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EFFECTS OF STRATEGIC PLANNING ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF MAKUENI COUNTY

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ABSTRACT

The purpose of this study was to determine the link between strategic planning and financial performance of SMEs in Makueni County. The study employed a cross sectional research design and a sample was used to represent the whole population. Questionnaires were used to collect data and were quantitatively analysed and a regression model was used to do the analysis of the findings. The regression model was a good statistical tool used in this study for it showed how the variables were interdependent by confirming their relationships from the correlation analysis. The findings confirmed that strategic planning had an effect on financial performance and the study thus concluded that strategic planning practices had an effect on net profits of SMEs in Makueni County with a 71.6% effect. There was also a positive effect of organizational characteristics on how SMEs make strategic decisions to affect their financial performance therefore concluding that organizational characteristics had an effect on financial performance of Makueni County's SMEs. There was also a positive effect of industry factors on financial performance and thus this study concludes that industry factors have an effect on financial performance of SMEs in Makueni County. The combination of the variable gave a result of 74% change which meant that strategic planning through the influence of organization characteristics and industry factors have a 74% change in the net profits of the SMEs. However, the study found industry factors to be influencing more on the implementation of the strategic plans rather than the formulation of the strategic plans. The study agreed with the previous authors who found a positive relationship with the variables. The study recommended that SMEs in Makueni County should tailor and design their organizational structure to be able to effectively adopt strategic planning practices in the organisation. The organisation structure should be able to give priority to strategic planning and this would go long way in enhancing strategic planning practices. The study further suggested that SMEs in Makueni County should enhance their competiveness in their respective industries in order to be in a better position to identify and adopt strategic planning that would enable the organisation increase its financial performance.

Key Words: *strategic planning, organizational characteristics, industry factors, financial performance*

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INTRODUCTION

Strategic planning is defined by (Grant, 2014) as the system of making and maintaining consistency between the foundation's objectives, assets and its moving plans and prospective (Yuksel, 2002) defines strategic planning as an instrument that allows making long term plans in consideration of risks and opportunities faced by the organization and improving efficiency by acting in line with the plans. Tideman (2018) describes planning as an act of formulating a course of action. Strategic planning, it is argued, to have begun with the ancient Greeks who developed a planned approach to warfare, but it was in the 1920's that the Harvard Business School, developed one of the early strategic planning methodologies for the modern industrial age. Strategic planning has been identified by scholars as a new reliable, flexible and comprehensive model for modern organisational planning (David, 2007). The sketchy and literal meaning of strategic planning may be stated as simply planning strategically, or alternatively it is a style of planning where by planners and implementers of plans place realistic strategies in all stages of planning, with participating stakeholders and tools to make sure that they are all support the effective implementation of the plans (Desmidt and Prinzie, 2009). In order to appreciate the level of success of organizations we need to be sure of its strategies. We need to look at the strategic plans of an organization and how well they have been executed. Plans provide the basic direction and focus for the organization. Strategic planning can be tracked back to the 1920's when Harvard Business School developed the Harvard policy model, one of the first strategic planning methodologies for commercial business (Mahmood, Taleghani & Sharifi, 2011) as to compare them with the success of the firm.

Financial performance of a firm can be is the ability to create economic benefits. Financial performance alludes to how much financial related goals being or has been cultivated. It is the way toward estimating the consequences of a company's arrangements and activities in financial terms. This term is additionally utilized as a general proportion of a company's in general financial wellbeing over a given timeframe, and can be utilized to look at comparative firms over a similar industry or to think about businesses or parts in conglomeration. This alludes to the estimation of the consequences of a company's techniques, arrangements and tasks in fiscal terms. These outcomes are reflected in the association's arrival on resources and profit for ventures (Leah, 2008)

