



**THE INFLUENCE OF STRATEGIC PLANNING ON PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES (SMEs) IN KENYA**

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Abstract

It is generally accepted by policy makers at local, regional and national level that small to medium sized enterprises (SMEs) are becoming increasingly important in terms of employment, wealth creation and development of innovation (Nieman, Haugh and Nieunhulzen 2003, Vesper, Boden and Roman in carland, Carland and Upton 1999).

In Kenya (SMEs) sectors employs over 80% and is currently receiving a lot of attention from the government. At macro level (SMEs) have created majority of new employment opportunities in developing countries Since 1970's (Peacock 2004). Given the significance of SMEs to the Kenyan economy and the fact that no study has been done on the influence of strategic planning on SMEs, encouraged my venture into the study.

The main objective of the study was to investigate the influence of strategic planning on performance of small and medium enterprises (SMEs). The research also seeks to assess the factors that influence SMEs decision makers to use strategic planning.

The findings were that strategic planning played a major role in performance of the SMEs and that both age and education level was significant in the use of strategic planning. This conclusion is significant to SMEs because it shows positive impact on businesses which use strategic

Key words: SMEs, Performance, Strategic planning, Shareholders

INTRODUCTION

Small and Medium Enterprises (SMEs) make up the largest business sector in energy and world economy (Cukin Smith 2000). More than 99% of all enterprises in the world are SMEs. They consist of firms varying widely in size and characteristics namely from very small Start-up firms in an infant stage of development to established SMEs already listed on the stock market.

The government around the globe is increasingly promoting and supporting SMEs growth as part of their overall national development strategy (Abdullah and bin Barkar 2000). The growth of SMEs facilities employment for employees made redundant by large firms (Stoney 1994 Frank and Land Strom 1998). SMEs are becoming increasingly important in terms of employment, wealth creation and development innovation (Neiman, Hough and Nieuwenhuizen 2003; Vespers, Boden and Roman in of carland, Carland and Ciptono, 1999). In developing countries, SMEs makes a substantial contribution to employment and comprises the majority of businesses in the nation (Burns and Dewhurst 1996; Bushong 1995). In Kenya, the largest number of businesses is comprised of SMEs. Their distribution is covered in all sectors including manufacturing, trade and services.

In spite of their many contributions SMEs are “Plagued by high failure rates and poor performance level” (Jocumsen 2004. P 659) many studies have suggested that business failure is largely due to organizational failure to plan. As Norman and Thomas (2003) noted “without a clearly defined strategy a business has no sustainable basis for creating and maintaining a competitive edge in the Market Place”

Research has consistently shown that most small and medium sized enterprises (SMEs) do not engage in strategic planning (eg. Robinson and Pearce 1984, Sexton and Van Auken 1985. Berman, Gordon and Sussman 1997. Oster, Horgarth- Scott and Riding 2000, Sanberg Robinson and Pearce 2001, Beaver 2003).

Strategic planning is an organizational process of defining its strategy or direction and making decision on allocating its resources to pursue the strategy. Strategic planning helps coordinate formulation, implementation and control. It is analytical in nature.

The concern is that by neglecting strategic planning SMEs may not achieve their full performance and growth potential and their survival could be placed at risk (Berry 1998).

Given the significance of SMEs to the Kenyan economy and the fact that no substantial study has been done on influence of strategic

planning on SMEs in Kenya justified my research. This study's main objective is to investigate the influence of strategic planning on performance, of small and medium enterprises (SMEs). In addition to these the research seeks to assess the factors influencing the use of strategic planning by managers of SMEs. It is hoped that the result of this study will guide the Kenyan government in developing and implementing useful policies for SMEs in future.

Statement of the problem

The importance of small and medium enterprises (SMEs) is well documented (Birch 1989; storey 1994). SMEs (firms with 200 or less employees) make up the largest business sector in every world economy, promoting and supporting SMEs growth as part of their overall national development strategy (Abdullah and bin Bar Kar 2000).

In United States, SMEs accounts for almost one-half of gross product, SMEs create two – third of all new jobs and invent more than one-half of all technological innovation in the U.S.A (U.S small business Administration 2005).

In Kenya the largest number of businesses is comprised of SMEs. Their distribution is covered in all sectors including manufacturing, trade and services. Strengthening SMEs is the main issue to consider when it comes to growth and

income distribution in the country. In spite of their many contribution SMEs are “plagued by high failure rates and poor performance Levels” (Jucumsen 2004. P. 659).

