified random sampling method because the population is divided into strata which include general supplies, professional consultancies, building and construction, hospitality and transport manufacturing. After the stratification simple random sampling was used to select the specific respondent to participate in the study. According to Mugenda and Mugenda (1999) a sample size of between 10% and 30% is a good representative of the target population. Therefore, the researcher settled down on a sample size of 30% which gives a sample size of 537



MES. To arrive at the sample of 537 MEs, the researcher used simple random sampling technique. This technique is preferred because it gives the respondents equal chance of being selected and hence eliminates biasness

*Table 3.2: Sample Size Distribution*

| <b>Type of MEs</b>         | <b>Target Population</b> | <b>Sample size</b> | <b>Percentages</b> |
|----------------------------|--------------------------|--------------------|--------------------|
| General supplies           | 382                      | 115                | 30%                |
| Professional consultancies | 169                      | 51                 | 30%                |
| Building and construction  | 241                      | 72                 | 30%                |
| Hospitality                | 344                      | 103                | 30%                |
| Transport                  | 391                      | 117                | 30%                |
| Manufacturing              | 256                      | 77                 | 30%                |
| <b>Total</b>               | <b>1783</b>              | <b>535</b>         | <b>30%</b>         |

Source: Kisumu County Strategic Plan, 2013

### **3.5 Data Collection**

#### **3.5.1 Sources of Data**

Primary data collection was used to realize the study objectives. Primary data was collected using structured questionnaires. The questionnaire was close ended to provide a more comprehensive view and administered by the researcher personally to the respondents. This method of data collection is cheap because it conserves time and money. All the respondents were asked the same questions in the questionnaire considering closed form of questions. Secondary data was obtained from relevant books, journals and periodicals.

#### **3.5.2 Data collection procedure**

An introductory letter was obtained from the University for Purposes of data collection. The researchers randomly approached MEs and issued questionnaires to the respondents and advised them on what is required after which collection of the questionnaire was done on the agreed date and time.

### **3.5.3 Instrument for data collection**

Questionnaire was used to collect data. According to Mugenda and Mugenda (2003), data collection instruments of questionnaire are appropriate for data collection to facilitate easy analysis of data. Questionnaires were preferred because according to Dempsey (2003) they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the researched problem. According to Kothari (2003), the information obtained from questionnaires is free from bias and researchers have no influence and thus accurate and valid data was gathered.

### **3.5.4 Reliability for Data Collection Instruments**

To make the findings reliable, Cronbach instrument was used to test for weaknesses, ambiguity, and inconsistencies noted in the instrument was corrected. According to Cooper & Schindler (2003) reliability refers to the consistency or dependability of the data, whenever an investigator measures a variable they wish to be sure that the measurement provides dependable and consistent results. A reliable measurement is one that if repeated a second time and gives the same results as it did the first time. If the results are different, then the measurement is unreliable, Mugenda & Mugenda (2008). To measure the reliability of the data collection instruments, an internal consistency technique using Cronbach's alpha was used. Cronbach's alpha is a coefficient of reliability that gives an unbiased estimate of data generalizability. An alpha coefficient of 0.75 or higher indicates that the data is reliable as it has a relatively high internal consistency and can be generalized to reflect opinions of all respondents in the target population Zinbarg (2005).

### **3.5.5 Pilot Study**

Pilot study was conducted to test the reliability and validity of the questionnaire, according to Dempsey (2003) pilot study is the process of conducting preliminary test of data collection instruments in order to eliminate data collection problems that may lead to low data validity and reliability. Connelly (2008) suggests that a pilot study sample should be 10% of the sample projected for the larger parent study. To achieve these 54 respondents were selected randomly 12 general supplies, 5 from professional consultancies, 7 from building and construction, 10 from

hospitality, 12 from transport and 8 from manufacturing. No problems were detected from the data collected.

### **3.5.6 Validity of the Instrument**

Validity refers to the extent to which an instrument measures what is supposed to measure. Data need to be reliable, true and accurate. According to Joppa (2000) if a measurement is valid, it is also reliable. Content validity of data collection instrument was confirmed by expert review.