Small Medium Enterprises have been described as establishments with between 1 and 250 employees and sales turn-over of three million to as high as one hundred million (Garikai, 2011) and are considered to be key economic development driving forces in nearly all economies. SME's play a major role in economy development in the world, this is supported by a study done by (Mohutsiwa, 2012) where he notes that SME's contribute on average 60 percent of total formal employment in the manufacturing and service sectors. SMEs are businesses that are individually managed by the owners or co-owners and the governance structure is not too developed (Karami, 2003). However, there is no universally accepted definition for small and medium enterprises (SMEs). Instead, it is generally defined in terms of series of measures, such as number of employees, country, sector, turnover or annual sales. Tambunan (2008) takes note of that small and Medium Ventures (SMEs) assume an indispensable job in financial advancement, as they have been the principle wellspring of business age and yield development, both in creating just as in created nations.

Makueni is County number 17 of the 47 Counties in Kenya. It was in the former Eastern Province of Kenya. The County boarders Machakos to the North, Kitui to the East, Kajiado to the West and Taita Taveta to the South. The county is located between Latitude 1º 35´ south and Longitude 37º10´ east and 38º 30´. It covers an area of 8008.7 KM2. Makueni County is predominantly inhabited by the Akamba community who form approximately 97% of the total number of the inhabitants. There are a substantive percentage of people from other communities especially in the major towns. The main economic activities in the County are subsistence agriculture, beekeeping, small scale trade, dairy farming and limited coffee growing, ecotourism and commercial businesses. Wote being its largest town and the county capital, the county has a population of 884,527 and an area of 8,008.9 km² and it is home for many SME's in different sectors of the economy. (KENBS, 2017)

Strategic planning and financial performance of SME's can be tracked since 1960s where the SME's have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies (Yitzhaki, 2006). SME's have been individual owned, family or friends coming together to start the business. The owner would run the day to day activities but did not believe on how the strategic planning would improve their performance. The strategy here was linked to the owner where he would routinely plan the daily operations of the firm.

Statement of the problem

Past investigations led on the connection between strategic planning and the financial performance of SMEs do not appear to concur whether there is a positive or a negative connection between the two factors. Some authors like (Tapino et. Al, 2005; Thompson & Martin, 2005) have a positive settlement that strategic planning consists of planning processes which have a direct impact to the performance of the organization. On the other hand authors like (O'Gorman & Doran, 1999) disagree with this position which they state that strategic planning does not have a direct impact on the performance of the firm. Without a settled agreement then it leaves a room for further investigations to see how the two variables relate. The study was able to clarify the disagreement on the relationship between strategic planning and financial performance therefore answering the question on the relationship between strategic planning and the financial performance of SME's in Kenya and if the two relationships have a common ground.

Literature on SMEs has paid little attention to the effectiveness of strategic planning in the SME sector. Much of the existing literature focused on factors inhibiting the growth of SMEs in general (Cant and Wild, 2013) whereas some concentrated on access to finance as a growth constraint (Chisasa and Makina, 2012). Previous local studies pertinent to SMEs have largely focused on their importance towards the growth of the general GDP and employment of the country and thus little has been done towards the relationship between strategic planning and financial performance of the SME's. Also these researchers have had their focus only in Nairobi County thus leaving a question on the performance of SME's in the other counties.

Previous studies (Chinyamurindi, 2016 & Jackson 2015) argue that there is need for further study on the influence of strategic planning and financial performance. Olomi, (2006) also suggests a need for a study that provides a rigorous and systematic analysis concerning the strategic planning practices and growth process of local SME's. These studies used mostly descriptive statistics for their studies and most of the findings were not conclusive on whether the relationship is positive or negative. Thus this study employed both descriptive and inferential statistics for the best results.