Management suffers from insufficient business related knowledge. Comprehensive reviews of extant studies into SMEs (eg Lurie 1987; Schweak and Shrader 1993; miller and cardinal 1994; Hormozi, Sullon, MC Minn and Lucio 2002) suggest that ceteris paribus a key determinant of business success lies in the absence or presence of strategic planning.

Strategic planning is concerned with the setting of long term organizational goals, the development and implementation of plans to achieve these goals, and the allocation or diversion of resources necessary for realizing these goals (stone house and pemberton 2002; O'Regan and Ghoba dian 2004).

The performance of SMEs has not been satisfactory and these have necessitated the importance of examining the influence of strategic planning for SMEs in more details in Kenya.

Objectives of the study

- (i). To find out the influence of strategic planning on performance of SMEs
- (ii). To explore the factors that influence SMEs decision makers to use strategic planning.

Hypothesis

Ha- There is a no relationship between the age of SME decision makers and decision to use strategic planning.

H1- There is a relationship between the age of SME decision makers and decision to use strategic planning.

Hb- There is no relationship between education level of SME manager and the decision to use strategic planning.

H2- There is a relationship between education level of SME decision maker and decision to use strategic planning.

Hc- There is no relationship between the use of strategic planning and success of SMEs.

H3- There is a relationship between the use of strategic planning and success of the Small and Medium enterprises.

The respondents of this study consisted of business owners and the operators who held managerial positions within the Small and Medium enterprises (SMEs).

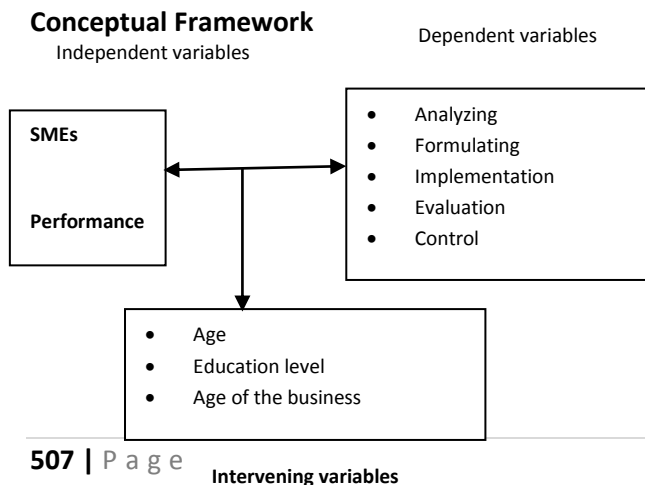
Figure 1. Conceptual framework source – self conceptualization2015

The influence of strategic planning on the performance of SMEs was measured through the success of SMEs and the factors influencing the analysis, formulation, implementation and control of strategic planning. The intervening variables were age, education level of the decision maker and the age of the business

LITERATURE REVIEW

The chapter review theoretical and empirical literature related to the study. The research identified published work and surveys done and identified the gaps to be addressed. Studies have generally shown that planning is not only important for large organizations but for SMEs as well (Rue and Ibrahim, 1998), Berma et al (1997) found that plan produce better financial results than firms that do not plan. Levner and Almor (2002) contended that planning lays the ground work for developing the strategic capabilities needed for high performance. Where strategic planning has been adopted, business usually reports that it benefits them (Barker al 1993).

However, there is a gap in the literature due to that research on the influence of strategic planning on the SMEs performance is inconclusive. The study focuses on the influence of strategic planning on SMEs and the factors



influencing the use of strategic planning by stakeholders of SMEs.

a) Influence of strategic planning on the performance of SMEs

There is no unanimously accepted definition of organization performance and it is challenging due to its numerous meanings. 1960 to 1970 Organization performance was defined as organizations ability to exploit its environment for accessing and using the limited resources (Yuchman and Seashore, 1967: p 379) as organization began to look for innovative techniques to assess performance.

According to authors Lebas and Euske (2006: p 71) organizations performance is dynamic, needs decision making and interpretation and could be exemplified through implementation of the casual model that explains how present day activity might influence imminent outcomes.