### **3.6 Data analysis**

The study used regression analysis and chi square test used to analyze data in order establish the relationship between the dependent variables which is performance of MEs and the independent variables which are strategic environmental analysis, establishment of organization direction and strategy formulation. The study was embodied on the regression model below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y = Performance of MEs

X<sub>1</sub> = Strategic environmental analysis, X<sub>2</sub> = Establishment of organization direction, X<sub>3</sub> = Strategy formulation,  $\beta_1$  = Effect of X<sub>1</sub> on Y,  $\beta_2$  = Effect of X<sub>2</sub> on Y,  $\beta_3$  = Effect of X<sub>3</sub> on Y,  $\alpha$  = Constant/the intercept point of the regression line and the y-axis, e = Error term.

$$\text{Performance} = 0.712 + 0.827(\text{Environmental Analysis}) + 0.601(\text{Organizational direction}) - 0.552(\text{Strategy formulation})$$

The strength of the relationship between the dependent and the independent variables is measured by carrying out *t*-test at 5% level of significance. The test was done to determine whether the coefficients  $\beta_1$ ,  $\beta_2$  and  $\beta_3$ , are significantly different from zero.

### **3.7 Research Ethics**

A letter of approval for research was obtained from Maseno University. Information gathered was confidential and data was accessed by the supervisor overseeing the research project.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

This chapter presents the results and discussion of the study which is presented based on the research objectives as defined in chapter one. The data was analyzed and summarized in form of frequency distribution tables, using descriptive analysis technique and inferential statistics using multiple linear regression. SPSS was used to analyze the data.

#### **4.1 Questionnaire Return Rate**

The study was designed to draw respondents from medium enterprises in Kisumu CBD in general supplies, professional consultancies, building and construction, hospitality and transport manufacturing sector. Out of the 537 targeted respondents, 535 returned completed and duly filled questionnaires giving a questionnaire return rate of 99.6%. The return rate was high because the researcher administered the questionnaires to the respondents in person and made follow ups to ensure the questionnaires were duly filled.

#### **4.2 Demographic Information**

To be able to obtain the significance of the information provided by the respondents, it was important to understand their background and demographic information. As such, background and demographic information was solicited through the questions on gender, marital status, age group, level of education, type of business and the period the business has been in operation with findings of the demographic information provided in subsequent section.

##### **4.2.1 Gender**

On gender, the respondents' gender was categorized as either male or female. The data was analysed and presented in Table 4.1.

*Table 4.1: Distribution of respondents by Gender*

| <b>Gender</b> | <b>Frequency</b> | <b>Percent</b> |
|---------------|------------------|----------------|
| Male          | 303              | 56.6           |
| Female        | 232              | 43.4           |
| <b>Total</b>  | <b>535</b>       | <b>100.0</b>   |

Based on the findings, a slight majority of the owners and employees of MEs were males at 56.6%. However, gender could not be a factor in understanding the performance of the MEs.

#### **4.2.2 Marital Status**

On marital status, the respondents were asked to indicate their marital status. The findings are presented in Table 4.2.

*Table 4.2: Distribution of Respondents by Marital Status*

| <b>Marital status</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------------|------------------|----------------|
| Married               | 270              | 50.5           |
| Single                | 217              | 40.5           |
| Widowed               | 13               | 2.4            |
| Divorced              | 35               | 6.5            |
| <b>Total</b>          | <b>535</b>       | <b>100.0</b>   |

*Source: Researcher's own analysis (2018)*

Majority of the respondents (50.5%) were married while 40.5% of them were single. However 6.5% and 2.4% were widowed and divorced respectively

### 4.2.3 Age group

Age is perceived to correlate with knowledge in decision making. Similarly, age determines an individual's level of comprehension as well as experience if a considerable of the years have been acquired while performing a given function. Consequently, the age of the owners and employees of the MEs was considered to be a factor establishing the factors affecting performance of MEs. Findings on distribution of gender by age group is presented in Table 4.3.

*Table 4.3: Distribution of Respondents by age group*

| Age group    | Frequency  | Percent      |
|--------------|------------|--------------|
| 18-25 years  | 140        | 26.2         |
| 26-49 years  | 359        | 67.1         |
| 50-69 years  | 36         | 6.7          |
| <b>Total</b> | <b>535</b> | <b>100.0</b> |

*Source: Researcher's own analysis (2018)*

From the findings, an overwhelming majority (67.2%) of the respondents were aged between 26-49 years. This shows that owners and employees of MEs were at the desirable age thus could provide the credible information on procurement.