Study objective

The reason for this investigation is to look at the connection between strategic planning and financial performance in SME's in Makueni County. The specific objectives were:-

- To determine the connection between strategic planning and financial performance of SMEs
- To examine how organizational characteristics affect the relationship between strategic planning and financial performance of SMEs
- To determine how industry factors affect the relationship between strategic planning and financial performance of SMEs

LITERATURE REVIEW

Contingency Theory: Contingency theory helps us understand the relationship between strategic planning and financial performance of the firm. It shows us the links between the variable that make this relationship happen. Contingency theory claims that there is no most ideal approach to sort out a firm, to lead an organization, or to decide. According to (Maik, 2014) the contingency approach originated in organizational science in the 1960s and has also gained importance in other research areas in the field of business administration. This theory shows that certain performances are contingent to certain variable. (Johnsen, 2005) states that complex organizations use performance measurement to reduce uncertainty and for legitimacy. Contingency theory is an approach to the study of organizational behaviour in which explanations are given as to how contingent factors such as the technology, culture and the external environment influence the design and function of organizations. The assumption underlying contingency theory is that no single type of organizational strategy is equally applicable to all organizations. Contingency theory maintains there is no universal way to set up a business or company successfully.

Behavioral theory of the firm: The study will be based on the resource based view theory of the organization which involves a rising and overwhelming zone of the strategy literature which addresses the subject of an organization character and it is essentially worried with the source and nature of vital capacities. Performance fluctuation between firms relies on upon its ownership of one of a kind data sources and abilities. This theory will give an understanding of how strategic planning will affect the behavior of the firm. Different organizations have different structures and cultures. For instant hierarchical organizations behave according to the set rules as compared to organizations with market culture where their behavior is according to the changes in the market.

Strategic choice Theory: Strategy is considered a key variable, since by choosing specific strategic priorities; management is able to position the firm in specific environments (Dekker, Groot & Schoute, 2006). Strategic choice involves a whole process through which a decision is taken to choose a particular option from various alternatives whereby Managers and decision makers keep both the external and internal environment in mind before narrowing it down to one decision. Strategic choice clarifies the concept of strategic planning and why managers make decisions in the organizations. The concept of strategic choice is associated with the work of John Child in the 70s and continues to have a significant influence on the study of organizations and management (Harmey, 2016). According to (Emanuel, Helio, Gonzaga & Dutra, 2016) the assumptions of strategic choice theory match those established by contingency theory and assume that there is no specific model that can be applied to any type of organization in different contexts, or rather, that is unique and universal; they also propose that organizations should adapt their internal structures to the contingencies perceived in the environment in which they operate.

Balance Score Card: According to (Award, 2016) a balance scorecard is an administration framework that empowers associations to decipher the vision and system without hesitation. The framework gives criticism on interior business procedures and outside results to ceaselessly improve hierarchical execution and results. (Margarita, 2008) The Balanced Scorecard has been largely used as strategy and performance framework in private sector organizations throughout the world to facilitate the performance management process.

The balance Scorecard was created by Kaplan and Norton (1992) the significance of the examination was a developing conviction that financial related proportions of execution were inadequate for the cutting edge business endeavor. Agents of the examination organizations, alongside Kaplan and Norton, (1992) were persuaded that dependence on money related proportions of execution affected

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their capacity to make esteem. The gathering talked about various potential choices yet chose the possibility of a scorecard, including execution measures catching exercises from all through the association client issues, inner business forms, worker exercises, and obviously investor concerns.

