THE EFFECTS OF STRATEGIC PLANNING ON THE
PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES
IN NAIROBI

BY

MAHORO SHAMI FAITH

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SUMMER 2017
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A Research Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SUMMER 2017
STUDENT’S DECLARATION
I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University - Africa in Nairobi for academic credit.

Signed: __________________________  Date: __________________________

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This research report has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________  Date: __________________________

___________________________
Dr. Joseph Ngugi

Signed: __________________________  Date: __________________________

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Dean, Chandaria School of Business
ABSTRACT

The purpose of the study was to establish the effects of strategy planning in the management of Small and Medium Enterprises (SMEs) in Nairobi. The study was guided by the following research questions: How the use of vision, mission and action plans in the strategic planning process lead to the performance of Small Enterprises, what are some of the strategic planning practices by SME’s and what is the influence of these SME’s performance?

The study used the descriptive research design because it employs a survey research. The population consisted of all SMEs in Nairobi. The sampling frame was obtained from the East African Business Directory as at 2017. The study adopted probability sampling and specifically stratified random sampling. The sample size for this study was 30. The researcher used questionnaires to collect data from the target population. The researcher coded and input the data into the Statistical Package for Social Sciences (SPSS) software for analysis. Data was analyzed using descriptive analysis that included means and percentages to show the frequency of responses and ratings of various items of the questionnaires. The standard deviation was used for analysis to indicate the measure of variability between the questionnaire items. Inferential statistics was utilized to measure the existing relationship between study variables. Correlation analysis was used to determine significant factors for strategic planning (independent variable) and performance of SMEs (dependent variable).

The study showed that that a company’s mission and vision are crucial elements of strategic management in the organization, and business vision and growth are reinforced by strategic focus on market growth and profits. The study revealed that strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they are meeting their goals and objectives, and SME owners/ managers include employees in the decision-making plan of their business. SME owners/ managers have developed a decision-making routine that simplifies the process of decision-making for them, and they have improved their level of understanding of competitors strategies through strategic planning.

The study revealed that the nature of SME business requires specific, predetermined behavior by means of formal direction and control to be successful, and strategic planning
structures and systems in the business contribute towards building SME organizational capabilities that drive performance. The study indicated that SME owners/ managers are keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend, and entrepreneurs monitor their environment by collecting information in all environmental sectors, sort out relevant information and adjust their business to meet future forecasts. The study showed that, the existence of the support programmes that provide SME business with a back-up plan has ensured that SME businesses are strengthened and have realized growth, and SME businesses have an advantage in terms of making quick decisions and the willingness to take risks.

The study showed that setting performance targets allows SME owners/ managers to translate organization vision and strategy into strategic objectives that are associated with medium to long-term goals, and also to reconfigure existing business capabilities and also build new capabilities. The study revealed that SME owners/ managers normally do not grant rewards to employees to influence their behavior, and SME owners/ managers have a feedback systems in place that influences the development of new capabilities and organizational learning, and feedback given by customers helps SME businesses to reinforce their operational systems and subsequently turns out to be more focused.

The study concludes that SME owners/ managers normally do not grant rewards to employees to influence their behavior, and SME owners/ managers have a feedback systems in place that influences the development of new capabilities and organizational learning. High competition in the market has reinforced owners/ managers’ ability in making effective choices about when to leave marketplaces and about which new ones to move into and being innovative. The study recommends SME owners/ managers to employ the use of rewards for their employees. Rewards either intrinsic or extrinsic are normally used by large organizations to influence employee behavior with relation to them improving performance. SME’s could also apply the same to facilitate better performance from their employees.
ACKNOWLEDGEMENT

I would like to express my special thanks of gratitude to my supervisor Dr. Joseph Ngugi as who gave me the golden opportunity to do this research project, and his invaluable guidance throughout the process.

Secondly, I would like to thank my colleagues, and friends whose insight and support helped me in finalizing the research project within the stipulated time frame.
DEDICATION

I thank God for the gift of life and good health throughout the research period.

I dedicate this research project to my parents for facilitating my education, and to my employers for giving me an ample time to carry out this study.
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LIST OF ACRONYMS

CBS: Circuit Business Systems Group Limited
GDP: Gross Domestic Product
HR: Human Resource
ICEG: International Congress of E-government
ILO: International Labor Organization
IT: Information Technology
LED: Local Economic Development
MSEs: Micro and Small-Size Enterprises
OECD: Organization of Economic and Cultural Development
PMS: Performance Measurement Systems
SMEs: Small and Medium sized Enterprises
SPSS: Statistical Package for Social Sciences
UK: United Kingdom
USA: United States of America
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Globalization has brought about wild rivalry internationally furthermore, remotely to numerous organizations. Given the intense competition and always showing signs of change economic and market situations, business performance has turned into an essential issue among researchers and professionals. Therefore, both researchers and business experts have been occupied with distinguishing the precursors of business performance. Mission and vision, ecological checking and formality of strategic planning are among the elements that have been perceived in the past literature as indicators of business performance (Bart and Hupfer, 2004; Seena, 2006). The analysts show why it is urgent for organizations to analyze their environment in order to formulate the right strategies. They additionally exhort SME’s to have a mission and vision articulation to give bearing to the business and to have a formal strategic plan as it supports strategy implementation process.