### 4.2.4 Level of education

The study also sought to understand the level of education of the owners and employees to be able to determine the usefulness of information provided. The findings are presented in Table 4.4.

*Table 4.4: Respondents Level of Education*

| Level of education | Frequency | Percent |
|--------------------|-----------|---------|
| University         | 193       | 36.1    |
| Secondary          | 222       | 41.5    |
| Primary            | 96        | 17.9    |
| None               | 24        | 4.5     |

|              |            |              |
|--------------|------------|--------------|
| <b>Total</b> | <b>535</b> | <b>100.0</b> |
|--------------|------------|--------------|

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*Source: Researcher's own analysis (2018)*

According to the findings 41.5% of the respondents had secondary education while 36.1% of them had university education. This implies that the respondents were adequately knowledgeable and could provide authentic and credible information as required for the study. However, 17.9% and 4.5% of the employers and employees of the MEs had primary education and no education respectively.

#### **4.2.5 Type of business**

To be able to answer the research questions, it was necessary to establish whether respondents were involved in medium enterprises. Respondents were asked to specify the type of the business. The findings were analyzed and as presented in Table 4.5.

***Table 4.5: Type of business***

| <b>Type of business</b>    | <b>Frequency</b> | <b>Percent</b> |
|----------------------------|------------------|----------------|
| General supplies           | 115              | 21.5           |
| Professional consultancies | 51               | 9.5            |
| Building and construction  | 72               | 13.5           |
| Hospitality                | 103              | 19.3           |
| Transport                  | 117              | 21.9           |
| Manufacturing              | 77               | 14.4           |
| <b>Total</b>               | <b>535</b>       | <b>100.0</b>   |

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*Source: Researcher's own analysis (2018)*

From the findings, 21.9% of the employers and employees were involved in transport business while 21.5% of them were in the general supplies business. Moreover 19.3% of the respondents were hospitality business and 14.4% of them were in the manufacturing business. Furthermore 9.5% of the employers and the employees were involved in professional consultancies.

#### 4.2.6 Duration in business

The researcher sought to establish the duration the respondents had been in their businesses. This would help to determine the extent of their understanding of the operations within the organization. The longer an individual stay within a business, the more he/she will understand the operations. The findings on duration of service are presented in Table 4.6.

*Table 4.6: Duration in business*

| <b>Duration in business</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------------------|------------------|----------------|
| Less than one year          | 34               | 6.4            |
| 1-5 years                   | 294              | 55             |
| 5-10 years                  | 94               | 17.6           |
| Above 10 years              | 113              | 21.1           |
| <b>Total</b>                | <b>535</b>       | <b>100.0</b>   |

*Source: Researcher's own analysis (2018)*

From the findings, majority of the respondents (55%) had been in the medium enterprises business for 1 to 5 years. Moreover 21.1% of them had been in business for above 10 years while 17.6% of them had been in business for 5 to 10 years. However, only 6.4% of the respondents had been in business for less than 1 year.

#### 4. 3 Effect of strategic planning on performance

In order to achieve effect of strategic planning on performance, first effect of environmental analysis on Performance was established. Results are in section 4.3.1

##### 4.3.1 Effect of strategic environmental analysis on Performance



**Table 4.7: Effect of environmental analysis, organisational direction and strategy formulation on Performance**

| Model                    | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig. | 95.0% Confidence Interval for B |             |
|--------------------------|-----------------------------|------------|---------------------------|--------|------|---------------------------------|-------------|
|                          | B                           | Std. Error | Beta                      |        |      | Lower Bound                     | Upper Bound |
| (Constant)               | .712                        | .561       |                           | 1.268  | .205 | -.391                           | 1.815       |
| Strategy formulation     | -.552                       | .200       | -.172                     | -2.764 | .006 | -.944                           | -.160       |
| Environmental Analysis   | .827                        | .188       | .275                      | 4.392  | .000 | .457                            | 1.197       |
| Organizational direction | .601                        | .128       | .253                      | 4.708  | .000 | .350                            | .851        |

a. Dependent Variable: Performance

Environmental analysis had a positive and statistically significant effect ( $B=.827$ ,  $p=.000$ ) on the performance of the MEs. This result means that a unit change in Environmental analysis accounts for 82.7% change in performance of the MEs. This implies that whenever activities of environmental analysis increase there would be increase in performance of the MEs.