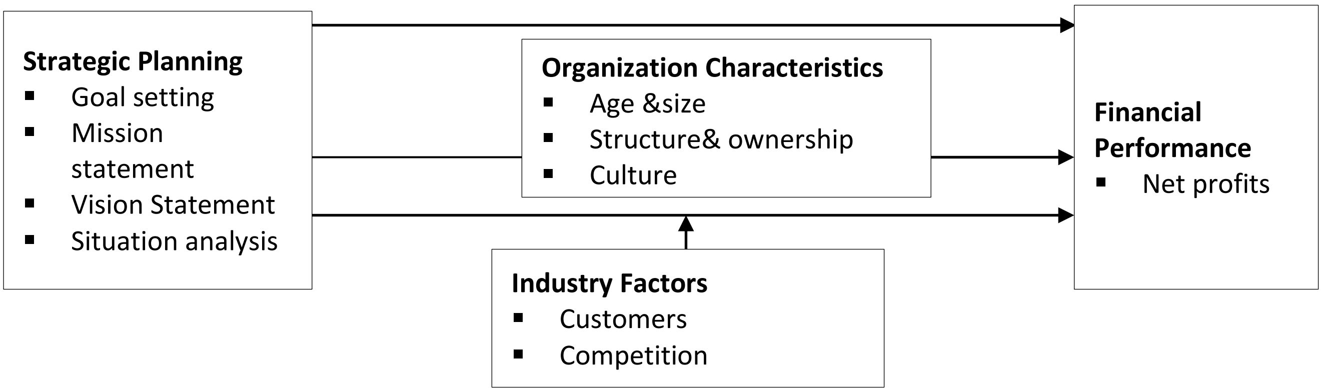

Figure 1: Conceptual framework

Source: Surveyor, 2019

Empirical review

The relationship between strategic planning and business performance has been one of the major research topics in strategy research, resulting in a respectable number of empirical investigations. Study discoveries by (Hakimpoor, 2014) proposed that associations that had a strategic plan performed superior to anything those that had no strategic planning systems. This is upheld by (Dubilihla &Sandad, 2014) who uncovered that there was a positive connection between strategic planning and performance of independent company. Further, the way to progress for independent companies in their examination was grounded in their capacity to practice strategic planning.

Arasa & K'Obonyo (2012) stressed that the success and good performance of organisations were centred on how implementation and control and evaluation of the strategic planning process is conducted. . Monday et al. (2015) uncovered that there was a positive connection between strategy formulation and financial performance in SMMEs.

Organizational characteristics are aspects of organizations that can be identified, usually in relation to performance. Modern management theory suggests that organizations with an organizational climate focused on clear organizational objectives, a clarity of organizational structure, with clear measurement systems enabling the monitoring of progress, with a clear organizational commitment to goal achievement would perform better than organizations without these characteristics.

Various empirical literatures have extensively explored the linkage between organizational structure, its many component and financial performance. Past research by (Kiptoo and Mugambi, 2015) plainly demonstrates that authoritative structure is a major factor when taking a gander at how strategic planning can be executed in associations. Without appropriate structures then key arranging probably won't see the light in some association since structures assume a noteworthy jobs in conveying the normal outcomes. Goldhaber, (2008) saw organizational structure as the network of relationships and roles existing throughout the organization; which was Specific working relationship among people and their jobs to efficiently and effectively achieve that purpose. Kaguri, (2012) noted that an understanding of an organisations structure is essential to the strategic planning development. If a structure is not compatible with a strategy, this will constrain strategy formulation and implementation. Barako et al (2007) study gives longitudinal assessment of willful divulgence rehearses in the yearly reports of recorded organizations in Kenya from 1992 to 2001. Their examination explores the degree to which authoritative structure traits, possession structure and friends qualities impact deliberate exposure of different kinds of data. Because of the board idea of their information, to appraise the determinants of intentional exposure of different sorts of data, they utilize pooled Conventional Least Square with Board Redressed Standard Mistakes. The outcomes demonstrate that, exposures of a wide range of data are affected by hierarchical structure properties, proprietorship structure and corporate attributes (Njiiru, 2014). In his research, Muriithi (2008) documented Organizational structure and Financial performance of state corporations, drawing a conclusion that better Organizational structure will improve financial performance in that respect he identified the following Organizational structure practices; appointment and leadership of the board structure of the organization, purpose and values, balance of power in the board, corporate communication and the assessment of performance of board and its responsibilities.

