

**EFFECT OF SELECTED STRATEGIC PLANNING PRACTICES ON  
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAKURU  
TOWN, KENYA**

**Wycliffe Mmatta Wesonga**

**Research Thesis Submitted to the Board of Graduates Studies in Partial Fulfillment  
of the Requirement for the Conferment of the Degree of Master of Business  
Administration Option of Strategic Management of the  
University of Kabianga**

**UNIVERSITY OF KABIANGA**

**2019**

## DECLARATION AND APPROVAL

### Declaration

This thesis is my original work and has not been presented for the award of a diploma and conferment of a degree in this or any other university:

Signature: .....

Date: .....

**Wycliffe Mmatta Wesonga**

**MBA/A/031/13**

### Approval

This thesis has been submitted for examination with our approval as university supervisors

Signature: .....

Date: .....

**Dr. Joseph Kirui**

Department of Marketing Management Science, Tourism and Hospitality

University of Kabianga

Signature: .....

Date: .....

**Dr. Lydia Langat**

Department of Marketing Management Science, Tourism and Hospitality

University of Kabianga

## **COPY RIGHT**

All rights reserved: No part of this work may be reproduced, stored in a retrieval system or transmitted in any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the author or University of Kabianga on his behalf.

Wycliffe Mmatta Wesonga © 2019

## **DEDICATION**

This Research work is wholeheartedly dedicated to my beloved wife Veronica and my children; Yolanda Lourdes, Craig and Bradley.

To my dear mother, thanks for raising me to the person I am today. You have been with me through thick and thin, instilling in me the belief that I am capable of doing and achieving anything I put my hands and mind on in every stage of my upbringing. Thanks for your Love, Support and Prayers.

## **ACKNOWLEDGEMENT**

First and most of all is to extend my sincere gratitude to the selfless and dedicated supervisors Dr. Joseph Kirui and Dr. Lydia Langat for their expertise, assistance, guidance, encouragement and patience from the initial to the final level, without you I could not have reached where I am today, may God bless you abundantly.

I also wish to appreciate the efforts the Dean School of Business Dr Cheruiyot and all those who have made my dreams of pursuing Master of Business Administration degree of the University of Kabianga become a reality.

I cannot forget to recognize the cooperation I received from my colleagues from the University of Kabianga, Kericho Town Master of Business Administration Class of 2014 whom we studied and shared many things together, may God bless and reward you in all your endeavors.

## ABSTRACT

Strategic planning enables enterprises to understand their unique position and identify how to make valuable choices so as to attain a competitive edge in the industry in future. Adoption of strategic planning enables SMEs to perform better and enables them achieve high profits, increased customer referrals due to satisfaction, increased sales, well structured survival plans, high innovation levels, high quality products, improved products, enhanced processes, high technological levels, enhanced management practices as well as increased international growth rates all these benefits are not enjoyed by SMEs operating in Nakuru Town since most of them fails during the first few years of operations. The general objective of the study was to determine the effect of adoption of selected strategic planning practices on performance of SMEs in Nakuru Town. The specific objectives that guided the study were to; evaluate the effects of adoption of strategic planning on profitability of Small and Medium Size Enterprises; establish the effect of adoption of strategic planning on customer satisfaction of Small and Medium Size Enterprises and evaluate the effects of strategic planning adoption on survival rate of Small and Medium Size Enterprises. A descriptive and inferential survey research design was applied where data collection was done by use of self administered structured questionnaires. Stratified random sampling method was used to select 291 businesses from a total of 1064 SMEs operating in Nakuru Town were 255 responses were received translating to 87.6% response rate. Information was sought on the extent to which SMEs have adopted strategic plans, profitability, customer satisfaction and business survival rate. The findings are presented using tables, frequencies, percentages, means and standard deviations. The study used both qualitative and quantitative data analysis. Content analysis was used to analyze the qualitative data with the help of Statistical Package for Social Science Version 21 while quantitative data was analyzed so as to generate both descriptive and inferential statistics. The R squared of 0.674 shows that the independent variables accounted for 67.4% of the variance on performance of Small and Medium Scale Enterprises in Nakuru Town while 32.6% are explained by other variables outside the study. There was a strong positive relationship between extent of adoption of strategic plan and profitability of SME since it had a Pearson Correlation of ( $r(255) = 0.815, P < 0.001$ ), Customer satisfaction ( $r(255) = 0.802, P < 0.001$ ), business survival strategies ( $r(255) = 0.812, P < 0.000$ ). The study recommends that SMEs managers and owners should ensure that the key resources such as the manpower, money, machines, materials and proper working methods are availed in their enterprise since inadequate resources are likely to lead to incomplete adoption of strategic plans in the enterprise. The study recommends that SMEs should adopt leadership styles that will encourage staff participation in long term planning decisions. The study also recommends that the entrepreneurs should seek and employ highly trained and competent managers to oversee the operations of their enterprises. Highly trained and qualified managers are able to competently plan in the long term to ensure enhanced enterprise performance in organizations.

## **TABLE OF CONTENTS**

<b>DECLARATION AND APPROVAL .....</b>	<b>ii</b>
<b>COPY RIGHT .....</b>	<b>iii</b>
<b>DEDICATION .....</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>v</b>
<b>ABSTRACT .....</b>	<b>vi</b>
<b>TABLE OF CONTENTS .....</b>	<b>vii</b>
<b>LIST OF TABLES.....</b>	<b>xi</b>
<b>LIST OF FIGURES .....</b>	<b>xii</b>
<b>ABBREVIATIONS AND ACRONYMS.....</b>	<b>xiii</b>
<b>OPERATIONAL DEFINITION OF TERMS .....</b>	<b>xiv</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>1</b>
1.1    Overview .....	1
1.2    Background of the Study .....	1
1.1.1    Small and Medium Enterprises .....	7
1.3    Statement of the Problem .....	8
1.4    General Objective .....	10
1.5    Specific Objectives.....	10
1.6    Research Hypothesis .....	10
1.7    Justification of the Study .....	11
1.8    Significance of the Study.....	12
1.9    Scope of the Study .....	12

1.10	Limitation of the Study.....	13
1.11	Assumptions of the Study.....	13
<b>CHAPTER TWO.....</b>		<b>14</b>
<b>LITERATURE REVIEW.....</b>		<b>14</b>
2.1	Introduction.....	14
2.2	Review of Related Literature.....	14
2.2.1	Extent of Strategic Planning Adoption by SMEs.....	14
2.2.2	Strategic Planning Adoption and Profitability of SMEs .....	16
2.2.3	Strategic Planning Adoption and Customer Satisfaction of SME .....	19
2.2.4	Strategic Planning Adoption and Survival of SMEs .....	21
2.3	Theoretical Framework .....	24
2.3.1	Resource Based Theory .....	24
2.3.2	Ansoff Strategic Success Theory .....	25
2.3.3	Strategic Choice Theory .....	25
2.4	Conceptual Framework .....	27
<b>CHAPTER THREE.....</b>		<b>30</b>
<b>RESEARCH METHODOLOGY.....</b>		<b>30</b>
3.1	Introduction.....	30
3.2	Research Design.....	30
3.3	Location of the Study .....	30
3.4	Target Population.....	31
3.5	Sample Size and Sampling Procedures .....	32
3.6	Data Collection Instruments .....	33



3.6.1	Validity .....	34
3.6.2	Reliability.....	34
3.7	Data Collection Procedures .....	36
3.8	Data Analysis and Presentation .....	36
3.9	Ethical Considerations.....	38
<b>CHAPTER FOUR .....</b>		<b>39</b>
<b>RESEARCH FINDINGS AND DISCUSSION .....</b>		<b>39</b>
4.1	Introduction.....	39
4.2	Background Information .....	39
4.2.1	Response rate .....	39
4.2.2	Position held.....	40
4.2.3	Gender of respondent .....	41
4.2.4	Age of respondents .....	42
4.2.5	Level of Education .....	43
4.2.6	Business sector.....	43
4.2.7	Number of Full time employee .....	45
4.3	Strategic Plan Adoption.....	45
4.3.1	Adoption of strategic plan.....	46
4.3.2	Training on Strategic plan.....	47
4.3.2	Extent of achievement of strategic objective .....	47
4.4	Strategic Planning on Profitability of SMEs .....	49
4.5	Strategic Plan Adoption on Customer Satisfaction.....	54
4.6	Strategic Planning Adoption on Business Survival Strategies .....	60

4.7	Inferential Statistics.....	68
4.7.1	Correlation Analysis.....	68
4.7.2	Regression Analysis .....	70
4.8	Testing Research Hypothesis.....	74
<b>CHAPTER FIVE.....</b>		<b>76</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>		<b>76</b>
5.1	Introduction.....	76
5.2	Summary of the Findings .....	76
5.2.1	Adoption of strategic planning.....	77
5.2.2	Adoption of strategic planning on profitability.....	77
5.2.3	Adoption of strategic planning on customer satisfaction .....	78
5.2.4	Adoption of strategic planning on survival rate.....	79
5.3	Conclusion .....	80
5.2.2	Adoption of strategic planning on profitability.....	80
5.2.3	Adoption of strategic planning on customer satisfaction .....	80
5.2.4	Adoption of strategic planning on survival rate.....	81
5.4	Recommendation .....	81
5.5	Recommendations Further Research.....	82
<b>REFERENCES .....</b>		<b>83</b>
<b>APPENDICES .....</b>		<b>88</b>
Appendix I:	Letter of Introduction .....	88
Appendix II:	Questionnaire .....	89

## LIST OF TABLES

Table 3.1	Target Population .....	31
Table 3.2	Sample Size.....	33
Table 3.3	Cronbach's Alpha Reliability .....	35
Table 4.1	Business Sector of the enterprise .....	44
Table 4.2	Full time Employees.....	45
Table 4.3	Strategic plan on Profitability of SMEs.....	49
Table 4.4	Strategic Plan Adoption on Customer Satisfaction .....	54
Table 4.5	Strategic Planning Adoption on Business Survival Strategies .....	61
Table 4.6	Correlations.....	68
Table 4.7	Model Summary.....	71
Table 4.8	ANOVA <sup>a</sup> .....	72
Table 4.9	Coefficients <sup>a</sup> .....	73
Table 4.10	Summary of Research Hypothesis .....	75

## LIST OF FIGURES

Figure 2.1: Conceptual Framework on the Effect of Selected Strategic Plans Practices on Performance of SMEs .....	27
Figure 4.1 Response Rate .....	40
Figure 4.2 Position Held.....	41
Figure 4.3 Gender of Respondents.....	41
Figure 4.4 Ages of Respondents .....	42
Figure 4.6 Adoption of Strategic Plan.....	46
Figure 4.7 Training on Strategic Plan .....	47
Figure 4.8 Extent of Adoption of Strategic Plan .....	48

## **ABBREVIATIONS AND ACRONYMS**

<b>GDP</b>	Gross Domestic Product
<b>GOK</b>	Government of Kenya
<b>MDG</b>	Millennium Development Goals
<b>SPSS</b>	Statistical Package of Social Sciences Software
<b>SMEs</b>	Small and Medium Enterprises
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>ROI</b>	Return on Investment

## **OPERATIONAL DEFINITION OF TERMS**

**Goals** are hierarchical target that is made explicit to be achieved by the organization at the end of a specific time and with specific and measurable outcomes

**Implementation** is the process of translating strategy into action and involves organization of the firm's resources (Programs, budgets and procedures) and motivation of the staff to achieve the firm's objectives

**Management** is the act of planning, organizing, staffing, directing and controlling an organization (a group of one or more people or entities) or effort, for the purpose of accomplishing desired goals and objectives effectively and efficiently

**Performance** is the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. It is the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

**Strategic Management** is the application of strategic thinking to the job of leading an organization in creation of an organization structure which will deploy resources to successfully carry out its competitive strategy

**Strategic Planning** is a step by step guide, created by a business or organization to map out how it will reach its goals and set a foundation for the entire organization in such a way that the organization knows what will happen and what is expected of them

**Strategy** is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling the vision, goals and stakeholder expectations

**Small and Medium Enterprises** are business enterprises with less than ten (10) employees.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Overview**

The chapter presents the background of the study, statement of the problem, research objectives, and hypothesis of the study, justification, scope, significance and limitations of the study.

#### **1.2 Background of the Study**

Strategic planning can be defined as the process of developing and maintaining consistency between the organization's objectives, resources and its changing environment (Robson, 1998). Strategic planning determines where an organization is going over the next three years or more, how it's going to get there and how it will know if it got there or not (McNamara, 2005). The term strategic planning originated in the early 1950s but gained popularity from the mid 1960 to 1970's. It was then widely believed to be the answer for all private and public organizational management problems. However it was cast aside during the 1980s as the various planning models did not yield higher returns. It was then again adopted later in the 1990s when different scholars appreciated it as a process with particular benefits in particular contexts (Mintzberg, 1994). The area of strategic planning has gained much attention in management literature since early 1960s.

Many researchers have since then argued that strategic planning is a concept that should be reserved for large corporations with large specialized planning departments. Small and Medium Enterprises (SMEs) from this argument are too busy dealing with operational problems and events on a day to day basis and devote no time to strategic planning (Hanlon & Scott, 1995). A clear strategy on the other hand might enhance business performance and is equally crucial to the SMEs as it is to the large corporations. Strategic planning tool has gained sustained prominence in the management of small and medium enterprises in the past two decades. It is practiced by 81% of the enterprises worldwide while 89% of the firms in the USA alone have adopted it as part of their management tools (O'Regan & Ghobadian, 2007).

Comprehensive reviews of the small and medium businesses literature suggest that, *ceteris paribus*, strategic planning is generally more common in better performing enterprises (Hormozi, 2002). Gibson and Cassar (2005) argue that small and medium businesses that plan strategically are more likely to be innovative, achieve higher sales growth and higher returns on assets, higher profit margins and higher employee growth and above all gain competitive advantage.

Research studies have been done on the relationship between strategic planning and performance in the USA and the results have shown that strategic planning in small and medium high growth firms has positive influence on the firm's performance (Baker, 1999). The characteristics of strategic planning to include: goals and objectives set for at least three years into the future, its relationship with the environment, a formal strategic plan consisting of written plans, identifying future resource requirements, encompassing procedures for on-going monitoring and modification as well as environmental scanning.



Strategic planning is not a static product which once set stays as it is. It is rather a constantly evolving process trying to follow the continual changes in the environment implying that change and strategy are inseparable. A study by Gathenya, Bwisa and Kihoro, (2011) analyzed strategic planning in terms of entrepreneurial orientation, scanning orientation, scanning intensity, planning flexibility, planning scope and locus of planning. In many of the developing countries, little is known about the strategic management practices in SMEs as only a few studies have been done.

In regard to classification of the SMEs, different methods of clustering have been adopted and some countries such as India, Pakistan, Philippines and Taiwan cluster enterprises according to the invested capital and assets. Other countries such as Mexico and Portugal cluster the enterprises depending with the sales volumes. In Kenya, classification of small and medium enterprises is primarily by the number of employees engaged by the firms (Mandal, 2007). The firms that engage less than five employees are referred to as Small and Medium Enterprises, while those that employ 5-49 workers and 50-99 workers are classified as small and medium sized enterprises respectively.

According to Zacharakis, (2002) firms with more than one hundred employees are categorized as large scale enterprises. The small and medium sized sector is increasingly recognized as the prime vehicle for economic development in both the developed and the developing nations. SMEs are recognized as a major source of employment, revenue generation, innovation and technological advancement. In most of the countries in the world, the level of economic dependence on small and medium enterprises has increased in recent years.

In the modern economic macro-environment the individual performances of each of the different enterprises under SMEs determine the overall economic development of most countries. SMEs are not just considered to be the driving force of economic development but they are also regarded as key contributors of growth in almost all the economies of the world (Garikai, 2011). These small and medium enterprises also contribute significantly to the employment opportunities, generate significant domestic and export earnings, contribute to the general health and welfare of economies and are key instruments in poverty reduction.

SMEs have grown in importance in the global economy in the last decade. In the USA, SMEs contribute to 99.7% of all employment opportunities while in the European Union the sector contributes 99% of the opportunities available (Peacock, 2004). In Malaysia, SMEs represent 99.2% of all business establishments and account for 65.1% of the workforce in the country (Leong, 2006). Despite the crucial role that SMEs play in many economies, research shows that they have a myriad of challenges. Globally, more than one million SMEs are established every year. Out of these, 40% close within one year and statistics indicate that in a span of five years, 80% of them are out of business, while by the tenth year, 96% usually close down their operations (Geber, 2001).