This is in agreement with Jasra, Khan, Hunjra, Rehman and Azam (2011) study in Pakistan which revealed that technology resources were sources of the success of the Medium Enterprises. The findings also concur with Aluko (2005) study in Nigeria on the impact of the environment on organizational performance in selected textile firms which revealed that, technological aspects in the firms contributed towards their performance. The findings further are in agreement with

Morales (2006) study in Spain on strategic capabilities and its effects on performance of MEs which revealed that, teamwork was positively linked with performance of the MEs. Similarly, a study in South Africa on achieving optimal business performance in MEs, the results revealed that, teamwork practices had a positive and significant relationship with MEs performance.

#### **4.3.2 Effect of organisational direction on performance**

Effect of organisational direction on performance was also established to achieve effect of strategic planning on performance. Refer to table 4.7 for results.

Organizational direction had a positive and statistically significant effect ( $B=.601$   $p=.000$ ) on the performance of the MEs. This result means that a unit change in organization direction accounts for 60.1% change in performance of the MEs. This implies that whenever activities of setting direction for the organisation increase there would be increase in performance of the MEs.

The findings concur with Njeru (2015) study in Kenya on effect of strategic management practices on performance of MEs in Kenya, which revealed that, vision statements in MEs influenced organizations performance. Schayek (2011) carried out a study focusing on written or unwritten plans, detail and scope and time of strategic planning. The findings showed positive significance on performance. Schayek (2011) carried out a study on the effect of strategic planning and entrepreneurship, human and financial resources, and market orientation on business performance among 135 trade and service businesses in Israel. The researcher found significant positive correlation between strategic planning and financial performance.

#### **4.3.3 Effect of strategy formulation on performance**

Lastly, effect of strategy formulation on Performance was established in order to achieve effect of strategic planning on performance. Results are in table 4.7

Strategy formulation had a negative and statistically significant effect ( $B= -.552$   $p=.006$ ) on the performance of the MEs. This result means that a unit change in organisation direction accounts for 55.2% negative change in performance of the MEs. This implies that whenever activities of strategy formulation for the organisation increase there would be decrease in performance of the MEs. The result reveals that strategy formulation does not influence performance.

The findings are in agreement with Na-Naan et.al (2017) study in Thailand on performance management of MEs which revealed that, unclear objectives negatively influence the performance of the enterprises.

Lerner and Almor (2002), Wang, Walker and Redmond (2007), Veskaisri et al., (2007) and Auka, D. O., & Langat, J. C. (2016) studies revealed that, strategic planning and strategy formulation is not only important for large organizations but for MEs as well and it was found that MEs that plan perform better. Therefore, the findings of these four studies are inconsistent with the results of this study since strategy formulation has a negative significance to performance.

The overall model of the study is as follows:

Performance= 0.712+ 0.827(Environmental Analysis) +0.601(Organizational direction)-0.552(Strategy formulation). Summary result on table 4.16 indicate that  $R^2 = .133$ . This means that in overall, organizational direction, strategy formulation and environmental analysis account for 13.3% variation in performance of MEs. The adjusted  $R^2 = .128$ . the change between  $R^2$  and adjusted  $R^2$  is less than 5%. This means the model is stable. It can be relied on to predict the outcome.

**Table 4.8: Summary results: effect strategic planning on performance**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1     | .365 <sup>a</sup> | .133     | .128              | 2.01363                    | .133              | 26.444   | 3   | 517 | .000          |

a. Predictors: (Constant), Organizational direction, Strategy formulation, Environmental Analysis

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary of Findings

The first objective sought to determine the influence of strategic environmental analysis on performance of MEs Kisumu County. The major findings on this objective show that environmental analysis influences the performance of the MEs positively.

Findings on the second objective revealed that organizational direction of the MEs influences the performance of the MEs.