Organizational size is another most acknowledged determinant of a financial performance. The normal contrast between size and financial performance has been widely examined with ambiguous results. Several studies suggest that a positive relationship exists between company size and financial performance this is supported by (Prasetyantoko & Parmono, 2008) who provided a positive summary and overview of the importance of firm size. Their results showed that firm size influences profitability in some, but not all industries. Discussions of the role of firm size in explaining firm performance have been ongoing in the fields of business organization and industrial economics. Research, notably by Jelic et al (2001) and Kakani et al (2001) emphasizes on the importance of scale economies and other efficiencies in larger firms. Porter (1998) also attributes variations in profitability to group strategic behaviour in different industries. Other researchers have had a different view, For instance, Tarawneh (2006) find a firm's market share instead of its size plays a significant role in explaining its relative performance. Organizational size effects have been the focus of many prior studies. The benefits of organizational size may accrue to the financial performance of the organization. Larger organizations seem able to generate stronger competitive capability than their smaller rivals as a result of their superior access to resources, greater market power, and economies of scale and scope (Glen et al, 2003). Empirical evidence, however, has not been able to clearly verify the "size does matter"

A study by Prasetyantoko and Parmono (2008) showed that firm size influences profitability in some, but not all industries. Since profitability is ultimately determined by several complex factors including product prices, factor costs, and the production function, the relationship to size varies among industries and cannot be readily identified. Thus, the hypothesis that size does matter cannot be offered without providing relevant qualifications. Agiomirgiannakis et al (2006) recommended that size is emphatically identified with an association's capacity to deliver mechanically entangled items which thus prompts fixation. Such markets are provided by couple of contenders and are along these lines, progressively beneficial. In this manner, bigger firms approach the most productive market fragments. The experimental connection between an association's size, structure, and benefit has discovered that size is emphatically corresponded with gainfulness (Gichura, 2011)

According to Porter (1979) the state of competition in an industry depends on five basic forces: the threat of new participants, the dealing intensity of clients, and the haggling intensity of providers, the risk of substitute items or administrations, and the contention among current competitors. The combined strength of these forces according to (Maja, Marijana & Pavic, 2017) defines the ultimate profit potential of an industry. In particular, when the industry competition isn't solid, organizations can raise costs and consequently win higher benefits. In like manner, the bigger the bartering intensity of clients/providers and the bigger the danger of new participants, the lower the association's benefit.

METHODOLOGY

This study employed a cross- sectional survey research design. The population of interest in the study constituted registered SMEs in Makueni County. The population covered 3 main industries of the county which included banking services, manufacturing and water services. According to KEBS by December 2017 there were 174 registered Small and Medium enterprises in Makueni distributed across the county in the 3 industries. The population of this study comprised of categories of businesses that fit in the definition of SMEs. A stratified random sampling was used to select the sample from the population. A simple random sampling method was utilized to choose a delegate sample from every stratum. Data was collected from the entire sample population of 120. Quantitative data was collected. The questionnaire consisted of a list of structured questions, un-structured questions and Likert rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Data collected was analysed using descriptive statics. Correlation and multiple regression analysis were also used to help understand the link between variables.

RESULTS

Strategic planning and Net profits

The findings from the Likert scale showed that the highest mean score was for having a vision statement with a mean score of 4.58 with standard deviation of 0.908. This was followed by mission statement with a mean score of 4.28 with standard deviation of 0.922 as illustrated in Table 1.

Table 1: Strategic planning and Net profits

(1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)

Statement	1	2	3	4	5	Mean	Standard deviation
Mission statement has an influence on the net profits of the organization	2.2%	1.1%	15.4%	28.6%	52.7%	4.28	0.922
Vision statement influence the net profits of the organization	3.3%	1.1%	5.5%	14.3%	75.8%	4.58	0.908
Goal and objective setting determines the net profits of the organization	12.3%	16.9%	7.7%	35.4%	27.7%	4.21	1.39
Situation analysis has an influence on the net profits of the organization	4.4%	4.4%	14.3%	23.1%	53.8%	4.17	1.11