. Birley and Niktari (1995) found an association between the failure of small firms and lack of business planning. Castrogiovanni (1996) linked the lack of strategic planning with higher mortality rates of SMEs. Miller and Cardinal (1994) claims that planning produces better results than non-planning. Michalish et al (1997) stated that firms can achieve sustainable competitive advantage from such resources as strategic planning. Ackelsberg and Arlow (1985) have proven that strategically planning

enterprises achieve better financial result. O'Gorman and Doran (1999) demonstrated that the presence of a formal mission or mission statement does not seem to have direct influence on the success of small enterprises.

However an extensive review of the literature shows that research on influence of strategic planning on SMEs performance is inconclusive.

b) Factors influencing the use of strategic planning by stakeholders of SMEs

Research studies that examines the kind of the activities included in the planning process have generally identified eight areas; defining mission, setting objectives, external analysis, internal analysis, developing alternative strategies, strategy selection, implementation and control (Dess et al 2007; Stewart 2002). Time may play an important role in strategic planning on the performance of the firm. Stubbart (1982) mentioned that any casual link between environmental scanning and organization performance must be a long and tedious one.

The longer the planning process has existed within the organization by the plan the more formalized the plan process tends to become (Crittenden and Crittenden 2000), Firm owners can affect decision making processes. In SMEs, the owners of the company are often personality-driven and influenced by individual values. These owners also like to play a role in

decision making of the business (Cmilkin- Smith 2000). Some evidence exist to support a link between growth focus and the characteristics owners=managers. (Kotey and Meredult199)

RESEARCH METHODOLOGY

Research design

The study adopted descriptive survey which describes the state of affairs as it is presently. According to Donald and Pamela (2006) descriptive survey involves gathering data at a particular point in time with the intention of describing the existing conditions or identifying standards against which existing conditions can be compared on determining the relationship that exist between specific events.

Target population

The subject of the study consisted of small –to-medium sized business (SMEs) in Kenya. The ministry defines SMEs by business sector and within each sector by the number of employees (200 or less employees) or value of fixed assets (excluding lands). The four business sectors are manufacturing sectors with employees not exceeding 50 people, wholesale sector where the number of employees do not exceed 25 people , Retail sector where employees do not exceed 15 people and service sector with less than 50 people .

A sample size of 10% of the target population is considered appropriate if population of interest

is not homogenous as possible, otherwise a sample of 30% is considered.

Sampling procedures

Gay (1987) stated that sample size between 10-30% is good enough to make inference in descriptive research. The data was obtained through stratified sampling where the population was divided into sectorial stratus and the members were chosen randomly

Research instrument data collection and analysis

To determine the degree of relationship between variable and the dependent variable correlation analysis was employed..

Regression analysis was employed to determine relationship between variables. The regression model was given by the following functions

Regression model $Y=B_0+B_1X_1+E$ where Y is dependent variable (improved organization performance) and X_1 is the independent variable (SMEs performance) B_0 AND B_1 are coefficient and E is the error m of the model.

Instrumentation

Primary data was collected by use of structured questionnaires. The questionnaires had closed and open ended questions. The open ended questions were used where details were needed. Closed ended questions were easy to analyze and administer and they were economical in terms of time. The questionnaire

consists of two parts. The first part is designed to gather personal and firm information such as age, and level of education of the respondents.

The second part of the survey is based on the strategic planning process. The questionnaire could be answered in eight or less minutes because respondents are unlikely to respond to lengthy surveys.

Data type and collection method

Data was collected both from primary and secondary source, the primary data was obtained from the sample population through interviews, discussion and observation.

Secondary data was obtained from journals, newspaper articles, books and government publications.

Data analysis and publications

The data obtained was first recorded, coded and tabulated. This was done to record the various responses; the information was presented on frequency distribution chart, tables and figures. The values of outcomes of the data analysis were recorded in (%) percentage and numerical frequencies.

The analysis and presentation of data was also supplemented by the application of computer software program like Ms Excel and Statistical package for social science (SPSS) program.

FINDINGS AND DISCUSSIONS

The results show that planning in SMEs does not always take place in a highly sophisticated or formal way. It ranges from an unstructured and informal approach to a more structured and formal approach. Planning in SMEs seems to be rather unstructured, sporadic incremental and often not formalized. It seems that each form of planning, whether it is conscious or unconscious, formal or informal positively affect SMEs performance.

It appears tough to develop “standard” strategies and instruments that are equally effective in large companies and SMEs. Thus to make strategic planning in SMEs worthwhile, the respective instruments have to be aligned with the cultural, organizational and financial condition of the specific enterprise in order to be successful.