Research has clearly indicated that most Small and Medium sized Enterprises (SMEs) globally do not engage in strategic planning (O'Regan, and Ghobadian, 2012). This is at odds with much of the strategy literature that dictates that enterprises must actively plan for the future to compete effectively and survive (Noble, 2010). Accordingly, SME owner-managers have been accused of being strategically myopic and lacking the long-term vision as to where their company is headed (Robson, 2014). The concern is that by neglecting strategic planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk (Rhodes, 2015). Consequently, considerable research effort has been expended on identifying ‘barriers’ that hinder planning in order that these may be overcome or else mitigated to encourage strategic planning in SMEs. SMEs can be defined as the small and medium business enterprises or units that engage in small scale business ventures of which their turnover rate is small. SMEs can be owned by an individual, family or a group of individuals who have come together, pooled their resources to start the business venture (Sathe, 2015). SMEs play a crucial part for the economic growth of a country. SMEs contribute to outputs and employment and also affect the competitive ability of the large organizations (Rosa,
Carter and Burns, 2014). SMEs can influence the competitiveness of large organizations by providing high quality inputs (Hogarth-Scott and Riding, 2010).

The importance of SMEs for future economic development has been reflected in several policy papers which have focused attention on the role of entrepreneurship, owner-managers and the small firm sector (Walker and Brown, 2014). The academic literature in strategic planning of SMEs has been very limited. Peacock, (2014) explains that although the nature of strategic planning processes has been shown to have an important effect on the performance of firms, the field of strategic planning in SMEs is still in the early stages of its development. Its adolescence, relative to other more established areas of business and management theory, is evidenced by inconsistent and conflicting viewpoints. Ogunmokun, Shaw, and FitzRoy (2011) and only a few researchers have addressed the strategy-making processes of SMEs (Mintzberg, 2014).

Limited research can also be observed on the usage of information from SMEs when strategically planning. Canberra, (2013) suggested that there is a need for more research that explores in much greater depth how managers use financial and non-financial information. Recent research has shown that most SMEs are unable to utilize strategic planning techniques. Hence, the aim of this study is to establish the effects of strategy planning in the management of Small and Medium Enterprises in Nairobi. Specifically, the objectives of the study are to explore how SMEs track and make sense of the changes in order to survive and compete in such turbulence markets using strategic planning, to determine how SMEs strategic planning to manage the transformation required and examines how SMEs grow the organization and ensure its long-term sustainability using strategic planning.

Strategy is a term that is widely used by senior and middle managers. But the term seems to have multiple of meanings. There is no commonly accepted and universal meaning of strategy (Quinn, 2011). Due to this fact, the definition of strategy has been the subject of extensive research since the 1960s. It has been described as the process of determining the long-term goals and objectives of an organization, by adopting a specific course of action and by allocating sufficient resources (Holmes, 2011). This traditional and rational definition that was later challenged by Mintzberg contention that strategy was more a
pattern of action resulting from intended or unintended strategies. Mintzberg claimed that strategy could be something more than an explicit plan of action. His five strategies dimensions that he recognized were: strategy as plan, strategy as pattern, strategy as ploy, strategy as perspective and strategy as position. These have been the basis for opening up the definition of strategy to a wider context of use (Mintzberg, 2014).

Strategic planning concentrates on the setting of long-term organizational objectives, and the implementation of plans designed to achieve them. A suitable definition of strategic planning can be the devising and formulation of organizational level plans which set the broad and flexible objectives, strategies and policies of a business, driving the organization towards its vision of the future (Stonehouse and Pemberton, 2012). Mason, Pinch and Storey (2011) noted that further work was needed to enable business to understand strategic planning by arguing that while there has been considerable progress in developing frameworks that explain differing competitive success, at any given point in time, our understanding of the dynamic process by which firms perceive and ultimately attain superior market positions is far less developed.

Academic research has been conducted on several broad fronts in order to define strategy in SMEs, from planning processes, to the individual personality of the owner-manager and the growth of a wide range of available advisory services providing information on strategic choice. Perry (2011) have argued that strategy should be examined in the everyday operating environment of the small firm. The formulation of strategy in SMEs has been the theme of many academic researchers. Some studies by Holmes and Zimmer, (2014) have examined the link between planning and performance in SMEs, while others such as Mille and Cardinal (2014) have explored the difficulty of defining planning and strategic planning, and its dimensions, such as planning formality and performance in the small firm context.

The definition of strategy in SMEs is often perceived as person centered rather than process driven. The performance of small firms is linked with the leadership style of the owner. Nahavandi and Malekzedah (2013) argued that the style and personality of the manager is central to the strategy definition process. Further, Noble (2010) after a series of exploratory interviews with the managing directors of SMEs, suggests that strategic
deployment often fails as a result of SMEs’ inability to forecast and overcome implementation barriers. O’Regan and Ghobadian (2012) indicated a number of general barriers relating to the constraint of strategic planning implementation such as communication was inadequate, implementation took longer than expected, a shortfall in employee skills, objectives of strategy were not clearly understood by the staff, ineffective co-ordination of implementation, crises distracted attention from implementation, unexpected external problems arose and external factors impacted on implementation.

The importance of the SME sector in Kenya was first recognized in the International Labor Organization report (ILO) in 1972. The report underscored the sector’s critical role in promoting growth in incomes and employment (African Economic Outlook, 2016). According to African Economic Outlook (2016) report, the SME subsector plays a significant role in the Kenya’s economic structure, where the sector has employed close to 80% of Kenya’s total workforce. While the SMEs subsector constitute close to 80% of employment, it only contributes to about 20% of the country’s Gross Domestic Product (GDP). This implies dismal subsector performance despite its potential contribution to employment, income and equity as was asserted in the ILO report in 1972. The paltry performance of the SMEs in Kenya is linked to several constraints among which the regulatory and institutional framework is alleged to be one of the factors (Karami, 2015).