In this study vision statement was seen as the essential factor to creation a strategic change. Most of these organizations noted that with a vision statement, the organization had a clear direction for its future and it worked toward the achievement of the set objectives so as to attain the expectation of the vision statement. These results were supported by Sandada (2014), who noted that a business vision must be shared and ensure everyone’s commitment, be able to clarify the business’ desired future, be fluid, sustainable, and nurtured in a constant process. Sandada et al (2014) agree that strategic planning encourages the clarification of business goals. The study found that situation analysis had the least mean of 4.17 and a standard deviation of 1.11, this was explained by the fact that most of these SMEs were self-owned individual who most of them were investors who were risk takers and had not taken the initiative of learning the basic component of management and thus the did not see the need to do a situation analysis. This was supported by (Njeru, 2015; Mungai, 2012) who found that SMEs in Kenya do not have capacity to develop strategies internally due to lack of basic knowledge of strategic management.

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Organizational characteristics and Net Profits

The findings from the Likert scale showed that the highest mean score was for organization structure with a mean score of 4.31 and standard deviation of 1.319. This was followed by organization culture with a mean score of 3.86 and standard deviation of 1.807 as shown in Table 2.

Table 2: organizational characteristics and net profits

(1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)

Statement	1	2	3	4	5	Mean	Standard deviation
The organization size has influenced its net profits	4.6%	12.3%	12.3%	56.9%	13.8%	3.63	1.024
The organization structure has influenced the firm's net profits	12.3%	16.9%	7.7%	35.4%	27.7%	4.31	1.319
Culture has played a big role in the change of the organization's net profits	3.1%	4.6%	7.7%	72.3%	12.3%	3.86	1.807
The age of the organization has influenced the change in net profits of the organization	3.1%	16.9%	12.3%	56.9%	10.8%	3.55	1.208
The ownership of the organization has influenced the net profits of the firm	2.8%	5.0%	51.4%	31.5%	9.4%	3.39	0.834

Structure having the highest scores, the study showed that most of the organizations that embraced an organization structure had high financial performance in their net profits. SMEs were self-owned organizations and most of the times the owner or shareholders liked to run the organization without a structure. This becomes a problem when it comes to reporting purposes. The owner in this case does a micro-management by letting each and every employee report to him and this can slow down processes because it becomes a one man's show which can be overwhelming to them thus reducing productivity. This study cleared showed that there is need of a defined structure which can increase productivity. These findings were supported by Kiptoo & Mugambi, (2015) who clearly showed that organizational structure is a fundamental factor when looking at how strategic planning can be implemented in organizations. Without proper structures then strategic planning might not see the light in some organization because structures play a major roles in delivering the expected results.

Ownership scored the lowest because it does not matter who owns an organization rather what matters is how the job is done so as to achieve the vision of the organization. Some of previous studies like Qaemi and Shahyari (2009), show that the owners of the organization determine how it is governed and thus having an impact on its financial performance, this does not necessarily mean that ownership influence financial performance.

Industry factors and Net profits

The findings form the Likert scale showed that the highest mean score was for competition with a mean score of 4.14 and standard deviation of 1.049. This was followed by customers with a mean score of 3.60 and standard deviation of 1.101 as shown in Table 3.

Table 3: Industry factors and Net profits

(1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)

Statement	1	2	3	4	5	Mean	Standard deviation
Customers play a big role on influencing the change in the net profits of the firm	6.2%	7.2%	27.7%	36.9%	21.5%	3.60	1.101
Competition has a direct influence on the net profits of the firm	3.3%	3.3%	18.7%	25.3%	49.5%	4.14	1.049

Competition is a big aspect on the performance of any organization. The results from this study showed that competition had a high influence in the financial performance of the organization that is it determined the changes in net profits. High competition makes the organizations set better strategies so as to compete well in its environment. These findings were supported by previous study on the effect of competition by (Hermes, Lensink & Meesters, 2008) that showed a strong relationship between the variables where they indicated that with increase in competition, the firm will employ better strategies to cope with the situation, increasing its financial performance and thus leading to its growth. The high level of competition in the business environment forces companies to improve their performance.