In the USA, the SBA found that 24% of all new businesses in the country failed within the first two years and 63% failed within the first six years (Wheelen & Hunger, 2009). In a bid to have a niche in their national as well as the international markets through production of world class products, many developing countries such as South Africa, Ethiopia and Kenya have adopted new industrial policies to ensure that they capitalize on their available strengths as well as take advantage of the available opportunities.

One of the key policies that these countries have adopted is the growth of small and medium industries as they have a myriad of advantages that are not existent in large industries. These advantages include: low capital requirements, support by the local governments and flexibility in regard to their customer requirements. As per the research findings by Bwisa (2011) the seeds of future business performance are sown in the early stages of business life and the understanding of the same have a predictive value. One way SMEs have been sowing the seeds of future business performance is adoption of current management tools such as ISO 9001 and strategic planning.

In Kenya there are many SMEs spread across the different products and services that provide employment to both low and middle level income sectors of the economy and this number has been rising every year. In this country, various studies have highlighted the role of strategic planning as critical to the survival of small and medium business enterprises. Recent scientific developments have indicated that attention towards individual actions in strategic processes has increased in the recent past even though lack of strategic planning in SMEs is often reported (Wang, 2005). Kenya has experienced turbulent times in regard to the organizational practices in the last two decades and this has resulted in generally low profits across the economy (Namusonge, 2012) and this picture is fairly well articulated in the survival of small and medium enterprises in the country.

Strategic planning has received high rates of adoption by small and medium sized firms in many countries of the developed world. Comprehensive studies of the small and medium businesses literature show that, *ceteris paribus*, strategic planning is more common in better performing SMEs (Song, Bij, & Song, 2011).

This is because these firms are able to improve on their internal business processes as well as prepare their action plans well in advance which leads to improved efficiency rates and higher levels of innovation thus enabling the firms to outdo their competitors.

Past studies have generally shown that strategic planning is not only important for large organizations but SMEs as well (Al Ghamdi, 2005). Berman, (1997) found that firms that practice strategic planning produce better results than firms that do not. Every enterprise regardless of size needs an effective, comprehensive business plan as the process of developing the strategic plan forces the entrepreneur to think about the harsh “reality” of the business world rather than the common dream world (Harrison, French, & Kelly, 2004). Lerner and Almor (2002) contended that planning lays the groundwork for developing the strategic capabilities needed for high performance in organizations. In his scholarly works, Bwisa (2013) asserts that strategic planning when applied even at county levels is of great importance to any country.

Strategic planning is more common in better performing SMEs which as a result enables them achieve high profits, high employee retention and satisfaction, increased sales, high ROA, high innovation levels, high quality products, improved-patented products, enhanced processes, high technological levels, enhanced management practices as well as increased international growth rates (Gibbons & O’Connor, 2005). Pearce and Robinson (2011) found that from a resource-based view, strategic planning can result in strategic change which may increase strategy-environment fit, hence can become a source of sustained competitive advantage especially when it improves flow of products and services between manufacturers and the end users.

While strategic planning has been widely adopted in large organizations in the private sector and more recently in the public sector it appears not to have found much popularity in the SME sector (Bryson, 2011). Past researches have consistently shown that most SMEs do not engage in strategic planning. In most of the SMEs that claim to plan, plans are frequently *ad hoc* and intuitive rather than formally written, and provide little basis upon which business performance can be measured or analyzed (Kelmar & Noy, 1990). Various research studies have over the years found that SMEs that adopt and engage in strategic planning are less likely to fail in their operations as compared to those ones that do not (Robinson & Pearce, 1984; Sexton & Van Auken, 1985; Gaskill, 1993; Perry, 2001; Beaver, 2003; Gibson & Cassar, 2005).

### **1.1.1 Small and Medium Enterprises**

Although the definition of SME varies from nation to nation, in Kenya the framework (institutional and regulatory) is based on employees' numbers and yearly turnover (SMEs Act of 2012). Micro -enterprises are defined as those entities that employ 10 employees or less with yearly turnover of not more than Ksh. 500,000/- and capital base of not more than Ksh. 5,000,000/- in the case of services or lower than Ksh. 10,000,000/- for entities. Those that engage between 10- 50 employees with yearly turnover of between Ksh. 500,000/- and Ksh. 5,000,000/- and capital base of between Ksh. 5,000,000/- and Ksh. 20,000,000/- for service sector or between Ksh. 5,000,000/- and Ksh. 50,000,000/- for industry are defined as Small enterprises.

Over the years, the SMEs sector in Kenya has been commended for its role in the areas of goods and services provision, competition enhancement, innovation promotion, employment generation and consequently alleviation of poverty.

Kenya's Vision 2030 emphasizes the critical role of SMEs in the transformation of Kenya into an industrialized high income country, providing a high standard of living many to its citizens by the year 2030. The SME sector has been acknowledged and ranked as a key driver of growth and therefore achievement of the key development goal. (KNBS Economic survey, 2017)

The SMEs play a central role in the development of Kenya's Economy. According to report of the Economic Survey of 2016, the SME sector made a significant contribution by creating over 50 percent of new jobs in 2015. In spite of their substantial contribution, past statistical data shows that three fifths of the businesses rarely survive beyond the few initial months of operating (Kenya National Bureau of Statistics report, 2007). Nakuru County is a stable and fast-growing county in Kenya. It comprises of Nakuru East, Nakuru West, Bahati and Njoro constituencies. Business is the backbone and livelihood of the people of Nakuru Town.

### **1.3 Statement of the Problem**

The small and medium sized enterprises play an important role in the Kenyan economy. Small and medium sized enterprises are recognized to have an enormous potential for generating employment and creating wealth in any economy. In order for Kenya to achieve Vision 2030 initiative, the growth of small and medium sized enterprises is very important for moving the country forward. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Garikai, 2011). Lack of strategic planning has been posited as the main causes of failure of many small and medium enterprises.

Many scholars have undertaken studies in the past and observed a positive relationship between adoption of strategic planning and improved performance in organizations. Comprehensive review of various SMEs shows that a key determinant of business success lies in the presence or absence of strategic planning (McMinn & Lucio, 2002). Gibson and Cassar (2005) found that those SMEs that use strategic planning tool effectively usually perform better than those who merely react to circumstances. In addition, the small and medium enterprises literature suggests that majority of SMEs have not adopted strategic planning practices as quickly as the large firms (Beaver, 2003; Pearce & Robinson, 2011).

In spite of the vital role played by strategic planning, there is evidence that strategic planning is rare in most SMEs and that they tend to orientate towards short term operations rather than long term strategic issues, and that decision making in these firms tends to be reactive rather than proactive (Wang, 2017). Strategic planning is rare in small and medium sized enterprises operating in Nakuru Town in that the SMEs lack vision and mission statement which serves as a guide on their day to day operations of the enterprise and those that have, have not aligned their operations with their vision and mission, they do not do environmental scanning, setting of enterprise objectives is rare, generating strategic options for the enterprises is unavailable, evaluating and deciding on the strategic methods to monitor progress of the enterprise does not exist. Thus they are plagued by high failure rates and high levels of poor performance. This study therefore sought to determine the effect of selected strategic planning practices on performance of small and medium sized enterprises in Nakuru Town.

#### **1.4 General Objective**

The general objective of the study was to determine the effect of selected strategic planning practices on performance of SMEs in Nakuru Town.

#### **1.5 Specific Objectives**

The specific objectives that guided the study were;

- i. To evaluate the effects of adoption of strategic planning on profitability of Small and Medium Size Enterprises.
- ii. To establish the effect of adoption of strategic planning on customer satisfaction of Small and Medium Size Enterprises.
- iii. To evaluate the effects of strategic planning adoption on survival rate of Small and Medium Size Enterprises.

#### **1.6 Research Hypothesis**

The researches hypothesis guided the study;

- i.  $H_{01}$  there is no significant effect of adoption of strategic planning on profitability of Small and Medium Size Enterprises
- ii.  $H_{02}$  there is no significant of strategic planning adoption on customer satisfaction of Small and Medium Size Enterprises
- iii.  $H_{03}$  there is significant effect of strategic planning adoption on survival rate of Small and Medium Size Enterprises



## **1.7 Justification of the Study**

The importance of SMEs in development of an economy and alleviation of poverty cannot be underestimated. Stakeholders in the MSME sector need to properly understand the role of strategic planning on SMEs growth, a relationship that has huge potential in encouraging the growth and development of the economy hence the need to development policy framework in relation to SMEs operations which will act as an important feedback to SMEs since it will aid in strategy formulation aimed at meeting the needs of the SMEs rather than using general perceptions of what SMEs need. SMEs' owners and managers, requires awareness program on the successful operation of their business more so since they have little information on strategic planning.

Strategic planning is an essential management tool to achieving enterprises performance through strategic initiatives. Strategic planning helps managers of enterprises to assess their enterprise current competitive position, build a vision for where they must be in future, and craft transformation strategy to turn the future vision into reality. The strategic planning adoption allow improvement of enterprises performance which establishes constraints and guidelines in the form of vision and mission statements, corporate initiatives, and performance expectations since for an enterprise to flourish, everyone needs to work to ensure the enterprise's goals are met.

## **1.8 Significance of the Study**

The findings obtained may be of great importance to the national and county government ministries concerned with industrialization and devolution since they may use the results obtained in coming up with the relevant strategies that will ensure that that the Small and Medium Size Enterprises are encouraged to adopt strategic planning as this has the potential of leading to better firm performances. The results will be beneficial to the Vision 2030 secretariat whose core mandate is to enable Kenya attain a middle level economic status. The results will be very beneficial to the policy makers in the different county governments since of late they have been trying to come up with various strategies of elevating their different economic performances and one way of achieving this is establishment of SMEs. The findings will also benefit the potential investors who would want to set up businesses in the country. It will also be useful to the other stakeholders and practitioners who have strategic links with the SMEs to foster meaningful and profitable strategic alliances.

## **1.9 Scope of the Study**

The scope of the study was the Small and Medium sized Enterprises based in Nakuru Town of Nakuru County. The study determined the effect of selected strategic planning practices adopted on performance of SMEs, the variables of the study were profitability, customer satisfaction and survival plans adopted by SMEs in Nakuru Town. The study was undertaken between the months of January to September 2019.

### **1.10 Limitation of the Study**

Since it was not be possible to study all the variables that indicate performance in SMEs, the study researched on only a few variables that showed SMEs performance and this included; profitability, customer satisfaction, survival plans. Other variables such as ROI, ROE, ROA, turn-around times and productivity levels were also available to measure performance but were not used in this study.

### **1.11 Assumptions of the Study**

It was assumed that the respondents were in a position to respond to the questionnaire by giving accurate and correct information. It was also assumed that the responses from the sample population was a true picture and generalized to be the true picture of all the SMEs operating in Nakuru Town and those operating in Kenya as a whole.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter gave a systematic review of the literature starting with the review of related literatures and then the different theories applicable to the study. The literature review assessed the already existing body of knowledge. The chapter also gave the conceptual framework which guided the study and finally identify the gap which the study sought to fill.

#### **2.2 Review of Related Literature**

This section covers past studies that had been done in regard to the different variables under investigation. The past studies provide a summary of key findings as well as research gaps that forms the backbone of this study.

##### **2.2.1 Extent of Strategic Planning Adoption by SMEs**

Various studies have highlighted the adoption of strategic planning as critical in the survival of SMEs in different countries. Recent scientific developments show that attention towards individual actions in regard to strategic planning has increased in these enterprises even though lack of strategic planning in the operations of SMEs is regularly reported (Wang, 2007). According to this study, there exists informal strategic planning in the SMEs with individuals and small groups in regard to their long term objectives but broad and long term planning encompassing the entire firms lacks in many organizations.

While strategic planning in large organizations has been researched extensively, resulting in many prescriptions, models and concepts, the use and application of the strategic planning practices in SMEs is still the subject of an on-going debate (Jennings & Beaver, 2000). Pushpakumari and Wijewickrama (2008) argue that SMEs often do not have the means to ensure continuous successful adoption and implementation of strategic planning as they maintain lower levels of key resources, have limited access to human, financial and customer base as well as a less developed management capacity and administrative systems.

According to Bryson (2011), who carried out studies on strategic planning and found that strategic planning is widely adopted by large organizations in the private sector and more recently in the public sector. However, from his research findings, strategic planning practices do not appear to have found much popularity in the SMEs. Several scholars have over the years carried out studies in regard to adoption of strategic planning and their research findings consistently showed that most SMEs do not engage in strategic planning (Robinson & Pearce, 1984; Sexton & Van Auken, 1985; Beaver, 2003).

Amongst those SMEs that employ strategic planning tool, Perry (2001) argues that they are less likely to fail in their operations. Bowen, Morara and Mureithi (2009) in their scholarly studies observed that like many other developing countries, there are few studies carried out about adoption of strategic planning in the small and medium sector in Kenya. These findings support suggestions that not as much is known about strategic planning in the developing countries and in particular its uptake by the SMEs (Aldehayyat & Twaissi, 2011).

Okpara and Wynn (2007) carried out an exploratory study to examine the reasons for business failure in Nigeria and the study revealed that SMEs face major obstacles such as insufficient financial resources, lack of training, inadequate book-keeping and failure to adopt strategic management practices. The argument going by the research findings is that SMEs use fewer planning tools, strategic analysis methods, evaluation practices and control systems. From the research findings of Torres (2004) and Wang, (2007), managers in most SMEs mostly act on vague visions and intuition for decision making as opposed to use of strategic plans.

### **2.2.2 Strategic Planning Adoption and Profitability of SMEs**

According to Qi, (2010) financial performance which entails profitability is used in vast majority of existing studies. However, the use of financial performance measures to evaluate organizational effectiveness has been criticized for being too narrowly focused on short-term performance without more long-term considerations. According to Jamil & Mohamed (2011), it is necessary to identify the characteristics or indicators of performance measurement system as it enables an organization to effectively and efficiently measure and manage its performance. Performance in this regard relates to profitability, market share, number of employees and reinvestment in the firm. Previous researchers (Wu, Sinkovics, Sinkovics & Roath, 2009; Nguyen, 2001) have used various measures for firm financial performance including profitability, liquidity, market share, capital structure. Profitability is in-turn measured in terms of return on sales, equity (owner's capital), assets and liquidity.

Profitability comprise a set of multi-dimensional measures both non-financial and financial measures namely, learning and growth, internal business processes, competitive advantage, and financial profitability. Dolence (2004) in a study to establish the relationship between planning and performance in Asian SMEs revealed that there is a positive and significant relationship between strategic planning and profitability in manufacturing SMEs. Kraus *et al.*, (2006) in their study among 290 small enterprises in Austrian firms analyzed the performance implications of essential elements of strategic planning (time span, formalization, frequency of control and use of planning instruments). The study found that strategic planning formalization has positive and highly significant impact on the probability of belonging to group of growth firms, where growth was measured in terms of number of employees. They recommended additional research on other growth indicators such as sales growth and profitability.

Competitiveness is embodied in the characteristics of the firm namely; (a) the current efficiency and effectiveness of the use of resources; (b) the willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest); (c) the ability to innovate to improve technology and organisation and thus improve efficiency and effectiveness. The authors state that entrepreneurship the introduction of new productive combinations and innovation is the driving force that continually creates new competitive advantages and opportunities for profit and growth and that it is up to the SMEs to implement competitive business operating practices and business strategies (Metcalf, Ramlogan and Uyarra, 2003).

Effective alignment between the external environment and strategy affect positively on profitability and success of an organisation. Moreover, the external environment faced by the firm and its business units affects the strategy of the firm, the value of the strategy, and thus, the firm's performance. One of the strategic planning processes entail scanning the environment for opportunities and possible threats. The influence of strategic planning practices and actions is reflective of the financial profitability of a firm (Pearce and Robinson 2011).