The attempts to address the growth of SMEs in Kenya can be mirrored in the current constitution of Kenya enacted in 2010, where devolution has been embedded as a key instrument in fostering Local Economic Development (LED) initiatives (Benneworth and Roberts, 2012). The devolution instruments is expected to affect the key drivers of the economy related to the SMEs which requires a local driven SMEs policy embedded on the devolution structure. However, the policy framework to promote the local economic development of SMEs has been pegged on wider national policies for a long time, with limited emphasis on local led development strategies (Government of Kenya, 2015). According to Litvack, Ahmad, and Bird (2015), there is need to develop policies which seek to realign the overall SMEs policies with the envisaged devolution framework as outlined in the current Constitution. A window of opportunity has been opened through the County system of government with its focus on local economic development
opportunities based on local resources (Government of Kenya, 2015). Thus, this study aimed to establish the effects of strategy planning in the management of SMEs in Nairobi.

1.2 Statement of the Problem

According to Peacock (2004), at a macro level, SMEs have created more new jobs in the Organization of Economic and Cultural Development (OECD) countries since the 1970s. Their contribution to respective GDPs were 30% in Australia and New Zealand, 51% in the United Kingdom (UK) and United States of America (USA), 57% in Canada and Japan and 76% in Luxembourg (Morton, 2016). It is evident to note that SMEs are a major source of entrepreneurial skills, innovation and employment. Most prospering countries have SME driven economies because the sector is cornerstone of strong economic growth. Employment opportunities, reduction in poverty levels and subsequent improved standards of living are some of the major contributions of the SME sector (Kombo, Murumba, and Makworo, 2015).

In Kenya SMEs has employed 80% of the labor force and contributed over 20% of the country’s GDP. More than 90% of businesses come from the SMEs sector. The most popular form of SMEs being Jua Kali, and this makes up 30% of total employment. The recent Kenya Economic Survey noted that out of 503,000 jobs created in 2014, 440,400, or 80%, were in the SME sector. It is acknowledged that Micro and Small-Size Enterprises (MSEs), including agriculture and rural businesses, have contributed greatly to economic growth (Kombo, Murumba, and Makworo, 2015). Strategic planning practices have been for a long time designed for implementation by large firms. This process has been otherwise adopted by most MSEs in countries like Germany and Britain. This is because of their positive impact on organizational performance (Morton, 2016). In Africa, MSEs strategic planning constitutes an important path to successful business operations. Because of the highly competitive environment in Nairobi, the practice of strategic planning is also equally important to SMEs, as it is for large organizations (Kombo, Murumba, and Makworo, 2015). However, the degrees of formality vary depending on the complexity, size and requirements of businesses.

There is little which is known about the strategic planning process within SMEs. Previous studies on strategic planning research have focused on large multinational firms (Beaver, 2013). These processes are often complex, involve multiple actors and are frequently the
result of politics (Kelmar and Noy, 2010). Although strategic planning in large corporations worldwide has been well documented, the influence of strategic planning in the performance of SMEs has not been extensively investigated by academic researchers. Karami, (2015) asserts that SMEs entrepreneurs may fail to apply strategic planning practices as compared to managers in large organizations, which implies that there is a difference in strategy implementation process present in small firms. Investing in the personnel and skills, reacting to external competition, customer loyalty, and product differentiation are some of the variables that would affect the performance of SMEs. Hence, it is on this background that the study aimed to fill the gap in literature by providing new empirical evidence on the effects of strategic planning in the performance of SMEs in Nairobi.

1.3 Purpose of the Study
The purpose of the study was to establish the effects of strategy planning on the performance of SMEs in Nairobi.

1.4 Research Questions
1.4.1 Does a vision, mission and action plan as strategic planning practices lead to performance of small enterprises operating in Nairobi?
1.4.2 What is the nature of strategic planning practices by SMEs in Nairobi County?
1.4.3 How does the strategic planning practices contribute to the performance of the SMEs in Nairobi County?

1.5 Importance of the Study
1.5.1 Owners and Managers of Small and Medium Enterprises
This study may assist owners and managers of SMEs appreciate the benefits of strategic planning. It may assist them to evaluate their business and counter check the day to day operations against set goals as well as their organizations mission and vision statements. This study brings out clear difference between the companies that employ strategic planning as a management tool and those that do not. The owners and managers are able to emulate from their counterparts who are performing better in the businesses that they run.
1.5.2 Government of Kenya
The Kenyan Ministry of Trade runs several loan schemes that are aimed at promoting SMEs in the country. The target group for their schemes are not usually business trained therefore, this study may be of importance to them as it avails to them information about how the various SMEs are managed. It also provides them with a training tool to facilitate their beneficiaries of how they can run their businesses in a more efficient way. This in return, may help them achieve a lower default rate for the businesses that they advance loans. Moreover, the study may assist the ministry in coming up with policies that may assist it in the running of SMEs in the country. There has been very little research in this area of strategic planning, yet it may positively influence many businesses.

1.5.3 Upcoming and Future Entrepreneurs
Most entrepreneurs in Kenya engage in business without carrying out sufficient research in the field that they want to get involved in. This study serves as a reference tool to new and upcoming businessmen as it outlines the way businesses conduct their affairs. The entrepreneurs may be better informed about the ventures and the way they can manage their businesses in a more efficient manner.

1.5.4 Financiers
This study avails information to both banks and other financial institutions on the way SME owners and managers run their organizations. They can also use this research to educate their borrowers on ways in which they can steer their companies to greater heights of success. This in return may reduce the rate of default due to failure of most businesses as a result of mismanagement.