Correlation Analysis

Table 4: Strategic Planning and Net Profits Correlation

		Goal setting	Mission	Vision	Situational Analysis
Goal setting	Pearson Correlation	1			
	Sig. (2-tailed)				
Mission	Pearson Correlation	.492**	1		
	Sig. (2-tailed)	0			
Vision	Pearson Correlation	0.137	.320**	1	
	Sig. (2-tailed)	0.141	0		
Situational Analysis	Pearson Correlation	.287**	.247**	0.079	1
	Sig. (2-tailed)	0.002	0.007	0.4	
Net profits	Pearson Correlation	.223*	.346**	.408**	0.176
	Sig. (2-tailed)	0.016	0.000	0.000	0.058

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

* Correlation is significant at the 0.05 level (2-tailed).

The results showed that there was a positive and statistically significant association between goal setting (r = 0.223, p = 0.016), mission (r = 0.346, p = 0.000), and vision (r = 0.408, p = 0.000). This means that an increase in the organisation goal setting of 1 unit, will increase the change in net profits by 0.223, a 1 unit change in creation of mission statement changes net profits by 0.346, a 1 unit change in vision statement changes net profits by 0.408 and a 1 unit change in situation analysis changes net profits by 0.176. The findings showed that conducting a situational analysis had a positive but insignificant association with financial performance (r = 0.176, p = 0.058), while having a vision statement had the highest significance with (*r = 0.408, p = 0.000)* and thus supporting our findings from the Likert scale analysis.

Table 5: Organization characteristics and Net profits Correlation

		Ownership	**Structure**	**Age**	**Size**
Ownership	Pearson Correlation	1			
	Sig. (2-tailed)				
Structure	Pearson Correlation	0.167	1		
	Sig. (2-tailed)	0.073			
Age	Pearson Correlation	.206*	0.112	1	
	Sig. (2-tailed)	0.026	0.231		
Size	Pearson Correlation	-0.032	-0.098	0.138	1
	Sig. (2-tailed)	0.729	0.295	0.137	
Net profits	Pearson Correlation	0.111**	0.390**	0.162	0.256
	Sig. (2-tailed)	0.232	0.000	0.081	0.005

* Correlation is significant at the 0.05 level (2-tailed).

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

In reference to correlations between the organisation characteristics and firm performance, the findings indicated that there was positive and significant associations between organisation structure (r = 0.390, p = 0.000) and organisation size (r = 0.256, p = 0.005) on net profits. However, age (r = 0.162, p = 0.081) and ownership (r = 0.111, p = 0.232) had positive association with financial performance (net profits) but these were insignificant. This meant that an increase in the organisation structure of 1 unit, will increase the change in net profits by 0.390, a 1 unit change in organization size changes net profits by 0.256, a 1 unit change in organization age changes net profits by 0.162 and a 1 unit change in the organization ownership changes net profits by 0.176 and thus supporting our findings from the Likert scale analysis.

Table 6: Industry factors and Net profits Correlation

		Competition	Customers
Competition	Pearson Correlation	1	0.03
	Sig. (2-tailed)		0.746
Customers	Pearson Correlation	0.03	1
	Sig. (2-tailed)	0.746	
Net profits	Pearson Correlation	.291**	.201*
	Sig. (2-tailed)	0.001	0.029

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

* Correlation is significant at the 0.05 level (2-tailed).

The findings indicated that there was a positive and significant association between industry factors and financial performance. The results showed that competition had an r value of 0.291 and a p value of 0.001. Customers indicated an r value of 0.201 and p value of 0.029. This suggested that an increase in the market competition of 1 unit had 0.291 effects on net profits and competing for customers had a positive effect on the organizations' net profit of 0.201.