A study by Rue & Ibrahim (1998) found that strategic planning was associated with growth in sales and no significant relationship with respect to profit growth. On the other hand, a study by Aldehayyat and Twaissi (2011) among Jordanian small industrial firms found a positive relationship between strategic planning and firm financial performance. These findings were consistent with those of previous studies (Gibson & Cassar, 2005; Carland & Carland, 2003), which concluded that small businesses that strategically plan are more likely to achieve higher profit margins.

The findings of Grace (2015) in his study of ICT SMEs in Nairobi County; indicate that strategic planning processes and actions have influence on firm profitability as revealed by growth in sales, profit, and assets over the past three years. The study further noted that SMEs, which review and analyse their processes and systems in an effort to identify non-value added activities, are more likely to learn from their weaknesses, improve on their processes and hence more likely have efficient processes that meet customer needs more efficiently. This could in turn lead to customer satisfaction and increase in sales and profitability.



The influence of strategic planning processes and actions on the financial profitability of a firm was measured by the Increase in Sales revenue, Increase in profit margins, Increase in asset base, Liquidity position, Adequacy of capital and finances.

### **2.2.3 Strategic Planning Adoption and Customer Satisfaction of SME**

The relationship between strategic planning and customer satisfaction of SMEs has been researched and documented extensively (Meers & Robertson, 2007). Customer satisfaction is important for organizations as a means of continual improvement and also as a means of determining whether or not an organization is achieving its objectives (Mukulu, 2012). This thus means that an organization that does not carry out customer satisfaction will be operating in a dark environment and can thus not be in a position to accurately project where it will be in a couple of years to come.

The contribution of strategic planning adoption by SMEs is very important and the breaking down of strategic intentions into actionable components and allocating responsibility for each of the component is considered an important part of successful strategy adoption (Beaver, 2007). In their scholarly studies, Joyce and Woods (2003) concluded that organizations who have adopted strategic planning make faster decisions and successfully implement change and innovation to realize that their customers are satisfied. Several other studies have suggested that business failure is largely due to an enterprise's failure to meet the needs of their customers. As Norman and Thomas (2006) noted, "Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive advantage in the marketplace".

Other empirical studies such as Gibson & Cassar (2002), have over the years found a link between strategic planning and customer satisfaction. They noted that the high failure rate among SMEs particularly among start-ups can be attributed to lack of strategic planning adoption. Some other studies carried out on the relationship between strategic planning and customer satisfaction in SMEs produced evidence that the choice of business strategy, differentiation and focus have favourable impact on financial performance (Hashim, 2000; Rudd, 2008).

According to Wijawardena, (2004) strategic planning adoption if supported with quality monitoring processes will have favourable impact on business performance. Several other scholars have carried out research on the relationship between adoption of strategic planning and customer satisfaction and came to the conclusion that planning is positively related to customer satisfaction (Andersen, 2000). This can then be inferred to mean that firms that adopt strategic planning perform better than those ones that do not since they have satisfied customers who refer others to buy from the enterprise.

A study by Pearce and Robinson, (2011) found that strategic planning adoption can result in a strategic change that may increase customer base and hence become a source of sustainable competitive advantage through satisfied customers. Strategic planning therefore consists of planning processes that are undertaken in firms to develop strategies that might contribute to enhanced customer satisfaction (Tapinos, 2005).

A study by Volberda, Charlotte and Hitt (2010) found a positive relationship between strategic planning adoption and financial success in their investigation of SMEs as it helps the firms to anticipate future challenges as well as opportunities through constantly evaluating satisfaction of their customers.

Similarly, Baker and Leidecker (2001) found that SME business planners were shown to be more successful when measured by ROA as compared to those who have not adopted strategic planning. Besides, these firms were engaging more in anticipating changes in the customer need in order to take advantage of the same. A study by Oslon and Bokor (2003) of 442 SMEs in the USA supported the case for formal strategic planning adoption enhancing customer satisfaction although this was found to be context dependent. According to these studies, the process of planning itself seems to have a positive effect in that it leads to a better understanding of the business environment and to a broader range of strategic alternatives.

Although majority of the studies have identified a positive relationship between strategic planning and customer satisfaction, there are those research studies that have identified no relationship between these two variables. Gibson (2001) in a study of 2956 Australian SMEs and French (2004) in their investigation of 127 Australian service SMEs found no relationship between strategic planning and customer satisfaction. However even those studies that could not show a positive relationship between strategic planning and customer satisfaction have put a lot of emphasis on the positive impact of strategic planning (French, 2004).

#### **2.2.4 Strategic Planning Adoption and Survival of SMEs**

Strategic planning has been touted as one of the most effective tools that can help strengthen organizational performance through effective decision making and systematic strategic formulation and implementation. The planning-performance research has been reviewed extensively by past scholars.

Comprehensive studies of the small and medium sized enterprises suggest that strategic planning is generally more common in better performing enterprises. Several scholars (Carland & Carland, 2013; Gibson & Cassar, 2015) argue that once small and medium businesses begin to practice strategic planning, they are likely to be more innovative, achieve higher sales growth, higher ROA, higher profit margins and higher employee growth as well as gain some competitive advantage thus survive competition. From the argument of Gibson and Cassar (2015) strategic planning in SMEs is mostly adaptive in nature, short term oriented and concerned with the manipulation of scarce resources.

Strategic planning adherents have for a long time found out that formal strategic planning provides benefits that ultimately produce economic value as it generates information, ensures a thorough consideration of all feasible options, it forces the firm to evaluate its environment, it stimulates new ideas, it increases motivation and commitment, it enhances internal communication and interaction, and it has a symbolic value to the stakeholders (Thompson & Strickland, 2012). Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the market place (Norman & Thomas, 2006). Aosa (2012) attributes the lack of proper management of resources to the frequent failure to implement well planned and documented strategic plans in most African countries. The benefit of the discipline that develops from the process of strategic planning leads to effective decision making, better selection of tactical options and leads to higher probability of achieving the owners' or stakeholders' goals and objectives.

In their longitudinal analysis, Baker and Leidecker (2011) found that the survival rates of SMEs that apply formal strategic planning are higher than those that do not. Boyd (2011) found that the probability of survival is substantially smaller for non-planning enterprises. Birley and Niktari (2015) found an association between the failure of SMEs and lack of strategic planning. Castrogiovanni (2016) linked the lack of strategic planning with higher mortality rates of SMEs. Miller and Cardinal (2014) found that strategic planning produces better results compared to lack of it. Michalim (2017) stated that firms can achieve sustainable competitive advantage from resources such as strategic planning.

Berry (2008) argues that strategic planning regardless of why public and private organizations engage in it helps the organizations clarify their future direction; think strategically and develop effective strategies; establish priorities; deal effectively with rapidly changing circumstances, build teamwork and expertise as well as solve major organizational problems. By neglecting strategic planning SMEs may not achieve their full performance and growth potentials and their survival could be at risk.

A review of these past studies have been carried out by scholars and found out that the number of scholarly works that have found a positive relationship between strategic planning and business survival outnumber the ones that have found either zero or negative relationship. In their broader review of 31 studies, Shrader (2013) found that the results that produced positive relationships outnumbered the ones that produced neutral and negative relationships.

## **2.3 Theoretical Framework**

The study in an attempt to understand strategic planning and its uptake by the small and medium firms discussed several theories such as: Resource based theory, Ansoff strategic success theory and Strategic choice theory. The section also discusses the applications of the theories with specific focus to the different variables outlined in the working hypothesis.

### **2.3.1 Resource Based Theory**

Resource based view was propounded by (Wernerfelt, 1984) to advance the idea that strategy of a firm is a function of the complement of the resources held. It argues that a company will be positioned to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy. Therefore strategic planning practices will depend on firm's resources. The theory describes a firm in terms of the resources that firm integrates. Frequently, the term resource is limited to those attributes that enhance efficiency and effectiveness of the firm (Wernerfelt, 1984). The implication of the theory to the study is that adoption of strategic planning practices by different SMEs will depend on the resources the SMEs has which more often than not is affected by SMEs size, legal formation and industry. Consequently, SME profitability depended on the strategic management practices adopted.

### **2.3.2 Ansoff Strategic Success Theory**

Ansoff strategic success formula of strategic management was proposed by Ansoff (1984) and advanced by Ansoff and McDonnell (1990). Ansoff strategic success formula advocates that great firm performance is assured when the responsiveness of an organization's strategy matches the turbulence in the environment and also the organization's capabilities match the aggressiveness of its strategy.

The theory states that organization's performance potential is optimum when the following three conditions are met; aggressiveness of the organization's strategic behaviour matches the turbulence of its environment; responsiveness of the organization's capability matches the aggressiveness of its strategy; and the components of the organization's capability must be supportive of each other. Ansoff tool of strategic diagnosis is a systematic approach used to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the organization's success in its future environment. This diagnostic procedure is derived from the strategic success hypothesis. The purpose is for managers to have tools to effectively encounter the relentless changes and turbulence of their environment (Ansoff and McDonnell, 1990). The implication of this theory to the study was that strategic planning adoption affect business survival when all the conditions on adoption of the strategies are met.

### **2.3.3 Strategic Choice Theory**

The strategic choice theory focuses on the ability of an organization's management to adopt strategic decisions that will enable it to position itself relative to its environment or seek to change its environment in order to accomplish its goals given its internal capabilities, competencies and resources (Shortell & Kaluzny, 2006).

A common strategic decision that many SMEs have been pursuing is strategic planning as a survival tool in a bid to plan for their firms in the long term. Strategic choice theory provided an alternative that emphasized the role of individuals and groups within organizations to adopt and diffuse new strategic choices that dynamically influence the profitability of the organizations. These strategic planning are choices which form part of an organizational learning process that enables the firm adapt to the external and internal environments of the firms. In organizations, strategic choice theory describes the role that strategic leaders play in influencing the management through making choices that can lead to adoption of competitive attributes in a dynamic business environment (Child, 2007).

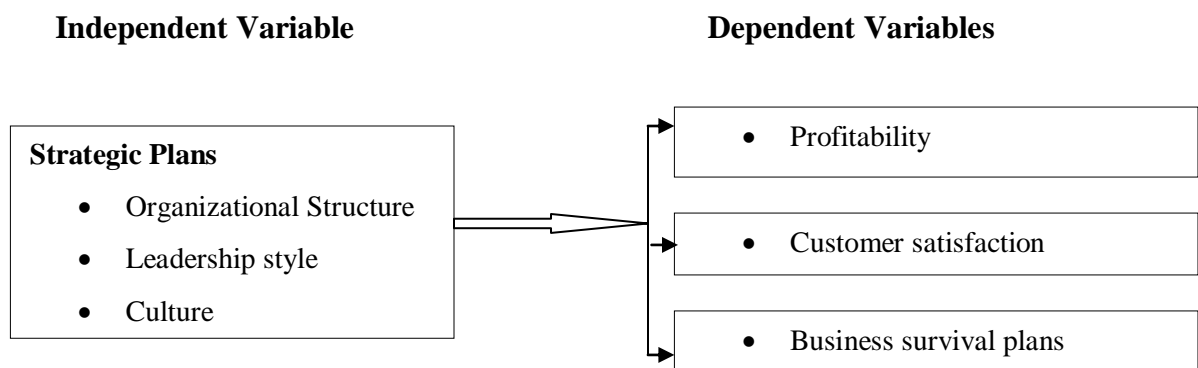
Strategic choice theory focuses on the actions that an organization adopts so as to achieve resource transactions with its environment given its internal capabilities (Astley & Van de Ven 2013). Defining these actions requires that an organization understands its external environment in terms relevant to the organization and to have the cognitive ability to have its external reality translated into internal reality. With an assessment of external threats and opportunities coupled with the knowledge of internal strengths and weaknesses, specific strategies can be formulated and adopted so as to achieve objectives that are supportive of the organization's missions in accordance with its values (Swayne, Duncan & Ginter, 2009). In regard to adoption of strategic planning by small and medium enterprises, strategic choice theory will attempt to describe the role that business owners and senior managers play in influencing the overall leadership team in making choices that can lead to adoption of competitive attributes in a bid to survive in the highly competitive and dynamic business environment.



This is because strategic choice theory focuses on the ability of an organization's management to adopt strategic decisions that will enable the firm to position itself relative to its external environment as well as meeting the needs of their customers (Miles & Huberman, 2014).

## 2.4 Conceptual Framework

A conceptual framework is a visual or written product, one that explains either graphically or in narrative form the main things that a researcher intends to study, key factors, concepts or variables and the presumed relationships amongst them (Miles & Huberman, 2014). According to Guba and Lincoln (2014), conceptual framework is a network of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena. The concepts that constitute a conceptual framework support one another, articulate their respective phenomena and establish a framework specific philosophy.



**Figure 2.1: Conceptual Framework on the Effect of Selected Strategic Plans**

**Practices on Performance of SMEs**

Source: Researcher (2019)

The strategic plans which SMEs adopts entails having a well elaborate organizations structure, the type of leadership style which the enterprise adopts and the culture which has been inculcated into the enterprise. All these are dependent on the profitability of the enterprise, how customers are satisfied and the survival plans which the enterprise have put in place so as to ensure the business performs well and continue to operate.

## **2.5 Research Gaps**

There are other studies that have been carried out in the past and given different results in regard to the adoption of strategic planning in firms. (Gibson, 2001) in their investigation of 2956 Australian SMEs and (French, 2004) in their investigation of 127 Australian service SMEs found no relationship between strategic planning and performance. In his scholarly work, (Shrader, 1993) found that there is no systematic relationship between long range planning and organizational performance. Thompson and Strickland (1992) suggest that strategic planning has no value in and of itself, but takes on value only as committed people infuse it with energy. There is thus a gap as the existing body of knowledge on the influence of strategic planning in SMEs and more research studies need to be carried out to determine the actual influence of strategic planning on the performance of small and medium sized firms especially in the developing countries.

According to Pushpakumari and Wijewickrama (2008) who carried out studies in regard to strategic planning in SMEs and argued that SMEs do not have the means to ensure continuous successful implementation of strategic planning as they maintain lower levels of resources, have limited access to human, financial and customer base as well as less developed management capacity and administrative systems.

A study by Daniel and Jackline (2016) on the effects of Strategic Planning on Performance of Medium Sized Enterprises in Nakuru Town used the following study objectives; determine the relationship between strategic environmental analysis and firm performance; determine the relationship between establishment of organizational direction and firm performance; determine the relationship between strategy formulation and firm performance and to establish the combined effect of environmental analysis, organizational direction and strategy formulation on the performance of medium sized enterprises. The study did not use the variables of the current study which are; profitability, customer satisfaction and business survival strategies hence the need to undertake this study so as to bring out the motives of adopting strategic plan by SMEs.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents a logical discussion on research strategy that was adopted in establishing the effect of strategic planning on the performance of SMEs in Nakuru Town. It presents the research design and methodology under various sub topics.

#### **3.2 Research Design**

Hakim (2000) describes research design as a broad plan in data collection necessary for the fulfillment of research objectives. It is the overall strategy chosen to integrate the diverse components of the research study in a way that it was logical and coherent. It's the blueprint for the collecting, measuring, and analysing data.

In this study, descriptive survey research design was used. A descriptive study is concerned with determination of the frequency of occurrence of a phenomena or the association between variables (Cooper and Hindler, 2003). Descriptive research design was used since it allowed the researcher to gather information, summarize, present and interpret it for purpose of clarification

#### **3.3 Location of the Study**

The study was undertaken in Nakuru Town where the respondents were all SMEs who were operating within the town centre. Nakuru Town is a stable and fast-growing county in Kenya. It comprises of Nakuru East, Nakuru West, Bahati and Njoro constituencies. Business is the backbone and livelihood of the people of Nakuru Town.

### 3.4 Target Population

The definition of population according to Mugenda and Mugenda (2003) is that it is an entire group of individuals, events or objects having some common observable characteristics.