1.5.5 The Kenyan Public
Most SMEs eventually wish to grow to become public companies with share that are quoted in the stock exchange. This information may assist the general public find out more on how these companies grew and what management system assisted them to achieve their success.
1.5.6 Scholars
This study serves as a reference tool for researchers interested in the implementation of strategic management process in SMEs, not only in Nairobi but also in other African countries. There has been little research and literature on strategic planning as a concept of management in Kenya and especially in regard to SMEs.

1.6 Scope of the Study
The study mainly relied on Kenyan examples in order to present the findings. Examples from the East African Community (EAC) were considered and used significantly due to their relevance in future purposes for the researcher. However, literature on strategic planning and the role of strategic planning was sourced from international journals and management books. Therefore, the study touched on strategic planning and its effects on managing SME’s. The study was done during the months of January 2017 – May 2017.

1.7 Definition of Terms
1.7.1 Entrepreneurship
According to Mazzarol (2014) entrepreneurship is the capacity and willingness to develop, organize and manage a business enterprise along with its risks with an aim of making profit. The most obvious example of entrepreneurship is the starting of new businesses. It is also the attitude and capacity to innovate and take initiative. It can be defined as the combination of initiatives and calculated risk-taking associated with rectifying market opportunities, mobilizing resources and managing them efficiently in the operation of productive, viable and socially responsible enterprises (Miller, 2012).

1.7.2 Small and Medium Enterprises (SMEs)
These are small and medium business enterprises or units that engage in small scale business ventures of which their turnover rate is small. SMEs can be owned by an individual, family or a group of individuals who have come together, pooled their resources to start the business venture. Capital base for small and medium enterprises is limited due to their inability to access funding from financial institutions that have put a stringent rule which shut most of the SMEs out (Stewart, 2012).
1.7.3 Strategic Control and Evaluation
Strategic Control and Evaluation is the process of evaluating the usefulness of a given strategy in achieving the organizational objectives and taking corrective actions whenever required. This is the process tracking a strategy as it is being implemented, detecting changes and problems in its underlying premises and making necessary adjustments (Pearce and Robinson, 2014).

1.7.4 Strategy Formulation
This is the analytical procedure of preparing a plan that is a set of goals, the intended actions required to achieve the goals, and forecasts of the consequences of those actions over a long period of time (Storey, 2014).

1.7.5 Strategic Management and Strategic Planning
Strategic management is a set of decisions and actions that result in the design and activation of strategies in order to achieve the objectives of the organization. It is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve the organizations objectives (Stanworth and Stanworth 2011). Strategic planning involves creating fundamental actions and decisions that will guide and shape an enterprise, its clients and its business activities.

1.7.6 Strategy Implementation
This is the procedure of designing systems to ensure that the plans are carried out in the intended manner and periodically adjusted to keep the organization on track to achieve its goals (Lewis, 2014).

1.8 Chapter Summary
Chapter one presents the background information on strategic planning and SMEs. The chapter also outlined the specific objectives of this research, the significance of the study, importance and the scope of the study as well as the working definitions of specific terms used in the project. Chapter two focuses on the literature review of the study, chapter three discusses the research methodology, chapter four presents the results and findings of the study, and chapter five offers the study discussions, conclusions, and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This section reviews literature on the following research objectives: the first section explores how SMEs track and make sense of the changes in order to survive and compete in such turbulence markets using strategic planning. The second section explores how SMEs use strategic planning to manage the transformation required and the third section provides literature on how SMEs grow the organization and ensure its long-term sustainability using strategic planning.

2.2 Vision, Mission and Action Plan in Strategic Planning

These strategic elements that are crucial for strategic planning are namely Mission statement, vision, Objectives, Strategies and action plans. Mission and vision are crucial elements of strategic management. The difference between vision and mission is in its time component; mission determines what the company does, whereas vision shows what the company will become and do in the future. Visions can be considered sources of energy for achievement of formulated objectives. Vision, Mission and Strategies are interconnected elements of entrepreneurial perspective; together they turn the entrepreneur’s wish for a positive change into a managerial tool for achievement of that change. Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create (Ireland, 2012). Even if in a small firm the entrepreneur usually acts as a strategic manager taking all strategic and operative decisions (Hunger and Wheelen, 2012), strategic vision forms a basis for strategy development and strategic planning.

In order for the firm to grow, the entrepreneur needs to formulate an exact, clear Mission and Vision for his or her firm (Wickham, 2008). In addition to the company’s vision, growth will be reinforced by a strategic focus on market, growth and profits. Indeed, planning of corporate or business strategy needs to be centered on the market, product and service (Hunger and Wheelen, 2010). Vision and objectives are the bases of strategies and strategic planning. For an entrepreneur, it is beneficial to have a clear vision, high and growth-oriented objectives, and a belief that he or she can achieve the objectives (Baum et al., 2009). In order to be successful and to grow, the firm needs to formulate high,
optimistic, growth oriented objectives (Wickham, 2008). In addition to growth objectives, other objectives (financial or non-financial, personal or non-personal) may play important roles in actual achievement of small firm growth. Action plans on the other are the pathways or avenues that guide the entrepreneur on how to reach the set objectives. Action planning typically includes deciding who is going to do what and by when and in what order for the organization to reach its strategic goals.

Strategic planning is a process that brings to life the mission and vision of the enterprise. A strategic plan, well-crafted and of value, is driven from the top down; considers the internal and external environment around the business; is the work of the managers of the business; and is communicated to all the business stakeholders, both inside and outside of the company. As a company grows and as the business environment becomes more complex the need for strategic planning becomes greater. There is a need for all people in the corporation to understand the direction and mission of the business (Kantabutra and Avery, 2010).