The SMEs position is often less proven and their strategies less explored overtime, planning tools will need to allow SMEs to primarily deal with external uncertainty and complexity, thereby enabling them to build their vision and to find and expand their niche.

The problem of different SMEs vary thus the procedural instructions and instruments for these enterprises will vary accordingly and have to be tailored to individual case and this implies that there will also be difference on instruments of strategic planning and their resulting output.

It is desirable if the tools allowed for an easy implementation of the necessary planning activities and are integrated with “vision development and testing.”

General information

According to the objectives various hypothesis were tested and the results were as follows.

Age of the Manager/Decision Maker

Young people are more flexible as compared to old ones. They are ready to take the risks as compared to old people who are more risk averse. Firms run by young managers were planning strategically as compared to the ones managed by older managers.

Age	Frequency	Percentage
20-25	3	16.3
25-30	4	25.5
30-35	3	34.8
35-40	5	18.3
40-45	4	3.3
Above 45	3	2.1
Grand Total	22	100

Table 2 Age of the decision maker

As indicated in the table 4.2 majority of respondents who practice strategic planning are at the age (30-35) with 34.8% and the least population using strategic planning are in the above 45 years with 2.1%. This is due to the fact that older managers tend to avoid complexity in their decision-making and hence they are reluctant to use a complex model.

Education level

An educated person exhibits a broader and more complex cognitive functioning, such as having higher capacity for information processing. Recognizing the value of new information, assimilating it and applying it to commercial ends are closely related to prior knowledge and skills (Cohen and Levinthat 1990). Such knowledge and skills are acquired partly through education. The research showed that more highly educated managers had understanding and most of them were practicing planning in their business.

Level of Education	Frequency	Percentage
Primary Level	6	6.3
Secondary	5	17.8
Certificate	7	40.4
Degree	2	35.5
Total	20	100

Table 3 Level of education

From the result illustrated in the table 4.3 above, it is clear that the level of education influences use of strategic planning. Majority who had certificate and degree had a high percentage of 40.4% and 35.5% respectively as compared to 6.3% for those with primary level education.

A more educated person exhibit a broader and more complex cognitive functioning in terms of information processing.

Age of the firms

Mature firms are more securely established and thus are positively associated with growth and performance (Begley and Boyd 1986). It was found out that SME decision makers in older firms were more inclined to strategic planning.

In conclusion results shows that age and education level of the SME decision maker are positively correlated with the decision to use strategic planning. Hence H1 and H2 are supported. The age of the SME business is also related to the use of strategic planning hence H3 is also supported.

The research also rendered that there is a significance positive correlation ($p < 0.05$) between the extent of strategic planning and the success of the firms.

Period of Operation	Frequency	Percentages
0-5	2	2
5-10	3	3.4
10-15	5	13.5
15-20	6	11.3
20-25	3	38.2
Over 25	4	31.6
Grand Total	23	100

Table 4 Age of firms

The results in table 4.4 above indicates that most of the respondents in SMEs industry who usually plan for their businesses have been in the industry for a long time (20-25) years at 38.2%. This is followed by over 25 years inexistent while those in young businesses (0-5)

years do not plan. Older firms have a wealth of organizational knowledge and creativity and this leads to strategic planning.

Correlation between strategic planning AND SMEs performance.

		SMEs strategic planning	SMEs Performance
SMEs Strategic Planning	Pearson	1	
	Significance 2 tailed		.045 **
	N	21	21
	Pearson	.131	1
	Significance 2 tailed	.045**	
	N	21	1

Table 5 Correlation between strategic planning AND SMEs performance.

****Correlation is significant at 0.01 levels (2 tailed)**

While analyzing the degree of relationship between SMEs planning and its performance if any, correlation used and SMEs strategic planning had r-value of .131 to a weak positive relationship between the two variables.

Given that P value 0.045 was lower than 0.05, the null hypothesis was rejected at 5% significant level ascertaining that there indeed is significance between the strategic planning of SMEs and their performance.

Conclusion and Recommendation

The study has important implication for the Kenyan government since the finding shows that strategic planning could benefit SMEs. The Kenya government should encourage SMEs to use strategic planning and it should provide consulting assistance, develop training courses and provide business planning soft-wares. The

operating environment both external and internal have become very turbulent and thus a study should be done to show how firms should cope with the volatile environment by formulating relevant strategies and effectively implementing them to deal with the ever changing environment.

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