The target population under the survey was all the registered SMEs within the main municipality of Nakuru Town. There were 1264 registered SMEs in Nakuru town according to the records from the Nakuru County Revenue Office. For purposes of this study, only businesses that had operated for not less than one month were considered as since this is the minimum time period within which it was possible to reasonably test the influence of strategic planning. The target population is depicted in table 3.1

**Table 3.1 Target Population**

<b>Business sector</b>	<b>Total population</b>	<b>Percentage</b>
Food & beverage	184	17.4
Animal feeds	137	12.9
Rubber & plastics	69	6.5
Metal & allied	156	14.7
Chemical & Allied	47	4.4
ICT and Mobile Phone Accessories	44	4.1
Building & construction	62	5.8
Electrical & Electronics	56	5.2
Leather & footwear	26	2.4
Motor vehicle & Accessories	169	15.9
Paper & board	35	3.3
Textiles & Apparels	79	7.4
<b>Total</b>	<b>1064</b>	<b>100</b>

Source: Revenue Office – Nakuru Town (2019)

### 3.5 Sample Size and Sampling Procedures

Kothari (2004) defines a sample as a list of population from which a sample is drawn. It is the source material or device from which list of all elements within a population that can be sampled is drawn and may include individuals, households or institutions. It's a published list with a set of directions for identifying a population (Zikmund et al., 2013). A sample facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random variable (Bailey, 2008). For this study, the sample was the owners, managers and senior employees of SMEs in Nakuru town. Sampling is a procedure of using a small number of items or part of the whole population to make conclusions regarding the population. It enabled the researcher to estimate some unknown characteristics of the population and make generalization. Owners of SMEs were purposely selected and managers or senior employees working in the SMEs who were randomly selected.

The study used Israel (1992) scientific formula to determine the sample size as follows;

$$n = \frac{N}{1 + N(e)^2}$$

Where n = sample size, N = target population (1064) and e= confidence level (0.05%)

$$\begin{aligned} n &= \frac{1064}{1 + 1064(0.05)^2} \\ &= \mathbf{290.7} \end{aligned}$$

This gave a sample of 291 respondents and was distributed as per Table 3.2.

**Table 3.2 Sample Size**

<b>Business sector</b>	<b>Sample Size</b>	<b>Percentage</b>
Food & beverage	51	17.4
Animal feeds	36	12.9
Rubber & plastics	19	6.5
Metal & allied	43	14.7
Chemical & Allied	13	4.4
ICT and Mobile Phone Accessories	12	4.1
Building & construction	17	5.8
Electrical & Electronics	15	5.2
Leather & footwear	7	2.4
Motor vehicle & Accessories	46	15.9
Paper & board	10	3.3
Textiles & Apparels	22	7.4
<b>Total</b>	<b>291</b>	<b>100</b>

Source: Research Data (2019)

### **3.6 Data Collection Instruments**

Saunders and Lewis (2009) defines data collection as a means by which information is obtained from the selected subjects of an investigation. Mugenda and Mugenda (2003) observe that the choice of a tool and instrument depends mainly on the attributes of the subject, research topic, data and expected results. The data collection instrument that was used in this study was a self-administered structured questionnaire.

According to Kinyanjui (2014), self-administered structured questionnaire is used to collect both quantitative and qualitative strands. As indicated by Kombo and Tromp (2006), the use of this instrument assumed that the respondents understood the significance of the research and could understand the items in the instrument. The questionnaire took the format of five point Likert scale of 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree as recommended by (Bryman, 2015).

### **3.6.1 Validity**

The validity of the content was guaranteed by making sure that every question in the questionnaire is legitimate and well-structured for easy understanding by the respondent. This was actualized by having the questionnaire validated by the supervisor and other professionals before it is being distributed for data collection. Prior to visiting respondents for purposes of collecting data, the researcher sought for an authorization letter from authorities to permit him to proceed in obtaining that data and ensure trust is maintained with respondents.

### **3.6.2 Reliability**

Reliability test was done to determine the goodness of the data that was used in the research study. This in turn was used to test the reliability and validity of the research instrument used for the study. Reliability refers to the extent to which a measuring instrument contains variable errors. Variable errors are the errors that appear inconsistently from observation to observation during any one measurement attempt or those parameters that tend to vary each time a given unit is measured by the same instrument.



The reliability of various constructs in the questionnaire was examined to ensure the items collectively measured their intended objectives in a consistent manner as recommended by Saunders, Lewis and Thornbill (2009).

Thirty questionnaires were piloted by issuing to SMEs in Njoro town. The responses were used to determine the reliability of the research instrument in that the raw data was entered as it appeared in the questionnaire and the Cronbach's Alpha calculated. After the pilot study was carried out, data was analyzed by use of the SPSS tool and the areas that had weaknesses were carefully identified. The research instrument was then revised appropriately to enable efficient capturing of all the required data and incorporate the extra feedback that was realized from the respondents. This practice helped in reducing the probability of realizing variable errors in the main study and the research objectives were thus measured in a consistent manner (Cooper & Schindler, 2011). Cronbach's Alpha scores are as presented in table 3.3.

**Table 3.3 Cronbach's Alpha Reliability**

<b>Item</b>	<b>No.</b>	<b>Cronbach's Alpha</b>
Extent of Adoption	7	0.869
Profitability	7	0.729
Customer Satisfaction	10	0.829
Survival Strategies	6	0.752
Overall Reliability	45	0.896

Source: Research Data (2019)

Cronbach's alpha values for extent of adoption (0.869), profitability (0.729), customer satisfaction (0.829), and survival strategies (0.752) and the overall reliability was (0.896). All the items tested for reliability posted a score above the recommended 0.7, an indication that there was internal consistency in the questions (Kurpius and Stafford 2006).

### **3.7 Data Collection Procedures**

Teddlie and Tashakkori (2009) indicate that the type of data to be collected should be guided by the objectives of the study. As indicated by Kinyanjui (2014) and Kombo and Tromp (2006), both primary and secondary sources of data are permitted in research. Prior to data collection, the researcher visited the respondents to get their consent and inform them of the purpose of the study. The researcher sought for approval letter from the Board of Graduate Studies which was used as an introductory letter for the application of research permit from NACOSTI after which data for the study was collected by distributing the structured questionnaires to sampled respondents who were given time to respond to the question after which the questionnaires are collected.

### **3.8 Data Analysis and Presentation**

Before the data analysis is performed, the raw data that were collected from the field was cleaned, edited and then coded. This exercise transformed the data into information that was later used to test the research hypotheses. Corbin et al. (2014) and Zikmund (2013) defined data analysis as the computation of certain measures along with searching for patterns of relationships that exist among data groups.

According to Mbwesa (2006) and Sije (2017) descriptive analysis involved finding numerical summaries to provide a deeper insight into the characteristics and description of the variables under study. Correlation analysis involved using the collected data to determine whether a relationship exists between two or more quantifiable variables where the magnitude and direction of correlation is expressed by correlation coefficient (Cohen, Cohen, West, & Aiken, 2013). According to Creswell and Creswell (2017), linear regression analysis involves measuring the linear association between a dependent and independent variable(s).

According to Gay (1992), data analysis encompasses the processes of organization, accounting and explanation of the collected data. This way, sense or logic can be made out of the data by noting trends, patterns and associations. Once the questionnaires were completed, they were reviewed and edited for accuracy, consistency and completeness.

The data was then be analyzed using descriptive statistics whereby quantitative analysis was applied on closed questions while qualitative methods was used on open ended questions. The data was analyzed descriptively using Statistical Package for Social Statistics (SPSS) to illustrate the influence of strategic planning adoption on the performance of SMEs in Nakuru town.

The findings were presented by use of frequency distributions, mean and standard deviation tables. To measure each independent variable, the respondents were asked to rate the extent to which they agreed with a carefully selected set of statements in a five-point Likert scale.

Multiple regression and correlation analysis was done to determine the coefficients of independent variables and establish the nature of association between the dependent and independent variables and their strength. Correlation quantifies the strength of the association between the variables while regression expresses the relationship or association in equation form. Therefore, multiple regression model was used for the purpose of interpreting the outcomes of the effect of predictor variables on the dependent variable.

The regression model was in the form:

$$X = \alpha + \beta_1 Y_1 + \beta_2 Y_2 + \beta_3 Y_3 + \varepsilon$$

Where: X = Strategic Planning Adoption,  $\alpha$  = Constant/the intercept point of the regression line and the y-axis,  $\beta$  = the slope/gradient of the regression line,  $Y_1$  = Profitability of SMEs,  $Y_2$  = Customer Satisfaction,  $Y_3$  = Business Survival Strategies and  $\varepsilon$  = Error term

### **3.9 Ethical Considerations**

Permission to carry out the study was sought from the University of Kabianga Board of Graduates Studies and NACOSTI. Informed consent was sought from all the respondents and were made aware of voluntary participation and confidentiality of information collected will only to be used for the purpose of the study. Documented references was cited and acknowledged in the study body and a list of the bibliography in respect of the same given in the reference section. Thus, philosophy of intellectual honesty was highly respected.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

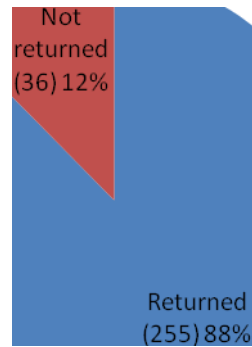
This Chapter presents the results and discussions of the study findings as set out in the research methodology. The chapter starts with an analysis of; the response rate, respondents' demographics and an analysis of the different attributes of the SMEs. Data is presented and analyzed according to the objectives of the study

#### 4.2 Background Information

The background information of the respondents are presented here

##### 4.2.1 Response rate

Researcher visited the sampled 291 SMEs operation in Nakuru town and issued questionnaire to the business owners or the managers or the senior employee to fill were 255 responses were received translating to 87.6% response rate. Arora, (1996) in his scholarly works argued that a research study that produces 75% response rate has done extremely well while Saunders *et al.* (2009) rates the response rate of between 50% to 75% for hand delivered questionnaires as a good response and above 76% was very good. A statistically significant rate of response according to Mugenda and Mugenda, (2003) should not be less than 50%. Figure 4.1 shows the response rate.

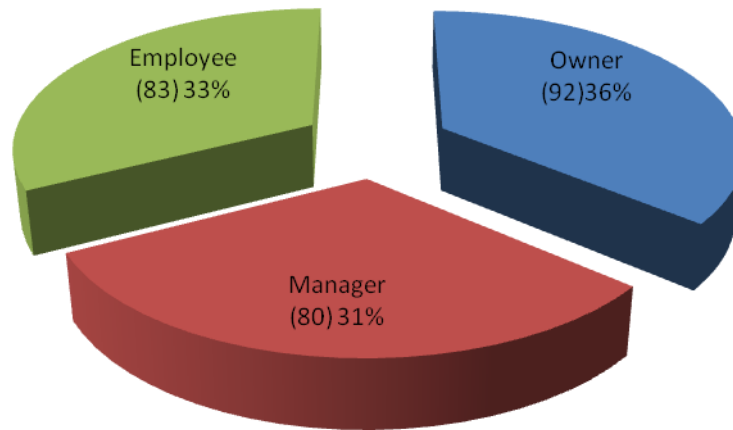


**Figure 4.1 Response Rate**

Source: Research Data (2019)

#### **4.2.2 Position held**

In regard to the position held in the sampled firms, majority of the respondents were SMEs owners who were 92 (36%) of the respondents while the senior employees were 83 (33%) while managers were 80 (31%) of the total respondents as shown in figure 4.2. The managers that the researcher targeted for the study were the senior managers in the SME who understood the current and future operations of their enterprises well

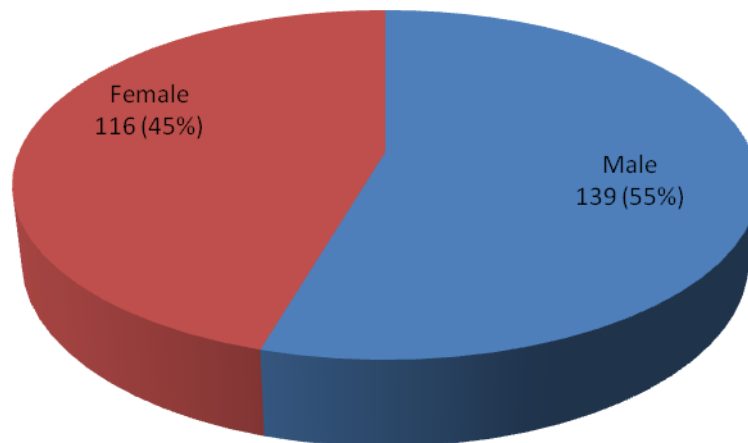


**Figure 4.2 Position Held**

Source: Research Data (2019)

#### 4.2.3 Gender of respondent

Figure 4.3 shows the gender of the respondents



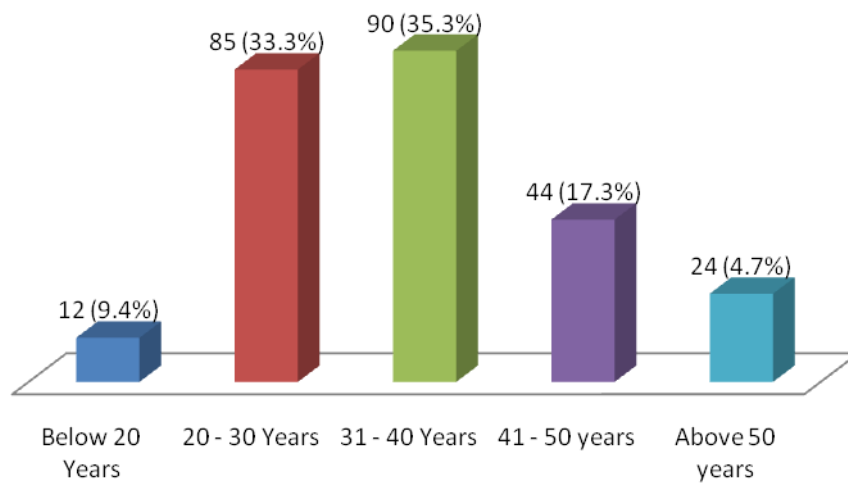
**Figure 4.3 Gender of Respondents**

Source: Research Data (2019)

Figure 4.3 show that the larger percentage of the respondents who participated in the study was males who were 139 (55%) while females were 116 (45%). This shows that both genders are engaged in running or operation SME in Nakuru Town.

#### 4.2.4 Age of respondents

The different ages of the respondents is as per figure 4.4



**Figure 4.4** Ages of Respondents

Source: Research Data (2019)

Figure 4.4 shows that the majority of the respondents were 90 (35.3%) who were between ages between 31 to 40 years, respondents who were between 21 to 30 years were 85 (33.3%), respondents who were above 50 years were 24 (4.7%) and those who were below 20 years were 12 (9.4%). This shows that SMEs are operated by young and energetic entrepreneurs.



#### 4.2.5 Level of Education

Respondents were asked to indicate their highest level of education and their responses are as per figure 4.5.

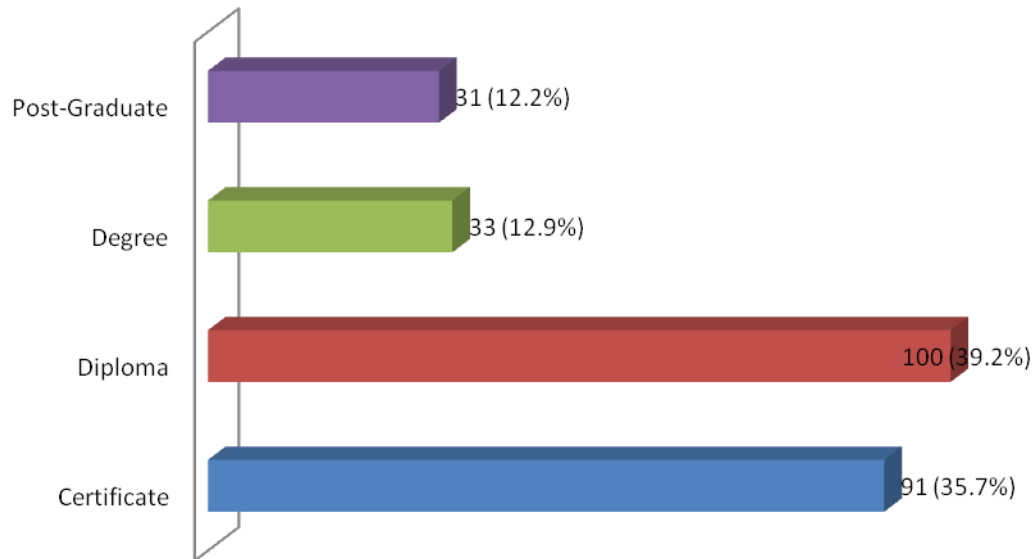


Figure 4.5 Level of Education

Source: Research Data (2019)

Figure 4.5 reveals that majority of the respondents who were 100 (39.2%) were diploma holders, respondents who were holders of certificate were 91 (35.7%), degree holders were 33 (12.9%) while respondents who were holders of postgraduate certificate were 31 (12.2%). This reveals that all the SMEs operating in Nakuru Town are run by entrepreneurs who had basic required to operate the enterprises hence were qualified to respond to the study.