Companies consistently applying a disciplined approach to strategic planning are better prepared to evolve as the market changes and as different market segments require different needs for the products or services of the company. The benefit of the discipline that develops from the process of strategic planning, leads to improved communication. It facilitates effective decision-making, better selection of tactical options and leads to a higher probability of achieving the owners’ or stakeholders’ goals and objectives. Strategic planning can be a challenging process, particularly the first time it is undertaken in a company. With patience and perseverance as well as a strong team effort the strategic plan can be the beginning of improved and predictable results for a company. At times when the business gets off track a strategic plan can help direct the recovery process (Kantabutra and Avery, 2010).

When strategic planning is treated as an ongoing process it becomes a competitive advantage and an offensive assurance of improved day to day execution of the business practices. Use of an outside, independent facilitator can help in the process and in the development of a strategic plan. Developing a vision of success for the organization is recognized as a useful step in strategic planning. After all, if you don’t have a dream or
vision of success, any plan may seem appropriate or feasible. A vision of success clarifies which tactics, activities or programs should be of priority, and helps identify which are not particularly appropriate or useful. A vision of success also helps you to establish benchmarks or milestones to indicate whether or not you are meeting your goals and strategic objective (Kantabutra and Avery, 2010).

2.2.1 Investment in Personnel and Skills
There are however, principles and required steps that optimize the value of strategic planning. A notable strategic planning practice is investment in right work force and aptitudes. Human Resource (HR) is necessary part players in any venture. Employees are integral to the performance of an enterprise. Strategic planning goes for guaranteeing that the diverse employees in the venture are sufficiently gifted to handle tasks as required (Sadler, 2003). Generally, employees are principal resources in the organization. A viable personnel guarantee that the enterprise accomplishes the most astounding measures of intensity. Conversely, insufficient personnel are a stage for retrogressive performance and hierarchical difficulties. The world's best corporate foundations are related with in fact skilled employees who keep up remarkable models of demonstrable skill (Cesnovar, 2006). The achievement of the distinctive objectives and focuses of a little enterprise is unequivocally controlled by the performance of employees. The quality of an organization's picture is likewise subject to how it has put resources into work force and abilities. Among the most remarkable stages for boosting the performance of the personnel is inspiration.

Strategic planning encourages for the applicable techniques for spurring employees for their diverse errands. For example, it is important to offer appealing rewards to the staff. This aide as far as improving their loyalty towards the organization. Delegation of job is likewise a critical perspective that encourages for fabulous measures of motivation. Designation goes about as a pointer of the association's certainty with its personnel (Hill and Jones, 2012). Therefore, the high-ranking executives must coordinate different employees into the decision making process. Team work is additionally a fundamental stage that advances the productivity of representatives. At the point when employees work in groups, they create each other while likewise building up proficient connections. This can without much of a stretch guide an enterprise towards achievement. Investment
in work force is likewise emphatically connected with incredible models of advancement. In the current business area, development is essential regarding profitability and aggressiveness in the market. Talented employees are exceptionally inventive, and this is enormously helpful to an enterprise. Powerful personnel are a basic impetus for cost relief.

### 2.2.2 Decision Making Practices with Small and Medium Enterprises

Firstly, entrepreneurs face a more hostile or uncertain environment in their decision-making activities. They do not have access to extensive information such as managers of large firms. Managers of large firms tend to be backed up by staff members to continuously scan the environment and gather information. Secondly, the entrepreneurial environment is dynamic and complex. Although this may also apply to large firms, the effects of dynamism and complexity seem to be stronger for smaller firms. Large firms often develop decision-making routines that simplify the process of decision-making for managers. Entrepreneurs do not develop such routines and often act on the basis of opportunism. They tend to make decisions on the basis of biases and heuristics (Matthews and Scott, 2015).

Furthermore, in a more dynamic and complex environment it is believed that the comprehensiveness (or rationality) of strategic planning decision processes tends to be lower (Mugenda and Mugenda, 2013). The strategic planning process therefore is a tool that if sufficiently used by organizations can assist them accomplish their specified goals and objectives. On the other hand, if not efficiently monitored and managed, the strategic planning process can result in huge and irreversible risks for the organization. Strategic planning can help an organization realize both financial and non-financial benefits. An organization can gain financially by improvement of sales and profitability.

### 2.2.3 Improving Small and Medium Enterprises’ Performance

According to Wheelock, (2010) strategies and strategic planning share an orientation toward improving business performance, as each is used to set an organization on an appropriate path to success and guide its managers’ decisions and activities. Business performance can be broken down into strategic and financial components. Strategic performance reflects a firm’s execution of its operational goals, which may include
acquiring new customers, introducing new products and services, or improving efficiencies. Financial performance considers money-based outcomes, such as revenue growth, margins, and return on investments (Bracker and Pearson, 2014).

An organization can gain non-financial benefits by gaining an improved understanding of Competitors Strategies. Strategic planning process helps organizations in understanding competitive situations and devising competitive advantage-creating strategies; getting closer to customers; reducing cost bases and or improving the attractiveness of the organization’s customer interactions to facilitate high levels of customer satisfaction and increased market success; and target-setting and performance ratio improvement management. High levels of competition, particularly, lead to scenarios of much marketplace change and so reinforce the need for strong ability in: making effective choices about when to leave marketplaces and about which new ones to move into; and being innovative to get ahead of the competitive race, or at least to stay in it (Wiklund, Davidsson and Delmar, 2013).

2.3 Strategic Planning Practices by Small and Medium Enterprises

Strategic planning is a form of formalization (Wouters and Wilderom, 2008). Formalization refers to the extent to which activities of employees are governed by process procedures and organizational standards (Terziovski, 2010; Golann, 2006). It is particularly important in the context of SMEs as formalization of measurement could affect sources of competitive advantage such as flexibility, responsiveness or innovation.