Based on the third objective, the findings revealed strategy formulation does not influence the performance of the medium enterprise

#### 5.2 Conclusion

Major conclusions drawn from the first objectives were that environmental analysis such as periodically gathering and analyzing data about markets and other external or internal factors which affect its operation and business, having a stable team to have a sustainable competitive advantage increases the performance of the Medium enterprises.

In the second objective, the study concluded that there existed a positive and statistically significant relationship between organizations' direction and the performance of the MEs.

In the third objective, the study concluded that strategy formulation had a negative and significant effect on performance and firms need to monitor operation on it.

#### 5.3 Recommendations

This section stipulates the recommendations to be implemented for practice and policy for good performance of MEs. This study recommends that the firms should emphasis activities of environmental analysis and organization direction. The study recommends that owners and employees of medium sized businesses need to undergo professional training on gathering and analyzing data about markets and encourage their employees on the need to have a stable team in order to have sustainable competitive advantage

The study recommends that management to take measures to ensure that they formulate and adopt effective strategies and objectives that yield high performance and by involvement of employees and consultants in strategy formulation.

The management should also provide proper organizational direction by having a strong planning committee ad department, having a flexible strategic plan for the organization.

The government in conjunction with other players needs to intensify technical and financial support to the MEs. This will include access to credit, grants, trainings and information provision to the MEs to enable them to identify and exploit opportunities. This is particularly important for the long-term sustainability of the medium enterprises.

#### **5.4 Suggestions for further Research**

The study suggests for further research on planning practices of medium enterprises other than the ones operating in the CBD.

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## APPENDICES

### Appendix I: Participants' Consent Form

**Dear respondent,**

My name is Veronica Achieng Onyango; I am a post graduate candidate at Maseno University, pursuing a Masters in Business Administration course.

As a requirement of my course, I am conducting a study on, "*Effect of Strategic Planning on Performance of Medium Enterprises in Kisumu Central Business District.*" By this letter, I am kindly requesting you to voluntarily provide information which will facilitate the achievement of the study's objectives.

You are kindly asked to participate in filling the questionnaires or responding to the interviews as truly as possible. Your information, views and opinions will be treated with uttermost confidentiality and used only for the purpose of this study. Additionally, your identity will be anonymous and you may withdraw from participating in the study at your own volition.

**Participant:** Please, sign below if you agree to participate in this study.

Name.....(Optional) Sign.....Date;.....

Thank you.

## Appendix II: SME Questionnaire

### Dear Respondent

My name is Veronica Achieng Onyango; I am a post graduate candidate at Maseno University, pursuing a Masters in Business Administration course. As a requirement of my course, I am conducting a study on, *“Effect of Strategic Planning on Performance of Small, Medium Enterprises in Kisumu Central Business District.”* The information you provide will therefore be used for academic purposes only and will be treated with confidentiality. Please answer the questions which are stated below

### DEMOGRAPHIC DATA

Please tick [] the option that best suits your opinion on the corresponding statements 1. 1. a.

Gender

(i) Male [  ]

(ii)Female [  ]

b. Marital status:

(i) Married [  ]

(ii) Single [  ]

(ii) Divorced [  ]

(iv) Widowed [  ]

(v) Separated [  ]

3. Check your appropriate age group.

(i) 18-25 [  ]

(ii) 26-49 [  ]

(iii) 50-69 [  ]

(iv) 70 or above

4. The Current level of education:

(i) University [  ]

(ii) Secondary [  ]

(iii) Primary [ ]

(iv) None of the above [ ]

7. How long have you been directly in involved in your business?

a. Less than one year [ ]

b. Between 1 to 5 years [ ]

c. Between 5 to 10 years [ ]

d. Above 10 years [ ]

**SECTION A: Strategic environmental analysis in Kisumu**

Please tick [] the option that best suits your opinion on the corresponding statements.