#### 4.2.6 Business sector

Respondents were stratified according to the sector of economy they were in and the responses are as per table 4.1

**Table 4.1 Business Sector of the enterprise**

<b>Business Sector</b>	<b>Frequency</b>	<b>Percent</b>
Food and Beverage	86	33.7
Computer and mobile phone accessories	67	26.3
Rubber and plastics	10	3.9
Metal and allied	27	10.6
Motor vehicle and Accessories	34	13.3
Pharmaceuticals and Medical equipments	3	1.2
Building and construction	6	2.4
Electrical and Electronics	15	5.9
Leather and Footwear	7	2.7
<b>Total</b>	<b>255</b>	<b>100.0</b>

Source: Research Data (2019)

Table 4.1 shows that the majority of the respondents who were 89 (33.7%) were engaged in food and beverages, respondents who were engaged in computer and mobile phone accessories were 67 (26.3%), rubber and plastics respondents were 10 (3.9%), metal and allied respondents were 27 (10.6%), motor vehicle and accessories respondents were 34 (13.3%), Pharmaceuticals and Medical equipments respondents were 3 (1.2%), Building and construction respondents were 6 (2.4%), Electrical and Electronics respondents were 15 (5.9%) and respondents who were engaged in Leather and Footwear were 7 (2.7%). This reveals that all sector of economy was involved in the study.

#### 4.2.7 Number of Full time employee

Respondents were asked to indicate the number of full time staff who are work for the SME and the response are as per table 4.2

**Table 4.2 Full time Employees**

<b>Full time employee</b>	<b>Frequency</b>	<b>Percent</b>
1 – 5	95	37.3
6 – 10	80	31.4
11 – 15	19	7.5
16 - 20	34	13.3
Above 21	27	10.6
<b>Total</b>	<b>255</b>	<b>100.0</b>

Source: Research Data (2019)

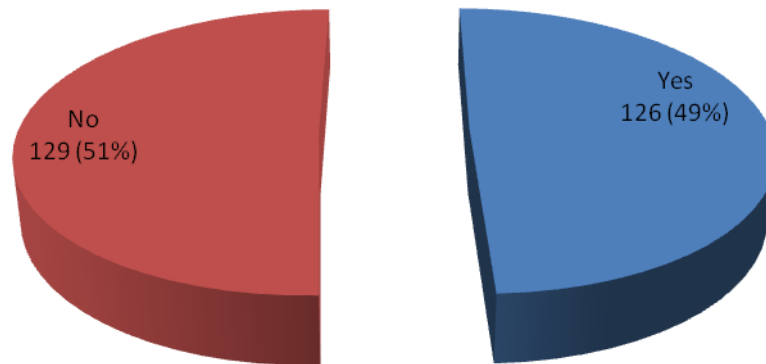
Table 4.2 shows that most of the SMEs operating in Nakuru Town who were 95 (37.3%) had between 1 to 5 employees, enterprises which had full time employees of between 6 to 10 full time employees were 80 (31.4%), those which had full time employees of between 11 to 15 were 19 (7.5%), those which had full time employees of between 16 to 20 were 34 (13.3%) and those which had full time employees of above 21 were 27 (10.6%). This shows that SMEs operating in Nakuru town engage more than one employees thus a major source of employment in the republic of Kenya.

#### 4.3 Strategic Plan Adoption

The first objective was to evaluate the effects of adoption of strategic planning on profitability of Small and Medium Size Enterprises. The responses were as below

### 4.3.1 Adoption of strategic plan

Respondents were asked if their enterprises had adopted strategic plan and the response were as per figure 4.6.



**Figure 4.6 Adoption of Strategic Plan**

Source: Research Data (2019)

Figure 4.6 shows that majority of the enterprises operating in Nakuru Town who were 129 (51%) had not adopted strategic plan while those who had adopted strategic plan were 126 (49%). This thus implied that a good percentage of the respondents were not aware of the benefits that they were bound to realize upon adoption of the long term planning tool. The respondents who had not adopted strategic plan said that whole process of developing and implementing strategic plan is time consuming and costly and they opt to use the fund which could otherwise be used in developing and implementing strategic plan to increase their stock and do branding of their enterprises.

### 4.3.2 Training on Strategic plan

The respondents were asked to indicate if they had received relevant training in regard to strategic planning and their response were as per figure 4.7



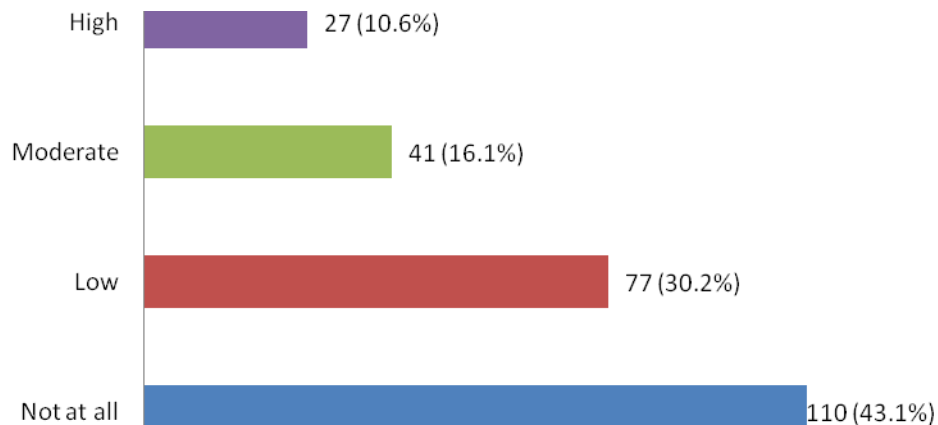
**Figure 4.7 Training on Strategic Plan**

Source: Research Data (2019)

Figure 4.7 reveals that majority of the respondents who were 140 (55%) had not been trained on strategic plan while those who had been trained on strategic plan were 115 (45%). This thus implied majority of the respondents could not adopt strategic plan because they have never been trained on the need for developing and adopting strategic plan.

### 4.3.2 Extent of achievement of strategic objective

Respondents were asked to rate the extent to which achievement of objectives set out in the strategic plan achieved in their enterprise and the response are as per figure 4.8



**Figure 4.8**     **Extent of Adoption of Strategic Plan**

Source:            Research Data (2019)

Figure 4.8 reveals that majority of the respondents who were 110 (43.1%) said that they have not adopted strategic plan at all, respondents who had adopted strategic plan to a low extent were 77 (30.2%), those who had adopted strategic plan to a moderate extent were 41 (16.1%) while those who had adopted strategic plan to a high extent were 27 (10.6%).

This implies that most of the SMEs operating in Nakuru Town had not implemented strategic plan thus could not enjoy the benefits of adopting strategic plan and are prone to fail within the five years of operation (Kenya National Bureau of Statistics, 2018). The findings are similar to those of Wang, (2007), who noted that attention towards individual actions in regard to strategic planning has increased in enterprises even though lack of strategic planning in the operations of SMEs is regularly reported. According to Bryson (2011), who carried out studies on strategic planning found that strategic planning is widely adopted by large organizations in the private sector and more recently in the

public sector. However, from his research findings, strategic planning practices do not appear to have found much popularity in the SMEs which is the case with the findings of this study.

#### 4.4 Strategic Planning on Profitability of SMEs

The first objective was to establish the effect of adoption of strategic planning on profitability of Small and Medium Size Enterprises. Respondents were asked to rate the attributes regard to profitability of their enterprise.

The responses were on a likert scale of 1 to 5 where 1 was Strongly Disagree (SD), 2 was Disagree (D), 3 was Undecided (U), 4 was Agree (A) and 5 was Strongly Agree (SA).

**Table 4.3 Strategic plan on Profitability of SMEs**

<b>Enterprise attributes</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The enterprise 's profits have been increasing significantly over the years	70 (27.5%)	67 (26.3%)	18 (7.1%)	70 (27.5%)	30 (11.8%)
Our enterprise has enough cash to meet its obligations	70 (27.5%)	96 (37.6%)	2 (0.8%)	60 (23.5%)	27 (23.5%)
Long term financial planning capabilities has deteriorated	70 (27.5%)	27 (10.6%)	2 (0.8%)	119 (46.7%)	37 (14.5%)
Our customers are quite satisfied with our products	73 (28.6%)	79 (31.0%)	2 (0.8%)	57 (22.4%)	44 (17.3%)
The enterprise is able to retain skilled and competent employees	70 (27.5%)	81 (31.8%)	2 (0.8%)	57 (22.4%)	45 (17.6%)

Sales volumes have been increasing steadily over the years	76 (29.8%)	71 (27.8%)	14 (5.5%)	67 (26.3%)	27 (10.6%)
Production of quality products has been increasing steadily	70 (27.5%)	89 (34.9%)	2 (0.8%)	67 (26.3%)	27 (10.6%)
Employees' productivity has been increasing gradually	70 (27.5%)	97 (38.0%)	2 (0.8%)	55 (21.6%)	31 (12.2%)
The management has developed a scorecard to report data and track performance against monthly targets	74 (29.0%)	82 (32.2%)	2 (0.8%)	67 (26.3%)	30 (11.8%)
The management carries out financial assessment based on historical records to help in its planning and for future projection	70 (27.5%)	102 (40.0%)	2 (0.8%)	47 (18.4%)	34 (13.3%)

---

**Source: Research Data (2019)**

Table 4.3 reveals that majority of the respondents who were 70 (27.5%) strongly disagreed together with 67 (26.3%) respondents disagreed that their enterprise's profits had been increasing significantly over the years due to not adopting strategic plan. The respondents who agreed that their enterprise's profits had been increasing significantly over the years due to not adopting strategic plan were 70 (27.5%) together with 30 (11.8%) respondents who strongly agreed while 18 (7.1%) respondents were undecided. Majority of the enterprise did not have enough cash to meet its obligations, since majority of the respondents who were 96 (37.6%) disagreed together with 70 (27.5%) respondents who strongly disagreed. The respondents who agreed that their enterprise had enough



cash to meet its obligations were 60 (23.5%) together with 27 (23.5%) respondents who strongly agreed. The respondents who were undecided were 2 (0.8%).

Long term financial planning capabilities have deteriorated in most of the SMEs in Nakuru town. This is according to the response of majority who were 119 (46.7%) who agreed together with 37 (14.5%) respondents who strongly agreed. The respondents who strongly disagreed that long term financial planning capabilities has deteriorated were 70 (27.5%) together with 27 (10.6%) respondents who disagreed while 2 (0.8%) respondents were undecided. Majority of the respondents who were 79 (31.0%) disagreed and 73 (28.6%) respondents strongly disagreed that their customers were quite satisfied with their products. The respondents who agreed that their customers were quite satisfied with their products were 57 (22.4%) together with 44 (17.3%) respondents who strongly agreed while 2 (0.8%) respondents were undecided.

The enterprise is able to retain skilled and competent employees was untrue since majority of the respondents who were 81 (31.8%) disagreed and 70 (27.5%) respondents strongly disagreed. The respondents who agreed that the enterprise was able to retain skilled and competent employees were 57 (22.4%) together with 45 (17.6%) respondents who strongly disagreed while 2 (0.8%) respondents were undecided. Sales volumes had not been increasing steadily over the years since majority of the respondents who were 76 (29.8%) strongly disagreed together with 71 (27.8%) respondents who disagreed. The respondents who agreed that sales volumes had been increasing steadily over the years were 67 (26.3%) together with 27 (10.6%) respondents who strongly agreed while 14 (5.5%) respondents were undecided.

Majority of the respondents who were 89 (34.9%) disagreed together with 70 (29.8%) respondents strongly disagreed that production of quality products has been increasing steadily. The respondents who agreed that generation of first class products has been increasing steadily were 55 (21.6%) and 31 (12.2%) respondents who strongly agreed while 2 (0.8%) respondents were undecided. Employees' productivity had not been increasing gradually since majority of the respondents who were 97 (38.0%) disagreed together with 70 (27.5%) respondents who strongly disagreed. The respondents who agreed that employees' productivity had not been increasing gradually due to adoption of strategic plan were 55 (21.6%) together 31 (12.2%) strongly agreed while 2 (0.8%) were undecided.

The management had not developed a scorecard to report data and track performance against monthly targets since majority of the respondents who were 82 (32.2%) disagreed together with 74 (29.0%) strongly disagreed. The respondents who agreed that management had developed a scorecard to report data and track performance against monthly targets were 67 (26.3%) together with 30 (11.8%) respondents who strongly agreed. The respondents who were undecided were 2 (0.8%). Majority of the respondents who were 102 (40.0%) disagreed together with 70 (27.5%) respondents who strongly disagreed that management carries out financial assessment based on historical records to help in its planning and for future projection. Respondents who agreed that management carries out financial assessment based on historical records to help in its planning and for future projection were 47 (18.4%) together with 34 (13.3%) respondents who strongly agreed while 2 (0.8%) respondents were undecided.

This implies that SMEs in Nakuru town profits have not been increasing significantly over the years; they did not have enough cash to meet its obligations; their long term financial planning capabilities had deteriorated; their customers were not satisfied with their products; the enterprise was not able to retain skilled and competent employees; their sales volumes have been decreasing steadily over the years; generation of first class products has been decreasing steadily; employees' productivity had been decreasing gradually; management had not developed a scorecard to report data and track performance against monthly targets and that management did not carry out financial assessment based on historical records so as to help in its planning and for future projection.

According to Qi, (2010) the use of financial performance measures to evaluate organizational effectiveness has been criticized for being too narrowly focused on short-term performance without more long-term considerations. This is true to this study since SMEs did not have a long term financial plan and according to Jamil & Mohamed (2011), it is necessary for SMEs to identify the characteristics or indicators of performance measurement system as it enables them to effectively and efficiently measure and manage their performance. Performance in this regard relates to profitability, market share, number of employees and reinvestment in the firm.

According to Metcalfe, Ramlogan and Uyarra, (2003), entrepreneurship is the introduction of new productive combinations and innovation is the driving force that continually creates new competitive advantages and opportunities for profit and growth and that it is up to the SMEs to implement competitive business operating practices and business strategies. The competitive advantages which the SMEs in the currents study

should implement entails retaining skilled and competent employees, production of quality product which satisfies customer needs, having a score card to report data and track performance against monthly targets and carrying out financial assessment based on their previous performance.

#### 4.5 Strategic Plan Adoption on Customer Satisfaction

The second objective was to evaluate the effects of strategic planning adoption on customer satisfaction of Small and Medium Size Enterprises. Respondents were asked to indicate how the factors below determined the effectiveness of adopting strategic planning in their enterprise. The responses were on a likert scale of 1 to 5 where 1 was Strongly Disagree (SD), 2 was Disagree (D), 3 was Undecided (U), 4 was Agree (A) and 5 was Strongly Agree (SA).