Supporters of informality suggest that formalization of systems and processes is not required and potentially impedes SME competitiveness. Unlike large firms, SMEs rely on a limited range of products and customers (Appiah-Adu and Singh, 2008). Their flexibility to respond to customer needs is crucial for their competitiveness (Ghobadian and Gallear, 2007). Formalization of processes and structures could impede this flexibility and reduce their agility (Golann, 2006). In addition, one could argue that SMEs do not require specific, predetermined behavior by means of formal direction and control from upper management as employees have a shared understanding of what will enable individuals to choose effective actions for themselves (Jelinek and Litterer, 2005).
Strategic planning structures and systems in SMEs contributes towards building organizational capabilities and is a key driver for performance (Terziovski, 2010). The need for greater strategic planning in SMEs grows with increasing firm size (Mazzarol, Rebound, and Volery, 2010). Golann (2006) proposes that formal processes that include relevant, timely measures and reporting increase an SME’s responsiveness. In addition, strategic planning improves two-way communication and coordination within an organization (Golann, 2006). Researchers have found strategic planning to be the basis for process improvements and ultimately reduce internal costs in manufacturing firms (Terziovski, 2010). This section provides an overview for the design of strategic planning practices which researchers suggest to be suitable for SMEs. In addition, the actual use of strategic planning in SMEs is reported based on literature.

2.3.1 Forecasting as a Basis of Strategic Planning Practice

Today, emerging small and medium-sized enterprises find themselves in an environment of constant technological change. These changes may become a significant threat when ignored by the company, but they may as well become valuable opportunities in case of anticipation. The growing awareness and the will to take advantage of this have led to a broader interest in the field of Technology Intelligence (Schraedr, 2012). Both general and SME specific Information and Technology (IT) approaches are not always sufficiently strategy-related. On the other hand, there exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making. These approaches in turn are sometimes not sufficiently technology-related and not enough adapted to SME’s needs (Raduan et al., 2009). There are four basic forecasting methods, which are normally used in combination: extrapolation, leading indicators, casual models, and probabilistic methods (Kargar and Parnell, 2013).

The first method is to identify trends or cycles of some kind in order to find patterns in historical data. The second method is to seek correlation between past and future series of events. Casual models examine cause and effect; these forecasts are based on formulas and equations. Probabilistic methods deliver probability distributions rather than a single value. Since these methods depend on historical data and continuity, it is essential to identify precursors of possible breakthroughs (Martino, 2012). This environmental
monitoring process involves collection of information in all environmental sectors, screening to sort out relevant information, evaluation to specify its significance, and establishment of hypotheses, and finally setting of a threshold level when to actually make the forecast. So far however, not much effort has been put into linking SME-relevant IT and strategic planning together (Grant, 2008).

2.3.2 Competitive Practices of Small and Medium Enterprises

Enterprises underline another vital stage that envelops key administration. In a general sense, enterprises guarantee that a little endeavor is significant and fruitful even in an exceedingly aggressive environment. The most outstanding part of enterprises in strategic planning is that it encourages for the advancement of special items which are recently marginally not quite the same as what is being offered by competitors (Hill and Jones, 2012). The act of enterprises is very basic since it upgrades enthusiasm for the items offered by an undertaking. It is greatly critical to underscore the way that enterprises have been utilized effectively by various corporate substances including multinational foundations. This is a marker of the noteworthy pretended by the strategic planning routine of item separation. The capacity of a venture to offer one of kind items is inalienably connected with success (Cesnovar, 2006).

Then again, the absence of enterprises hampers the aggressive characteristics of a little endeavor. In a domain commanded by various ventures that offer comparative items, it is pretty much inescapable that an endeavor must be related with some feeling of uniqueness keeping in mind the end goal to remain competitive (Freeman, 2010). The central standards of vital administration give a dependable diagram to assessing the most appropriate methods for enhancing an item. This may incorporate bundling an item in an unexpected way, changing the shading, or even the limited time system. Such techniques have a gigantic effect regarding picking up a high ground in the current aggressive market. It is likewise fundamental to highlight that enterprises concentrates on the desires or needs of various target markets. The desires of various target markets are related with elevated requirements of variety. In perspective of such angles, it is essential to focus in on the particular inclinations and tastes of every objective market (Thompson, 2010). This goes about as an accommodating stage for proficiency from the point of view of rivalry.
In view of these viewpoints, it is prominent that enterprises are a fundamental component inside the whole system of vital administration.

In a practical sense, strategic planning is about competitive advantage. This is encapsulated by O'Regan and Ghobadian (2009) who stated that the purpose of strategic planning is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors”. Yet, the majority of SMEs do not plan and the reasons why are not well understood (Robinson and Pearce, 2011; Sexton and van Auken 2011). Throughout the world, governments have acknowledged the impact of SMEs on job creation, improvement of people’s standards of living and hence an overall impact on the economy. Indeed, SMEs often form the backbone of national economies and moreover, SMEs have increased in importance recently (McCartan-Quinn and Carson 2003). SMEs and the development of SME sectors in national economies is an important element of political and public policy life. Thus, the ways these SMEs firms perform and manage their activities justify a detailed investigation. Despite the existence of many SME support programmes that provide backing to SMEs, most SMEs in developing countries continue to weaken (not all SMEs are experiencing growth) (Baloyi, 2010).