- 1 Strongly disagree
- 2 Disagree
- 3 Neutral
- 4 Agree
- 5 Strongly agreed

| Questions   | SA | A | N | D | SD |
|---|----|---|---|---|----|
| The firm periodically gather and analyze data about the market and other external or internal factors which affect its operation and business |    |   |   |   |    |
| The firm has a stable team to have a sustainable competitive advantage  |    |   |   |   |    |
| Your firm has well laid strategies to gain competitive advantage over your competitors.   |    |   |   |   |    |
| The political instability of a country interferes with business and its day to day operations   |    |   |   |   |    |

**SECTION B: Establishment of organizational direction in Kisumu**

Please tick [] the option that best suits your opinion on the corresponding statements.

- 1 Strongly disagree
- 2 Disagree

- 3 Neutral
- 4 Agree
- 5 Strongly agreed

| Questions  | SA | A | N | D | SD |
|--|----|---|---|---|----|
| The organisation's strategic plan is built on a thorough analysis of the organization's existing structure, staff, and resources (financial, human, technical, and material) |    |   |   |   |    |
| Your firm has a planning department or committee that steer heads policy formulation   |    |   |   |   |    |
| The organisation's strategic plan is flexible and can easily accommodate rapid change  |    |   |   |   |    |
| The firm's vision clearly outlines where your business will be in the next 5years  |    |   |   |   |    |

**SECTION C: Strategy formulation in Kisumu**

Please tick [√] the option that best suits your opinion on the corresponding statements.

- 1 Strongly disagree
- 2 Disagree
- 3 Neutral
- 4 Agree
- 5 Strongly agreed

| Questions  | SA | A | N | D | SD |
|--|----|---|---|---|----|
| The firm's objectives are specific, measurable, appropriate, realistic and time bound                                      |    |   |   |   |    |
| The organisation assess all resources (i.e. physical, financial, and human resources) in order to attain the stated goals. |    |   |   |   |    |
| The organisation's strategy is adequately and  |    |   |   |   |    |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| comprehensively communicated to members of the staff   |  |  |  |  |  |
| Organisation is keen on implementing strategy in a way that yield highest performance        |  |  |  |  |  |
| Organisation strategy is implemented purely based on set objectives and expected performance |  |  |  |  |  |

**SECTION D: Performance**

Please tick [√] the option that best suits your opinion on the corresponding statements.

- 1 Strongly disagree
- 2 Disagree
- 3 Neutral
- 4 Agree
- 5 Strongly agreed

| Questions   | SA | A | N | D | SD |
|---|----|---|---|---|----|
| <b>Strategy formulation</b>   |    |   |   |   |    |
| Your firm identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation |    |   |   |   |    |
| Your firm has a good financial base to achieve the defined goals  |    |   |   |   |    |
| The firm periodically measures its performance and takes corrective measures incase of deviations                               |    |   |   |   |    |

### Appendix III: Budget

| <b>ITEM DESCRIPTION</b>  | <b>AMOUNT PER ITEM<br/>(KSHS)</b> | <b>TOTAL<br/>COST</b> |
|--|-----------------------------------|-----------------------|
| 4 Note Books   | 50 each                           | 200.00                |
| 10 Diaries   | 100 each                          | 1,000.00              |
| 1 Dozen of blue pen  | 150 per dozen                     | 150.00                |
| 3 Rims of foolscaps  | 300 each                          | 900.00                |
| 6 Folders  | 250 each                          | 1,500.00              |
| Flash disk 8gb   | 2500 each                         | 2,500.00              |
| Internet search cost   | 10000                             | 10,000.00             |
| Modem Internet Browsing  | 3000 each                         | 3,000.00              |
| Travel expenses (transport, food and training)                                   | 10,000 per week x 4<br>weeks      | 40,000.00             |
| Report preparation (questionnaires, proposal and report typesetting and binding) |                                   | 30,000.00             |
| Miscellaneous expenses   | 10,000                            | 10,000.00             |
|  |                                   | 99,250.00             |



#### Appendix IV: Time Frame

| <b>ACTIVITY</b>                          | <b>DURATION</b>         |
|--|-------------------------|
| Proposal Development                     | May –August 2017        |
| Proposal Submission and Approval         | August 2017             |
| Presentation and Approval                | August 2017             |
| Preparation for Data Collection          | July – October 2017     |
| Actual Data Collection and Data Analysis | January – February 2018 |
| Thesis Presentation and Approval         | September 2018          |

Appendix V: Map of Kisumu Municipality