**Table 4.4 Strategic Plan Adoption on Customer Satisfaction**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Availability of key resources such as manpower, machines, materials and methods has attracted more customers who are satisfied with our service	33 (12.9%)	49 (19.2%)	2 (0.8%)	101 (39.6%)	70 (27.5%)
Organizational structure existent in the enterprise ensures that customers are served well	74 (29.0%)	32 (12.5%)	14 (5.5%)	84 (32.9%)	51 (20.0%)

Leadership style adopted by the management ensures that customers are served well	51 (20.0%)	49 (19.2%)	5 (2.0%)	80 (31.4%)	70 (27.5%)
Organizational culture dominant within the enterprise is customer oriented	47 (18.4%)	46 (18.0%)	2 (0.8%)	87 (34.2%)	73 (28.6%)
Globalization of markets has enables the business attract and retain customers	99 (38.8%)	90 (35.3%)	2 (0.8%)	24 (9.4%)	40 (15.7%)
Reward systems applicable within the enterprise ensures that reward is given for a referred customer	35 (13.7%)	33 (12.9%)	5 (2.0%)	106 (41.6%)	76 (29.8%)
Degree for innovations within the enterprise puts the customer needs first	46 (18.0%)	36 (14.1%)	2 (0.8%)	97 (38.0%)	74 (29.0%)
Existence of policies & regulations put in place by the government ensures that customer rights are protected	76 (29.8%)	84 (32.9%)	2 (0.8%)	59 (23.1%)	34 (13.3%)
Satisfaction among our customer have been increasing significantly	40 (15.7%)	60 (23.5%)	6 (2.4%)	76 (29.8%)	73 (28.6%)
Service efficiency in addressing customers issues has improved	34 (13.3%)	57 (22.4%)	2 (0.8%)	92 (36.1%)	70 (27.5%)

Source: Research Data (2019)

Table 4.4 reveals that availability of key resources such as manpower, machines, materials and methods has attracted more customers who are satisfied with our service are the key indicators of effective adoption of strategic plan since majority of the respondents who were 101 (39.6%) agreed together with 70 (27.5%) respondents strongly agreed. The respondents who disagreed that availability of key resources such as manpower, machines, materials and methods has attracted more customers who are satisfied with enterprises service are the key indicators of effective adoption of strategic plan were 49 (19.2%) together with 33 (12.9%)strongly disagreed while 2(0.8%) respondents were undecided. Majority of the respondents who were 84 (32.9%) agreed together with 51 (20.0%) respondents who strongly agreed that organizational structure existent in the enterprise ensures that customers were served well. Respondents who disagreed that organizational structure existent in the enterprise ensures that customers were served well were 32 (12.5%) and 74 (29.0%) respondents strongly disagreed while 14 (5.5%) respondents were undecided.

Leadership style adopted by the management ensures that customers are served well is a determinant of an effective strategic plan adoption since majority of the respondents who were 80 (31.4%) agreed together with 70 (27.5%) respondents who strongly agreed. Respondents who were 51 (20.0%) strongly disagreed together with 49 (19.2%) disagreed that leadership style adopted by the management ensures that customers are served well is not a determinant of an effective strategic plan adoption. Respondents who were 5 (2.0%) were undecided. Organizational culture dominant within the enterprise is customer oriented facilitates effective adoption of strategic plan since majority of respondents who were 87 (34.2%) agreed together with 73 (28.6%) respondents who

strongly agreed. The respondents who disagreed that Organizational culture dominant within the enterprise is customer oriented facilitates effective adoption of strategic plan were 46 (18.0%) and 47 (18.4%) respondents strongly disagreed while 2 (0.8%) respondents were undecided.

Globalization of markets enables the business attract and retain customers does not determine effective adoption of strategic plan in enterprise since majority of the respondents who were 99 (38.8%) strongly disagreed as well as 90 (35.3%) respondents who disagreed. Respondents who strongly agreed that globalization of markets had enabled the business attract and retain customers determines effective adoption of strategic plan in enterprise were 40 (15.7%) together with 24 (9.4%) respondents who agreed while 2 (0.8%) respondents were undecided. Reward systems applicable within the enterprise ensures that reward was given for a referred customer was the most important factor in the attainment of strategic plan since majority of the respondents who were 106 (41.6%) agreed together with 76 (29.8%) respondents who strongly agreed. Respondents who were 35 (13.7%) strongly disagreed together with 33 (12.9%) respondents disagreed that reward systems applicable within the enterprise ensured that reward was given for a referred customer was not the most important factor in the adoption of strategic plan. Respondents who were undecided were 5 (2.0%).

Degree for innovations within the enterprise puts the customer needs first determines the effective adoption of strategic plan since majority of the respondents who were 97 (38.0%) agreed together with 74 (29.0%) respondents who strongly agreed. Respondents who strongly disagreed that degree for innovations within the enterprise puts the customer needs first was determinant of effective adoption of strategic plan were 46

(18.0%) together with 36 (14.1%) respondents who disagreed while 2 (0.8%) respondents were undecided. Existence of policies and regulations put in place by the government ensures that customer rights are protected does not guarantee adoption of strategic plan since majority of the respondents who were 84 (32.9%) disagreed together with 76 (29.8%) respondents who strongly disagreed. Respondents who agreed that existence of policies and regulations put in place by the government ensures that customer rights are protected guarantee adoption of strategic plan were 59 (23.1%) together with 34 (13.3%) respondents who strongly agreed while respondents who were undecided were 2 (0.8%).

Satisfaction among our customer have been increasing significantly increases when an enterprise adopts strategic plan this is according to the majority of the respondents who were 76 (29.8%) who agreed together with 73 (28.6%) respondents who strongly agreed. The respondents who disagreed that satisfaction among customer increases significantly when an enterprise adopts strategic plan were 60 (23.5%) together with 40 (15.7%) who strongly disagreed while 6 (2.4%) respondents were undecided. Service efficiency in addressing customer's issues improves when an enterprise adopts strategic plan since majority of the respondents who were 92 (36.1%) agrees together with 70 (27.5%) respondents who strongly agreed. The respondents who disagreed that service efficiency in addressing customer's issues improves when an enterprise adopts strategic plan were 57 (22.4%) together with 34 (13.3%) respondents who strongly disagreed while 2 (0.8%) respondents were undecided.



This implies that Customer satisfaction depends on effective adoption of strategic plan which were lacking in most of the SMEs. These entailed availability of key resources such as manpower, machines, materials and methods which could enable production of quality goods; existence of organizational structure in the enterprise which directs the operations of the business and also guide on meeting the needs of the customer; leadership style adopted by the management which is customer centered; organizational culture dominant within the enterprise which favors customer; reward systems applicable within the enterprise for loyal customers and the degree for innovations within the enterprise. All these leads to satisfaction of customer and service efficiency in addressing customers issues but were lacking in most of the SMEs in Nakuru Town. The existence of policies and regulations put in place by the government and globalization of markets did not determine customer satisfaction.

The findings of Grace (2015) in his study of ICT SMEs in Nairobi County indicate that strategic planning processes and actions have influence on customer satisfaction. The process such as availability organizational structure, market globalization, management style and innovativeness of the enterprise facilitate customer satisfaction. The study further noted that SMEs, which review and analyse their processes and systems in an effort to identify non-value added activities, are more likely to learn from their weaknesses, improve on their processes and hence more likely have efficient processes that meet customer needs more efficiently. This could in turn lead to customer satisfaction and increase in sales and profitability.

Customer satisfaction is important for organizations as a means of continual improvement and also as a means of determining whether or not an organization is

achieving its objectives (Mukulu, 2012). This thus means that an organization that does not carry out customer satisfaction will be operating in a dark environment and can thus not be in a position to accurately project where it will be in a couple of years to come.

In their scholarly studies, Joyce and Woods (2003) concluded that organizations who have adopted strategic planning make faster decisions and successfully implement change and innovation to realize that their customers are satisfied. Several other studies have suggested that business failure is largely due to an enterprise's failure to meet the needs of their customers. As Norman and Thomas (2006) noted that without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive advantage in the marketplace.

According to Wijawardena, (2004) strategic planning adoption if supported with quality monitoring processes will have favourable impact on business performance. This study noted that when SMEs have policies and regulation put in place customer's service efficiency is monitored thus ensuring that customers issue is improved. This can then be inferred to mean that firms that adopt strategic planning perform better than those ones that do not since they have satisfied customers who refer others to buy from the enterprise.

#### **4.6 Strategic Planning Adoption on Business Survival Strategies**

The third objective was to evaluate the effects of strategic planning adoption on survival rate of Small and Medium Size Enterprises. In regard to the adoption of strategic planning, respondents were asked to rate the extent to which they agree to the importance of the following business survival plans to their enterprises. The responses were on a likert scale of 1 to 5 where 1 was Strongly Disagree (SD), 2 was Disagree (D), 3 was

Undecided (U), 4 was Agree (A) and 5 was Strongly Agree (SA). The responses are as per table 4.5

**Table 4.5 Strategic Planning Adoption on Business Survival Strategies**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The enterprise has a documented realistic vision statement	70 (27.5%)	88 (34.5%)	5 (2.0%)	58 (22.7%)	34 (13.3%)
Vision statement clearly shows the current and future position of the enterprise	70 (27.5%)	100 (39.2%)	2 (0.8%)	49 (19.2%)	34 (13.3%)
The enterprise has a mission statement	73 (28.6%)	89 (34.9%)	14 (5.5%)	48 (18.8%)	31 (12.2%)
The mission statement include a clear and concise expression of the enterprise's purpose, philosophy and commitment	76 (29.8%)	89 (34.9%)	14 (5.5%)	42 (16.5%)	34 (13.3%)
The enterprise has value statements governing the operations of the enterprise and its relationship with both internal and external stakeholders	80 (31.4%)	104 (40.8%)	2 (0.8%)	35 (13.7%)	34 (13.3%)
The enterprise has set objectives to help it achieve its goals	77 (30.2%)	69 (27.1%)	14 (5.5%)	47 (18.4%)	48 (18.8%)

The enterprise has developed strategies through which the mission and objectives will be achieved	70 (27.5%)	81 (31.8%)	14 (5.5%)	48 (18.8%)	42 (16.5%)
The enterprise has set goals that are quantifiable, consistent, realistic and achievable	73 (28.6%)	82 (32.2%)	6 (2.4%)	48 (18.8%)	46 (18.0%)
The enterprise has programs that cover resources, objectives, deadlines, budgets and performance targets	78 (30.6%)	87 (34.1%)	6 (2.4%)	46 (18.0%)	38 (14.9%)
The enterprise has action plans that include: what is to be done, when to be done & who is accountable each of actions being carried out	77 (30.2%)	93 (39.5%)	6 (2.4%)	48 (18.8%)	31 (12.2%)
The management has carried out a SWOT analysis to gauge its Strengths, Weaknesses, Opportunities and Threats	77 (30.2%)	94 (36.9%)	6 (2.4%)	47 (18.4%)	31 (12.2%)
The management has identified its competitive advantage to identify what it is best at compared to its competitors	70 (27.5%)	99 (38.8%)	6 (2.4%)	46 (18.0%)	34 (13.3%)

Source: Research Data (2019)

Table 4.5 reveals that majority of the respondents who were 88 (34.5%) disagreed together with 70 (27.5%) respondents who strongly disagreed that their enterprise had

documented realistic vision statement. The respondents who agreed that their enterprise had documented realistic vision statement were 58 (22.7%) together with 34 (13.3%) who strongly agree while 5 (2.0%) respondents were undecided.

Since majority of the respondents who were 100 (39.2%) disagreed together with 70 (27.5%) respondents who strongly disagreed that their enterprise had vision statement which clearly shows the current and future position of the enterprise. The respondents who agreed that their enterprise had vision statement which clearly shows the current and future position of the enterprise were 49 (19.2%) together with 34 (13.3%) respondents who strongly agreed while 2 (0.8%) respondents were undecided.

Majority of the enterprise in Nakuru town did not have a mission statement since majority of the respondents who were 89 (34.9%) disagreed together with 73 (28.6%) respondents who strongly disagreed. The respondents who agreed that their enterprise have a mission statement were 48 (18.8%) together with 31 (12.2%) respondents who strongly agreed. The respondents who were undecided were 2 (0.8%).

The mission statement which SMEs in Nakuru town had did not include a clear and concise expression of the enterprise's purpose, philosophy and commitment since majority of the respondents who were 89 (34.9%) disagreed together with 76 (29.8%) respondents who strongly disagreed. The respondents who agreed that their mission statement include a clear and concise expression of the enterprise's purpose, philosophy and commitment were 42 (16.5%) together with 34 (13.3%) respondents who strongly agreed while 14 (5.5%) respondents were undecided.

Majority of the enterprise in Nakuru town did not have value statements governing the operations of the enterprise and its relationship with both internal and external

stakeholders since majority of the respondents who were 104 (40.8%) as well as 80 (31.4%) respondents who strongly disagreed. The respondents who agreed that their enterprise have value statements governing the operations of the enterprise and its relationship with both internal and external stakeholders were 35 (13.7%) together with 34 (13.3%) respondents who strongly agreed. The respondents who were undecided were 2 (0.8%). Majority of the respondents who were 77 (30.2%) strongly disagreed together with 69 (27.1%) respondents who disagreed that their enterprise has set objectives to help in achieving its goals. The respondents who agreed that their enterprise has set objectives to help in achieving its goals were 47 (18.4%) together with 48 (18.8%) respondents who strongly agreed while 14 (5.5%).

The enterprise in Nakuru town had not developed strategies through which the mission and objectives were to be achieved since majority of the respondents who were 81 (31.8%) disagreed together with 70 (27.5%) respondents who strongly disagreed. The respondents who agreed that their enterprise had developed strategies through which the mission and objectives were to be achieved were 48 (18.8%) together with 42 (16.5%) respondents who strongly agreed while 14 (5.5%) respondents were undecided. Majority of the respondents who were 82 (32.2%) disagreed together with 73 (28.6%) respondents who strongly disagreed that enterprises in Nakuru town has set goals that are quantifiable, consistent, realistic and achievable.

The respondents who agreed that enterprises in Nakuru town have set goals that are quantifiable, consistent, realistic and achievable were 48 (18.8%) together with 46 (18.0%) who strongly agreed. The respondents who were undecided were 6 (2.4%). The enterprise in Nakuru town did not have programs that cover resources, objectives,

deadlines, budgets and performance targets since majority of the respondents who were 87 (34.1%) disagreed together with 78 (30.6%) respondents who strongly disagreed. The respondents who agreed that enterprise in Nakuru town have programs that cover resources, objectives, deadlines, budgets and performance targets were 46 (18.0%) together with 38 (14.9%) respondents who strongly agreed while 6 (2.4%) respondents were undecided.

Majority of the respondents who were 94 (36.9%) disagreed so do 77 (30.2%) respondents who strongly disagreed that their enterprise had action plans that included: what is to be done, when to be done and who is accountable each of actions being carried out. The respondents who agreed that their enterprise had action plans that included: what is to be done, when to be done and who is accountable each of actions being carried out were 48 (18.8%) together with 31 (12.2%) respondents who strongly agreed while 6 (2.4%) respondents were undecided. Management of the various SMEs in Nakuru town had not carried out a SWOT analysis to gauge its Strengths, Weaknesses, Opportunities and Threats since majority of the respondents who were 94 (36.9%) disagreed so do 77 (30.2%) respondents who strongly disagreed.

The respondents who agreed that management of the various SMEs in Nakuru town had carried out a SWOT analysis to gauge its Strengths, Weaknesses, Opportunities and Threats were 47 (18.4%) together with 31 (12.2%) respondents who strongly agreed. Respondents who were undecided were 6 (2.4%). Majority of the SMEs in Nakuru town according to the response of the majority of the respondents who were 99 (38.8%) disagreed together with 70 (27.5%) respondents strongly disagreed that management of

enterprises had identified its competitive advantage to identify what it is best at compared to its competitors. Respondents who agreed that management of enterprises had identified its competitive advantage to identify what it is best at compared to its competitors were 46 (18.0%) together with 34 (13.3%) respondents who strongly agreed while 6 (2.4%) respondents were undecided.

This implies that enterprise had not documented realistic vision statement; vision statement did not clearly shows the current and future position of the enterprise; did not have a mission statement which include a clear and concise expression of the enterprise's purpose, philosophy and commitment; did not have value statements governing the operations of the enterprise and its relationship with both internal and external stakeholders. The enterprise did not have set objectives to help in achieving its goals; did not have strategies through which the mission and objectives were to be achieved; did not have set goals that were quantifiable, consistent, realistic and achievable. The enterprise did not have programs that cover resources, objectives, deadlines, budgets and performance targets; their action plans did not include what is to be done, when to be done and who is accountable for each of actions being carried out. The management had not carried out a SWOT analysis to gauge their Strengths, Weaknesses, Opportunities and Threats and that they had not identified their competitive advantage against those of their competitors.

The findings are similar to the argument of Gibson and Cassar (2015) which strategic planning in SMEs is mostly adaptive in nature, short term oriented and concerned with the manipulation of scarce resources. Strategic planning adherents have for a long time found out that formal strategic planning provides benefits that ultimately produce



economic value as it generates information, ensures a thorough consideration of all feasible options, it forces the firm to evaluate its environment, it stimulates new ideas, it increases motivation and commitment, it enhances internal communication and interaction, and it has a symbolic value to the stakeholders (Thompson & Strickland, 2012).

Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the market place (Norman & Thomas, 2006). Aosa (2012) attributes the lack of proper management of resources to the frequent failure to implement well planned and documented strategic plans in most African countries. The benefit of the discipline that develops from the process of strategic planning leads to effective decision making, better selection of tactical options and leads to higher probability of achieving the owners' or stakeholders' goals and objectives.

In their longitudinal analysis, Baker and Leidecker (2011) found that the survival rates of SMEs that apply formal strategic planning are higher than those that do not. Thus SMEs in Nakuru town ought to adopt strategic planning for them to survive since according to Boyd (2011) the probability of survival is substantially smaller for non-planning enterprises. Birley and Niktari (2015) found an association between the failure of SMEs and lack of strategic planning. As noted by Miller and Cardinal (2014) strategic planning produces better results compared to lack of it and that SMEs can achieve sustainable competitive advantage from resources such as strategic planning.

Berry (2008) argues that strategic planning regardless of why public and private organizations engage in it helps the organizations clarify their future direction; think strategically and develop effective strategies; establish priorities; deal effectively with

rapidly changing circumstances, build teamwork and expertise as well as solve major organizational problems. By neglecting strategic planning SMEs may not achieve their full performance and growth potentials and their survival could be at risk.

#### 4.7 Inferential Statistics

This study applied correlations and multiple regressions to determine the predictive power of the effect of selected strategic planning practices on performance of Small and Medium Scale Enterprises in Nakuru Town.

##### 4.7.1 Correlation Analysis

Pearson correlation coefficient was used to examine correlation between profitability, customer satisfaction and business survival strategies and their effect on the performance of Small and Medium Scale Enterprises in Nakuru Town. The analysis is shown in the table below.

**Table 4.6 Correlations**

		<b>Extent</b>	<b>Profitability</b>	<b>Satisfaction</b>	<b>Survival</b>
Extent	Pearson Correlation	1			
	Sig. (2-tailed)				
Profitability	Pearson Correlation	.815**	1		
	Sig. (2-tailed)	.000			
Satisfaction	Pearson Correlation	.802**	.969**	1	
	Sig. (2-tailed)	.000	.000		
Survival	Pearson Correlation	.812**	.963**	.966**	1
	Sig. (2-tailed)	.000	.000	.000	

N = 255

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

Source: Research Data (2019)

As shown in table 4.6 there was a strong positive relationship between extent of adoption of strategic plan and profitability of SME since it had a Pearson Correlation of ( $r(255) = 0.815, P < 0.001$ ). This implies that adoption of strategic plan plays an important role on the profitability of SMEs. Customer satisfaction had a strong positive relationship with performance of SMEs who have adopted strategic plan since it had a Pearson Correlation of ( $r(255) = 0.802, P < 0.001$ ), this means that adoption of strategic plan plays a key role in ensuring the small and medium size enterprises customers are satisfied. Business survival strategies adopted by SMEs had a positive relationship with performance of SMEs for it had a Pearson Correlation of ( $r(255) = 0.812, P < 0.000$ ). This implies that small and medium size enterprises need to have strategies which will enable to survive and perform during the hard times.

The findings are consistent with those of Dolence (2004) in his study establish the relationship between planning and performance in Asian SMEs revealed that there is a positive and significant relationship between strategic planning and profitability in manufacturing SMEs. Kraus *et al.*, (2006) in their study among 290 small enterprises in Austrian firms analyzed the performance implications of essential elements of strategic planning (time span, formalization, frequency of control and use of planning instruments). The study found that strategic planning formalization has positive and highly significant impact on the probability of belonging to group of growth firms, where growth was measured in terms of number of employees.

The findings are also consistent with the findings of Volberda, Charlothe and Hitt (2010) who found a positive relationship between strategic planning adoption and customer satisfaction in their investigation of SMEs as it helps the firms to anticipate future

challenges as well as opportunities through constantly evaluating satisfaction of their customers.

A review of these past studies have been carried out by scholars and found out that the number of scholarly works that have found a positive relationship between strategic planning and business survival outnumber the ones that have found either zero or negative relationship. In their broader review of 31 studies, Shrader (2013) found that the results that produced positive relationships outnumbered the ones that produced neutral and negative relationships.

#### **4.7.2 Regression Analysis**

The researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the adoption of strategic plans on performance of small and medium enterprises in Nakuru Town. Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique is used to find the equation that represents the relationship between the variables. Multiple regressions provide an equation that predicts one variable from two or more independent variables (Bryman & Bell, 2015).

The researcher used the Statistical Package for Social Sciences (SPSS V 22.0) to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the independent variable (Adoption of strategic plans by Small and Medium Scale Enterprises in Nakuru Town) that is explained by all the three dependent variables (profitability, customer satisfaction and business survival strategies).

The study adopted multiple regression guided by the following model:

$$X = \beta_0 + \beta_1 Y_1 + \beta_2 Y_2 + \beta_3 Y_3 + e$$

Where X = Adoption of strategic plans by SMEs,  $\beta_0$  = Constant Term,  $\beta_1, \beta_2, \beta_3$  = Beta coefficients,  $Y_1$  = Profitability,  $Y_2$  = Customer Satisfaction,  $Y_3$  = Business Survival Strategies and  $e$  = Error Term

Table 4.7 shows the regression model summary results where R square, adjusted R square and standard error of estimate are presented.

**Table 4.7 Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.821 <sup>a</sup>	.674	.670	.71542

a. Predictors: (Constant), Profitability, Customer Satisfaction, Survival Strategies

Source: Research Data (2019)

The results in Table 4.7 indicate that the adoption of strategic plan had a joint significant effect on performance of Small and Medium Scale Enterprises in Nakuru Town as shown by R value of 0.821.

The R squared of 0.674 shows that the independent variables accounted for 67.4% of the variance on performance of Small and Medium Scale Enterprises in Nakuru Town while 32.6% are explained by other variables outside the study.

Table 4.8 shows the ANOVA which displayed the test of significance for the multiple regression models. Norusis (2005) advised that F-test is the appropriate statistical test in multiple regression analysis to measure the variances between the study variables.

**Table 4.8 ANOVA<sup>a</sup>**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
	Regression	265.345	3	88.448	172.809	.000 <sup>b</sup>
1	Residual	128.469	251	.512		
	Total	393.814	254			

a. Dependent Variable: Extent of Adoption

b. Predictors: (Constant), profitability, customer satisfaction, survival strategies,

---

Source: Research Data (2019)

The results in Table 4.8 show that the F statistic was 172.809. At 5% level of confidence, the F statistic was significant. In this case, all the predictor variables (profitability, customer satisfaction and survival strategies) explain a variation in performance and that the overall model is significant.

Table 4.9 shows the coefficient results for the model variables, the t-values of each of the independent variables as well as the significance (p-value).

**Table 4.9 Coefficients<sup>a</sup>**

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.123	0.099		1.246	0.214
1 Profitability	0.423	0.152	0.448	2.777	0.006
Satisfaction	0.003	0.155	0.003	0.019	0.985
Survival	0.351	0.144	0.377	2.446	0.015

a. Dependent Variable: Adoption of strategic plans

Source: Research Data (2019)

Anderson *et al.* (2002) spelt out the importance of examining the significance of each independent variable in predicting the dependent variable. The t-test was used to determine whether each of the individual independent variable was significant in the overall model.

From the findings in table 4.9, the study found that holding profitability, customer satisfaction, and business survival strategies constant, performance will be 0.123, the study also found that a unit increase in profitability process will cause a 0.423 increase in performance, further it was established by the study that a unit increase in customer satisfaction will lead to an increase in performance by 0.003 and a unit increase in business survival strategies will lead to an increase in performance by a factor of 0.351.

The study multiple regression models now becomes:

$$P = 0.123 + 0.423P + 0.003CS + 0.351SS + e$$

Where; P is Performance of SMEs; P Profitability; CS is Customer Satisfaction and SS is Survival Strategies.

This implies that profitability has a higher effect on performance of Small and Medium Scale Enterprises in Nakuru Town; this was followed by business survival strategies and lastly customer satisfaction.

#### **4.8 Testing Research Hypothesis**

The following were the research questions which the study sought to answer

- i. H<sub>01</sub> there is no significant effect of adoption of strategic planning on profitability of Small and Medium Size Enterprises
- ii. H<sub>02</sub> there is no significant of strategic planning adoption on customer satisfaction of Small and Medium Size Enterprises
- iii. H<sub>03</sub> there is significant effect of strategic planning adoption on survival rate of Small and Medium Size Enterprises

From the study the following were the results of the study research hypothesis;



**Table 4.10 Summary of Research Hypothesis**

<b>Research Hypothesis</b>	<b>Conclusion</b>
H <sub>01</sub> there is no significant effect of adoption of strategic planning on profitability of Small and Medium Size Enterprises	<b>Profitability has significant effect on strategic planning practices adopted by SMEs (<math>\beta = 0.423, p &lt; 0.05</math>)</b>
H <sub>02</sub> there is no significant of strategic planning adoption on customer satisfaction of Small and Medium Size Enterprises	<b>Customer satisfaction is affected by the strategic planning practices adopted by SMEs (<math>\beta = 0.523, p &lt; 0.05</math>)</b>
H <sub>03</sub> there is significant effect of strategic planning adoption on survival of Small and Medium Size Enterprises	<b>Business survival strategies used are affected by strategic planning practices adopted by SMEs (<math>\beta = 0.027, p &lt; 0.05</math>)</b>

Source: Researcher, 2019

Dauda et al, (2010) concluded that strategic planning practices enhance both organizational performance and therefore suggest that strategic planning concepts should be adopted by business organizations. The result agrees with the submission of Arasa & Machuki (2011) that participatory orientation of strategic planning does influence the realization of the strategic planning outcome significantly. The results are also consistent with those of McIlquham -Schmidt (2010) that found that there is a positive relationship between strategic planning and corporate performance. The results are in line with the findings of Mankins and Steele (2005) that companies typically only realize 63% of the potential value of their strategy because of defects in planning and execution.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study presents the summary of the findings, conclusions and recommendations. The findings are presented based on comparative study on the effect of selected strategic planning practices on performance of SMEs in Nakuru Town.

#### **5.2 Summary of the Findings**

The study aimed at evaluating the effects of adoption of strategic planning on profitability of Small and Medium Size Enterprises; establishing the effect of adoption of strategic planning on customer satisfaction of Small and Medium Size Enterprises and evaluating the effects of strategic planning adoption on survival rate of Small and Medium Size Enterprises. The study sampled 291 SMEs operating in Nakuru Town and issued questionnaire to the business owners or the managers or the senior employee of the SME to fill, 255 responses were received translating to 87.6% response rate. Majority of the respondents were SMEs owners who were 92 (36%) while the senior employees were 83 (33%). A larger percentage of the respondents were males 139 (55%) and females were 116 (45%), this shows that both genders were engaged in running or operation SME in Nakuru Town. Majority of the respondents 90 (35.3%) were between ages 31 to 40 years and those who were between 21 to 30 years were 85 (33.3%), this means that SMEs in Nakuru town are run by entrepreneurs who are aged between 21 and 40 years and most of them were diploma holders 100 (39.2%), others certificate holders 91 (35.7%) and few were degree holders 33 (12.9%).

Most of the SMEs operating in Nakuru Town had between 1 to 5 full time employees 95 (37.3%) and others had between 6 to 10 full time employees 80 (31.4%). The R squared of 0.674 shows that the independent variables accounted for 67.4% of the variance on performance of Small and Medium Scale Enterprises in Nakuru Town while 32.6% are explained by other variables outside the study.

### **5.2.1 Adoption of strategic planning**

Majority of the enterprises operating in Nakuru Town who were 129 (51%) had not adopted strategic plan while those who had adopted strategic plan were 126 (49%) thus a good percentage of the respondents were not aware of the benefits that they were bound to realize upon adoption of the long term planning tool. The respondents who had not adopted strategic plan said that whole process of developing and implementing strategic plan was time consuming and costly and they opt to use the fund which could otherwise be used in developing and implementing strategic plan to increase their stock and do branding of their enterprises. Training on strategic planning had not been done by most of the SMEs who were 140 (55%) and only a few had been trained 115 (45%). This implied majority of the respondents had not adopted strategic plan because they had never been trained on the need for developing and adopting strategic plan.

### **5.2.2 Adoption of strategic planning on profitability**

SMEs in Nakuru town profits margin had not been increasing over the years, they did not have enough cash to meet its obligations; their long term financial planning capabilities had deteriorated; their customers were not satisfied with their products; the enterprise was not able to retain skilled and competent employees; their sales volumes have been decreasing steadily over the years; production of quality products had been decreasing

steadily; employees' productivity had been decreasing gradually; management had not developed a scorecard to report data and track performance against monthly targets and that management did not carry out financial assessment based on historical records so as to help in its planning and for future projection.

There was a strong positive relationship between extent of adoption of strategic plan and profitability of SME since it had a Pearson Correlation of ( $r(255) = 0.815, P < 0.001$ ). This implies that adoption of strategic plan plays an important role on the profitability of SMEs.

### **5.2.3 Adoption of strategic planning on customer satisfaction**

Customer satisfaction depends on effective adoption of strategic plan which were lacking in most of the SMEs. These entailed availability of key resources such as manpower, machines, materials and methods which could enable production of quality goods; existence of organizational structure in the enterprise which directs the operations of the business and also guide on meeting the needs of the customer; leadership style adopted by the management which is customer centered; organizational culture dominant within the enterprise which favors customer; reward systems applicable within the enterprise for loyal customers and the degree for innovations within the enterprise. All these leads to satisfaction of customer and service efficiency in addressing customers issues but were lacking in most of the SMEs in Nakuru Town. The existence of policies and regulations put in place by the government and globalization of markets did not determine customer satisfaction.

Customer satisfaction had a strong positive relationship with performance of SMEs who have adopted strategic plan since it had a Pearson Correlation of ( $r(255) = 0.802, P <$

0.001), this means that adoption of strategic plan plays a key role in ensuring the small and medium size enterprises customers are satisfied.

#### **5.2.4 Adoption of strategic planning on survival rate**

Most of the enterprise had not documented realistic vision statement which clearly shows the current and future position of the enterprise; they did not had a mission statement with clear and concise expression of the enterprise's purpose, philosophy and commitment; they did not had value statements governing the operations of the enterprise and its relationship with both internal and external stakeholders. The enterprise did not have set objectives to help in achieving its goals; did not have strategies through which the mission and objectives were to be achieved; did not have set goals that were quantifiable, consistent, realistic and achievable. The enterprise did not have programs that cover resources, objectives, deadlines, budgets and performance targets; their action plans did not include what is to be done, when to be done and who is accountable for each of actions being carried out. The management had not carried out a SWOT analysis to gauge their Strengths, Weaknesses, Opportunities and Threats and that they had not identified their competitive advantage against those of their competitors. Thus most of the SMEs had no plans for future and hence were prone to fail in their first few years of operations.

Business survival strategies adopted by SMEs had a positive relationship with performance of SMEs for it had a Pearson Correlation of ( $r(255) = 0.812, P < 0.000$ ). This implies that small and medium size enterprises need to have strategies which will enable to survive and perform during the hard times.

### **5.3 Conclusion**

The study makes the following conclusions;

#### **5.2.2 Adoption of strategic planning on profitability**

There is need for SMEs to adopt strategic plan which will enable them have plans on how to make their business profitable by ensuring that they have enough cash to meet its obligations and have a long term financial planning which entails sourcing for fund to run the business. They need to ensure that their customers are satisfied with their products by engaging skilled and competent employees; this will enable them see increases in sales volumes over the years due to the quality of their products and high employees' productivity. They need not develop a scorecard to report on financial data and track financial performance against monthly targets through financial assessment of historical records which help in future projection planning.

#### **5.2.3 Adoption of strategic planning on customer satisfaction**

SMEs need to have key resources such as manpower, machines, materials and methods which enable production of quality goods thus satisfying customers need. They need to have an organizational structure which directs the operations of the business on meeting the needs of the customer. The leadership style adopted by the management should be customer centered and have an organizational culture which favors customer. SMEs need to develop reward systems for loyal customers and which reward innovators within the enterprise.