2.3.3 Development of Strategic Innovation Practices

The dynamic contribution of SMEs to innovation and technological development is often emphasized, with examples such as Silicon Valley often cited as hot beds of small business innovation. The strengths and weaknesses of SMEs in terms of innovation and exporting have also been widely discussed: typically, smaller firms are said to have advantages in terms of quick decision making, willingness to take risk and flexibility in responding to new market opportunities; while larger firms have advantages linked to scale and the availability of specialist resources. This suggests that ‘the relative strengths of large business are predominantly material (economies of scale and scope, financial and technological resources), while those of small firms are mostly behavioral (entrepreneurial dynamism, flexibility, efficiency, proximity to the market, motivation) (McIlquham-Schmidt, 2010).
2.4 Influence of Strategic Planning Practices on SME’s Performance

Motivations for being in business are complex and often, business ownership is inextricably tied up with the personal lives of owner-managers and their families (Matthews and Scott 2015). Broadly, motivational factors can be categorized as either ‘pull’ or ‘push’ (Cooper, 2013) pull factors are associated with owner-managers having a strong positive internal desire go into small business; ‘push’ factors are linked to similarly strong desires but based on external negative reasons. The most common ‘pull’ factor cited in the literature is independence or wanting to be one’s own boss. Additional ‘pull’ reasons have been the desire to achieve job satisfaction, the desire to have a flexible lifestyle, the desire for personal challenge; a need for personal development, a need for approval, a wish for autonomy and a desire to use existing experience and knowledge. These reasons are internally focused and are not generally related to a financial imperative.

2.4.1 Target Setting

Behavioral accounting research highlights that target setting is not only an important part of an organization’s budgeting but also, both the process (imposition, consultation, participation) and the outcome (perceived target difficulty) contribute to value creation (Otley, 2012). Therefore, setting performance targets and the preceding process of strategic planning are important aspects of performance management. Klatt, Schlafke, and Moller (2011) found that a more measure-based approach by integrating business analytics into strategic planning results in superior performance. In the context of strategic performance management, strategic planning and target setting allow for the translation of vision and strategy into strategic objectives that are associated with medium to long-term performance (Chenhall, 2015).

Target setting constitutes an organizational and strategic routine by which SME owners combine human (expertise in research and development) and organizational (sales network) resources to implement value-creating strategies (Barney, 1991). The use of measures serves as a means to signal desired future outcomes, to communicate strategic goals and to facilitate decision-making (Grafton et al., 2010). It therefore contributes to a firm’s dynamic capabilities that allow managers to reconfigure existing and to build new capabilities for identifying and seizing opportunities into their organizations (Augier and
Teece, 2009; Eisenhardt and Martin, 2010). For example, strategic innovation often involves “changing the game” which requires the development of capabilities (Winter, 2013). In line with this, the use of measures to monitor and manage innovation becomes increasingly important (Moller et al., 2011). For example, an innovation-focused firm may define the target that 10% of revenue should stem from products or services that have been introduced in the organization. As a consequence, both the awareness for and the pressure to achieve the organization’s strategic goal to continuously innovate are high.

2.4.2 Incentive Setting

The relationship between incentive setting and employee performance is complex. While classic organizational theory views decision-makers as problem-solvers that use feedback to improve future performance (Simon, 2007) mounting research has portrayed a more multifaceted picture. Researchers (Augier and Teece, 2009; March and Simon, 2013; Winter, 2013) emphasize the importance of cognitive limitations and motives of the person being assessed (March and Simon, 2013). The term incentive setting refers to recognition by SME managers through financial (bonuses, salary increase) and non-financial rewards (lack of criticism) (Augier and Teece, 2009).

Granting rewards can significantly influence a subordinate’s behavior. The extant literature has agreed that organizations use incentive systems to stimulate desired behavior of their employees by aligning an individual’s goals with those of the organization (Hopwood, 2013). Differing findings exist with regards to benefits of financial vs. non-financial incentives and their effect on employee performance (Jenkins et al., 2008). This reflects that the association between rewards and employee performance is contingent on several factors such as task complexity (Bonner et al., 2010), employee’s cognitive capabilities and rewarded dimensions (Bonner and Sprinkle, 2012), and interactive or diagnostic use of Performance Measurement Systems (PMS) (Simons, 2010).

The use of measures in reward schemes channels employees’ efforts to measures that are linked to their evaluation and incentive schemes (Feltham and Xie, 2014). The design of incentive schemes (appraisal dimensions) signals desired behavior, increases role clarity and empowerment (Hall, 2008). For example, SMEs that follows the strategic goal to
promote teamwork implements an incentive scheme that is linked to dimensions such as internal customer principle and communication of results.

Depending on how feedback systems are used in an interactive or diagnostic way, an incentive system can influence the development of new capabilities through organizational learning or the deployment and reconfiguration of existing capabilities (Grafton et al., 2010). Incentive systems have an indirect behavioral effect on firm performance improvement via an employee’s understanding, motivation and focus on improvement (de Leeuw and van den Berg, 2011; Lau and Shohihin, 2015). Therefore, incentive systems are likely to have a direct effect on strategic alignment of employees in SMEs as well.

2.4.3 Business Success and Customer Loyalty

As indicated by Spillan (2003), customer loyalty is an inherent component of success in the business world. Customer unwaveringness is about pulling in the correct client, motivating them to purchase, purchase regularly, purchase in higher amounts and bring different customers. Loyalty is worked by keeping touch with customers, treating customers well, and reward schemes. A business with loyal customers can without much of a stretch achieves its objectives or outperform the stipulated targets. Then again, the absence of loyalty among customers prompts to the destruction of a business. It is in this manner urgent to assess the pretended by the vital administration routine of guaranteeing customer unwaveringness. The combination of vital administration hones inside a little enterprise makes a great road for boosting correspondences with customers (Hill and Jones, 2012). Communication is generally considered in the business world as the absolute most essential determinant of customer dedication. All customers need to remain in contact with the endeavor.