Table 7: Correlation Coefficients

		Organizationalcharacteristics	Strategic Planning	Industry factors
Organizational characteristics	Pearson Correlation	1		
	Sig. (2-tailed)			
Strategic Planning	Pearson Correlation	.412**	1	
	Sig. (2-tailed)	.000		
Industry factors	Pearson Correlation	.343**	.237**	1
	Sig. (2-tailed)	.000	.000	
Net profits	Pearson Correlation	.442**	.561**	.386**
	Sig. (2-tailed)	.000	.000	.000

* Correlation is significant at the 0.05 level (2-tailed).

The findings showed positive and significant association between organizational characteristics (r = 0.442, p = 0.000), strategic planning (r = 0.561, p = 0.000), and industry factors ($\boldsymbol{r}$ = 0.386, p = 0.000) and net profits as shown in Table 7. These findings were supported by earlier studies. Dubilihla &Sandad, 2014) uncovered that there was a positive connection between strategic planning and financial performance of small businesses. Further, the way to progress for independent companies in their investigation was grounded in their capacity to rehearse strategic planning. Monday et al. (2015) revealed that there was a positive relationship between strategy formulation and organizational, financial performance in SMEs.

Regression Analysis

Table 8: Strategic planning and Net profits Regression analysis

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.846[a]	.716	.694	.22086

a. Predictors: (Constant), Strategic Planning

Table 9: Strategic planning and Net profits Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.943	3	4.214	30.361	.000[b]
	Residual	11.432	47	.144		
	Total	26.375	50			

a. Dependent Variable: Net profits

b. Predictors: (Constant), Strategic Planning

Table 10: Mediator Regression Analysis

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.740[a]	.548	.515	.42086

a. Predictors: (Constant), Organizational characteristics, Strategic Planning, Industry factor

Table 11: Mediator Anova Analysis

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.009	3	3.003	16.955	.000[b]
	Residual	7.439	47	.177		
	Total	16.449	50			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Organizational characteristics, Strategic Planning, Industry factors.

Table 12: Joint Effect Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.921	.599		1.538	.131
Organizational characteristics	.322	.110	.337	2.926	.006
Strategic planning	.819	.169	.663	4.852	.102
Industry factors	.301	.130	-.283	-2.314	.026

a. Dependent Variable: Net profits

CONCLUSION

The study addressed the relationship between strategic planning and financial performance of SME's. The first objective of the study was to determine the link between strategic planning and financial performance of SME's. The findings confirmed that strategic planning had an effect on financial performance (net profits) and the study thus concluded that strategic planning had a 71.6% influence in the change on financial performance (net profits) of SMEs in Makueni County. The second and third objectives of the study were to determine how organizational characteristics and industry factors mediated the relationship between strategic planning and financial performance of SME's. The findings showed that industry factors and organizational characteristics and industry factors had a mediator effect on strategic planning and financial performance (net profits) of SMEs causing a 74% change. The study concluded that organizational structure of the organisation, the age of the organisation, and size of the organisation were mediator variables for strategic planning and financial performance of SMEs.

RECOMMENDATIONS

- The study recommends that sampled SMEs in Makueni County should take corrective action-review and address gaps between current position and the targeted goals of the firm to be able to adopt strategic planning more effectively.
- The study recommends that sampled SMEs in Makueni County should tailor and design their organizational structure to be able to effectively adopt strategic planning in the organisation. The organisation structure should be able to give priority to strategic planning and this would go long way in enhancing how strategic planning is done.
- The study recommends that sampled SMEs in Makueni County should enhance their competiveness in their respective industries in order to be in a better position to identify and adopt strategic plans that will enable the organisation increase its financial performance.
- The study recommends that the SME's in Makueni county should adopt an organization culture which will help them to perform better in future

Areas of Further Study

This study aimed at examining strategic planning and financial performance of SMEs in Makueni County. There is need for further study on strategic planning of SMEs in other counties.

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