#### **5.2.4 Adoption of strategic planning on survival rate**

There is need for SMEs to document realistic vision statement which clearly shows the current and future position of the enterprise. Their mission statement should be clear and concise entailing the enterprise's purpose, philosophy and commitment; they also need to have value statements governing the operations of the enterprise and how they relate with both internal and external stakeholders. The enterprise need to have objectives which will helps in the achievement of goals and strategies set out in the mission and vision statement; the set goals should be quantifiable, consistent, realistic and achievable. Programs that cover resources, objectives, deadlines, budgets and performance targets and their action plans on what to be done, when to be done and who is accountable for each of actions being carried out should be developed by SMEs. They should carry out a SWOT analysis to gauge their Strengths, Weaknesses, Opportunities and Threats and identify their competitive advantage against those of their competitors.

#### **5.4 Recommendation**

The study makes the following recommendations;

The study recommends that the management in the small and medium enterprises give key focus to training on strategic planning to the managers and owners since good percentage of the respondents were found not to have received the relevant training. The study also recommends that SMEs managers and owners should ensure that the key resources such as the manpower, money, machines, materials and proper working methods are availed in their enterprise since inadequate resources are likely to lead to incomplete adoption of strategic plans in the enterprise. The study recommends that SMEs should adopt leadership styles that will encourage staff participation in long term

planning decisions. The organizational culture in SMES should also be adopted, modified and developed in such a way that it is aligned to the strategic plan in the enterprise as the culture in any enterprise to a great extent determines the degree of success of any adopted management tool or practice. The study also recommends that the entrepreneurs should seek and employ highly trained and competent managers to oversee the operations of their enterprises. Highly trained and qualified managers are able to competently plan in the long term to ensure enhanced enterprise performance in organizations.

### **5.5 Recommendations Further Research**

This study concentrated on the SMEs in Nakuru town alone and therefore its findings cannot be a basis for generalization across all SMEs in the country. The recommendation is that in the future a study should be conducted across the country so that the findings can be representative of the whole nation. It may also be worth carrying out studies in each county as each may have unique characteristics and diverse contextual realities that may impact on the effect of micro finance services on SMEs.

Future research studies can compare the performance before adoption and after adoption, compare the performance of the firms that have adopted and not adopted strategic planning and also establish the factors that determine adoption of the long term planning tool in SMEs.

The study focused only on the effects of adoption of selected strategic planning in the SMEs. It is proposed that more studies should be carried on other strategic planning process stages so as to broaden the understanding of strategic planning practice. The study mainly used questionnaires and the study thus recommends that future studies be carried out using different data collection techniques.



## REFERENCES

- Ardishvili, A., Cardozo, S., Harmon, & S., Vadakath, S. (1998). "Towards a theory of new venture growth." *Paper presented at the 1998 Babson Entrepreneurship Research Conference, Ghent, Belgium.*
- Armendariz, B. & Morduch, J. (2005). *The Economics of finance*. Cambridge, MA: MIT Press.
- Armyx, C. (2005) *Small Business Challenges / The perception problem: size does not matter.*
- Cooper, A.C. (1995). "Challenges in Predicting New Firm Performance." *In I. Bull., H. Thomas, & G. Willards (Eds), Entrepreneurship: Perspectives on theory building. London: Elsevier Science Ltd.*
- Dada, R. M. (2014), Commercial Banks' Credit and SMEs Development in Nigeria: An Empirical Review. *International Journal of Research (IJR) 1(8)*
- Delmar, F. (1997). "Measuring Growth: Methodological considerations and empirical results." *In: Donckels, R., Miettinen, A., (Eds), Entrepreneurship and SME Research: On its Way to the Next Millenium*
- Cooper, D.R. & Schindler, P.S.(2003). *Business Research Methods*.(8 Ed) Tata McGraw-Hill Inc., New York.
- Diagne, A. & Zeller, M. (2001). Access to Credit and its impact on Welfare in Malawi.*IFPRI Research Report, 116*
- Fatoki, O. (2011). The Impact of Human, Social and Financial Capital on the Performance of Small and Medium-Sized Enterprises (SMEs) in South Africa. *Journal of social sciences, 29(3)*

- Gay, L. R. (1992). *Educational research: competence for analysis and application*. (4thEd) New York, MacMillan publisher.
- Ghatak, M. 2000. Screening by company you keep: joint liability lending and peer selection effect. *The Economic Journal*, 110 (465), 601-631.
- Guichandut, P. (2006). Europe occidentale et reste du monde: parle-t-on des mêmes pratiques?, *Finance & The Common Good / Bien Commun*, 25(3), pp. 54-113.
- Heidhues, F. (1995). Rural Finance Markets-An Important Tool to Fight Poverty. *Quarterly Journal of International Agriculture*, 34 (2), 105-108
- Hill, T. (1987). *Small business production/operations management*. Macmillan Education Ltd.
- Hossain, M. (1988). Credit for the alleviation of rural poverty: The Grameen Bank in Bangladesh. IFPRI Research Report No. 65.
- Kamau, A.T. (2010). *Assessment of strategies adopted by finance institutions to survive and grow in the banking industry*. A survey of selected MFIs in Kenya, Unpublished MBA project, Kenyatta University.
- Karlan, D. S. (2007). Social connections and group banking. *Economic Journal*. 51 117(517) F52-F84.
- King, K. & McGrath, S. (2002). *Globalization, Enterprise and Knowledge*. Oxford: Symposium.
- Kisaka, S. & Mwewa, N. (2014). Effects of -credit, -savings and Training on the Growth of Small and Medium Enterprises in Machakos County in Kenya. *Research Journal of Finance and Accounting Vol.5, No.7*

- Kiiru, J. (2008). *finance, Entrepreneurship and Rural Development: Empirical Evidence from Makueni District, Kenya*, Centre for Development Research (ZEF) Bonn University.
- Koehn, C.B. (2011). *A survey of the financial constraints hindering growth of SMEs in Kenya: The case of Kamukunji District in Nairobi County*. Unpublished MBA Project.
- Kothari, C. (2004). *Research Methodology , Methods and Techniques* . New Delhi: International P Limited . (n.d.).
- Levy, Margi – Powell, Philip (2005) *strategies for growth in SMEs: The Role of Information and Information Systems*.
- Ledgerwood, J. (1999). *finance Handbook: An institutional and financial perspective*, Washington, D.C. 20433, USA.
- Macpherson, A & Holt, R (2007). Knowledge, learning and small firm growth: A systematic review of the evidence. *Research Policy* 36 (2007) 172–192
- Makhbul, Z.M. (2011). Entrepreneurial success: An exploratory study among entrepreneurs. *International Journal of Business Management*, 1(6): 1-10
- Makorere, R. (2014). The role of finance in promoting small and medium enterprises (SMEs) in Tanzania: empirical evidence from SMEs holder who have received credit from financial institutions in Morogoro, Tanzania. *Global Business and Economics Research Journal*. Vol. 3 (4)
- Morduch , J. 1999. The finance Promise. *Journal of Economic Literature*, Vol. 37 (4),1569-1614

- Mugenda, M.,O. & Mugenda, G. A (2003). Research Methods: *Quantitative and Qualitative Approaches*. Laba Graphics Services
- Masibo, J. (2005), The relative power of CEOs and Board of Directors. Associate with corporate performance”, Strategic management journal, 12(2)
- Navajas, S. Conning J., Gonzalez-Vega C. 2000. credit and poorest of the poor: Theory and Evidence from Bolivia. World Development, 28(2), 333-346
- Nelson, J. (2010). “The impact of finance institutions (MFIs) on the development of small and medium size business (SMEs) in Cameroon.” Swedish University of Agricultural Sciences.
- Olu, O. (2009). *Impact of finance on entrepreneurial development*. The case of Nigeria. Development of business administration, OSUN STATE University, Nigeria
- Ouma, R. & Ogaga, W. (2015). Effects of credit Facilities on the Welfare of Households. Evidence from Suna East Sub-County, Migori County Kenya. *European Journal of Business and Management* Vol.7, No.29
- Robinson, M.S. (1998): “*The paradigm shift from credit delivery to Sustainable Financial intermediation*, Strategic issues in finance.
- Rotich, I. et al (2014).Effects of finance services on the performance of small and medium enterprises in Kenya. *African journal of business management* Vol. 9(5)
- Santos, J. B, & Brito, L. A. L. (2012).*Toward a Subjective Measurement Model for Firm Performance*. Management Science Department, Lancaster University.
- Suberu, O.J., Aremu, O.S & Popoola, E.G. (2011). The impact of -finance institutions on the development of small scale enterprises in Nigeria. *Journal of Research in International Business Management*.

- Thassanabanjong, K., Miller, P., & Marchant, T. (2009). Training in Thai SMEs. *Journal of Small Business and Enterprise Development*, 16(4), 678-693.
- Ogindo, R. (2006). *An assessment of performance of MFIs in Kenya*, Unpublished MBA Project University of Nairobi.
- Wang, X. (2013). The Impact of finance on the Development of Small and Medium Enterprises: The Case of Taizhou, China. [http://econ.jhu.edu/wp-content/uploads/sites/27/2013/07/SeniorThesis\\_Xitian\\_WANG.pdf](http://econ.jhu.edu/wp-content/uploads/sites/27/2013/07/SeniorThesis_Xitian_WANG.pdf)(25/09/2017)
- Wanjohi, A. & Mugure, A. (2008). *Factors affecting the growth of MSEs in rural areas of Kenya: A case of ICT firms in Kiserian Township*. Kajiado District of Kenya; 2008. Unpublished.
- Wanjohi, A.M. (2007). *Challenges Facing SMEs in Kenya* . Retrieved from <http://www.smenetwork.co.ke/index.php/index>(25/09/2017)
- Whonderr-Arthur, J. (2009). *Modern financial management theories & small businesses*. [Online]. Available: <http://ezinearticles.com/?Modern-Financial-Management-Theories-and-Small-Businesses&id=2298837> (25/09/2017)
- Wilson, A., Larson, C. & Jacobson, S. (2014). *Financing small business enterprises: Sources of information*. [Online]. Available: <http://www.loc.gov/rr/business/guide/guide3>(25/09/2017)
- World Trade Organization secretariat (2016). Trade finance and SMEs, Bridging the gaps in provision. Retrieved from: [https://www.wto.org/english/res\\_e/booksp\\_e/tradefinsme\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf) (25/09/2017)

## APPENDICES

### Appendix I: Letter of Introduction

Mr. Wycliffe Mmatta Wesonga,

PO BOX 2030

Kericho

Dear Participant,

#### RE: INVITATION TO PARTICIPATE IN A STUDY

My name is **Wycliffe Mmatta Wesonga**, a MBA candidate of University of Kabianga. I am undertaking a research entitled” *Effect of selected strategic planning practices on performance of SMEs in Nakuru Town*”. The research is purely for academic purpose. I would be pleased if you find time to complete the attached questionnaire to facilitate the study. Your participation is voluntary and any information that you will give will be treated with utmost confidentiality. No personal data will be divulged for whatever reasons and therefore take some time and answer the questions as honestly as possible. Should you have any queries, please forward them to the undersigned.

Yours sincerely,

Wycliffe Mmatta Wesonga

Mobile No: +254 724 882 992

## **Appendix II: Questionnaire**

This questionnaire seeks to determine the influence of Strategic Planning on Performance of Small and Medium Enterprises in Nakuru Town. This is an academic study and the information obtained will be treated confidentially and will not be used for any other purpose. Please answer ALL questions by putting a tick (√) in the box that closely matches your view or alternatively write in the spaces provided. I thank you for choosing to participate in this academic research.

### **Section A. Background Information**

1. Position/ Title of respondent

Owner [ ]

Manager [ ]

Employee [ ]

2. What is your gender?

Male [ ]

Female [ ]

3. Kindly indicate your age bracket

20-25 years [ ]

26-30years [ ]

31-40 years [ ]

41-50 years [ ]

Above 50 Years [ ]

4. What is your highest level of formal education?

Certificate [ ]

Diploma [ ]

Degree [ ]

Post-graduate [ ]

5. In which business sector is the enterprise?

Food & beverage [ ]

Animal feeds [ ]

Rubber & plastics [ ]

Metal & allied [ ]

Chemical & Allied [ ]

ICT and Mobile Phone Accessories [ ]

Building & construction [ ]

Electrical & Electronics [ ]

Leather & footwear [ ]

Motor vehicle & Accessories [ ]

Paper & board [ ]

Textiles & Apparels [ ]

Others (Specify) .....

6. What is the total number of full time employees in the company including founders

1-5 [ ]

6 -10 [ ]

11-15 [ ]



**Section B: Extent to which SMEs have Adopted Strategic Plan**

7. Has the enterprise adopted strategic planning?

Yes, [ ]

No [ ]

If No explain the reason(s) that has hindered adoption \_\_\_\_\_

---

---

8. Have you received any training in regard to strategic planning?

Yes [ ]

No [ ]

9. To what extent are the objectives set out in the strategic plan achieved in your enterprise?

Not at all [ ]

Low [ ]

Moderate [ ]

High [ ]

**Section C: Strategic Planning on Profitability of SMEs**

10. Please, rate the following attributes in regard to profitability of your enterprise, where 1-Strongly Disagree (SD), 2- Disagree (D), 3 – Undecided (U), 4 – Agree (A) and 5 – Strongly Agree (SA).

Enterprise attributes	1	2	3	4	5
The enterprise 's profits have been increasing significantly over the years					
Our enterprise has enough cash to meet its obligations					
Long term financial planning capabilities has deteriorated					
Our customers are quite satisfied with our products					
The enterprise is able to retain skilled & competent employees					
Sales volumes have been increasing steadily over the years					
Generation of quality products has been increasing steadily					
Employees' productivity has been increasing gradually					
The management has developed a scorecard to report data and track performance against monthly targets					
The management carries out financial assessment based on historical records to help in its planning and for future projection					

#### **Section D: Strategic Plan Adoption on Customer Satisfaction**

11. Please indicate how the following factors determined effective adoption of strategic planning in your enterprise. Use the scale of 1 to 5 where 1-Strongly Disagree (SD), 2-Disagree (D), 3 – Undecided (U), 4 – Agree (A) and 5 – Strongly Agree (SA).

Statement	1	2	3	4	5
Availability of key resources such as manpower, machines, materials and methods has attracted more customers who are satisfied with our service					
Organizational structure existent in the enterprise ensures that customers are served well					
Leadership style adopted by the management ensures that customers are served well					
Organizational culture dominant within the enterprise is customer oriented					
Globalization of markets has enables the business attract and retain customers					
Reward systems applicable within the enterprise ensures that reward is given for a referred customer					
Degree for innovations within the enterprise puts the customer needs first					
Existence of policies & regulations put in place by the government ensures that customer rights are protected					
Satisfaction among our customer have been increasing significantly					
Service efficiency in addressing customers issues has improved					

**Section E: Strategic Planning Adoption on Business Survival Rate**

12. In regard to the adoption of strategic planning, please answer the following questions.

Use the scale of 1 to 5 where 1-Strongly Disagree (SD), 2- Disagree (D), 3 – Undecided (U), 4 – Agree (A) and 5 – Strongly Agree (SA).

Statement	1	2	3	4	5
The enterprise has a documented and realistic vision statement					
Vision statement clearly shows the current & future position of the enterprise					
The enterprise has a mission statement					
The mission statement include a clear and concise expression of the enterprise’s purpose, philosophy & commitment					
The enterprise has value statements governing the operations of the enterprise and its relationship with both internal and external stakeholders					
The enterprise has set objectives to help it achieve its goals					
The enterprise has developed strategies through which the mission & objectives will be achieved					
The enterprise has set goals that are quantifiable, consistent, realistic and achievable					
The enterprise has programs that cover resources, objectives, deadlines, budgets and performance targets					

The enterprise has action plans that include: what is to be done, when to be done & who is accountable each of actions being carried out					
The management has carried out a SWOT analysis to gauge its Strengths, Weaknesses, Opportunities & Threats					
The management has identified its competitive advantage to identify what it is best at compared to its competitors					

Thank you for taking time to fill in the questionnaire. The information that you have provided will be treated with utmost confidentiality and will be used strictly for academic purposes only.