Communication makes the customers to feel just as they are necessary part players in the venture. This underline why strategic management encourages for fabulous levels of customer faithfulness through correspondence. Moreover, communication with customers makes them to feel esteemed by the venture. While communication goes about as a related component of customer steadfastness, it likewise benefits the undertaking as far as obtaining of input. The feedback given by customers helps a business to reinforce its
operational system and subsequently turns out to be more focused. The part of strategic management in the enhancement of customer dedication can likewise be assessed as far as the commitment it makes towards reliability (Jeffs, 2008). Keeping in mind the end goal to accomplish the required levels of devotion, customers ought to be completely persuaded that the undertaking is solid.

2.4.4 Evaluating Progress and Performance
The pursuit of personal non-economic goals is something for which some owner-managers are willing to sacrifice the prospect of greater financial rewards to achieve (Collins-Dodd, Gordon and Smart 2014; Lewis 2014). Rather than economic rationality, this behavior is more aptly described as economic irrationality (Holme, 2011) and a strong argument can be made that SME owner-managers are certainly not economic (Miles and Snow, 2010). This is substantiated by studies into the growth aspirations (or lack thereof) of SME owner-managers. For example, Mazzarol and Reboud, (2014) reported that only a third of SMEs in their study had intentions to expand; Gray (2008) reported that 33% of SMEs in their study could be classified as growth orientated while the remaining 67% were either growth-averse or were exiting/retiring or selling their businesses; and, Holmes and Zimmer (2004), and Sexton (2008) noted that most SMEs were interested only in limited, incremental or satisfactory long term growth.

Clearly, assumptions regarding SMEs’ pursuit of profit and growth maximization in the economic rational sense need to be challenged, as do assumptions that SMEs do not strategically plan because they are prevented from doing so by planning ‘barriers’. It is possible that a more fundamental explanation for the apparent lack of strategic planning in SMEs may be closely related to owner-managers’ personally defined ‘non-rational’ motivations for being in business for which strategic planning is perceived as unnecessary Gray (2012). Motivations for being in business are complex and often, business ownership is inextricably tied up with the personal lives of owner-managers and their families (Matthews and Scott 2015). Broadly, motivational factors can be categorized as either ‘pull’ or ‘push’ (Cooper, 2013) pull factors are associated with owner-managers having a strong positive internal desire go into small business; ‘push’ factors are linked to similarly strong desires but based on external negative reasons. The most common ‘pull’ factor cited in the literature is independence or wanting to be one’s own boss.
2.5 Chapter Summary
The literature reviewed the following research objectives: the first section explores how SMEs track and make sense of the changes in order to survive and compete in such turbulence markets using strategic planning. The second section explores how SMEs use strategic planning to manage the transformation required and the third section provides literature on how SMEs grow the organization and ensure its long-term sustainability using strategic planning. The next chapter reviews the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter addresses the research design of the study. It discusses the population, sample size and design. The research procedures are also discussed. Under the research procedures, the chapter reviews the method of pre-testing to be adopted. The chapter further discusses the data collection procedures and data analysis methods to be used. A summary of the chapter is provided at the end.

3.2 Research Design

According to Bougie and Sekaran (2013), a research design is a blueprint for the collection, measurement and analysis of data based on the research questions of the study. In totality, the research design looks at the purpose of the study, the research strategy (for instance, experiments, surveys, interviews, case studies), its location (the setting), the extent to which the study is manipulated and controlled by the researcher, its temporal aspects (time horizon) and the level which the data will be analyzed (unit of analysis) which are all integral to research design (Bougie and Sekaran, 2013).

The study used the descriptive research design which employs a survey research which according to Hussey and Collis (2009), is a system for collecting information from about people to describe, compare or explain their knowledge, attitudes and behavior. The survey system includes setting objectives for data collection, designing the study, preparing a reliable and valid survey instrument, administering the survey, managing and analyzing survey data and reporting results. This research strategy is most popular with business research. As a result it facilitated the collection of data from the sample population and it also suited the collection of original data necessary to achieve the research objectives.

3.3 Population and Sampling Design

Research differs greatly in value according to how the respondents are sampled. Sampling is the process of selecting sufficient number of the right elements from the population so that a study of the sample and an understanding of its properties or characteristics make possible for the researcher to generalize such properties or characteristics to the
population elements (Bougie and Sekaran, 2013). The major steps in sampling include defining the population, determining the sample frame, determining the sampling design and the appropriate sample size then executing the sampling process.

3.3.1 Population
Sampling begins precisely with defining the target population. According to Cooper and Schindler (2011), population in any research consists of the study objects, which are individuals, groups or organizations. Population can also be defined as the group of people, events, or things of interest for which the researcher wants to make inferences. In this study the population consisted of all SMEs in Nairobi. According to Circuit Business Systems Group Limited (CBS), and International Congress of E-government (ICEG) (2016) SME Baseline survey results, the total number of enterprises per 1,000 residents of the Kenyan population is 43 SMEs. The Baseline survey shows that there were approximately 92,160 SMEs in Nairobi and a total of 1.3 million SMEs in the entire country employing 2.4 million people.

Table 3.1 Population Distribution

<table>
<thead>
<tr>
<th>SME Sector in the Economy</th>
<th>Population Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>15</td>
</tr>
<tr>
<td>Investment Services</td>
<td>9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>16</td>
</tr>
<tr>
<td>Communication</td>
<td>20</td>
</tr>
<tr>
<td>Transport services</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>


3.3.2 Sampling Design
Research differs greatly in value according to how the respondents are sampled. Sampling is the process of selecting sufficient number of the right elements from the population so that a study of the sample and an understanding of its properties or characteristics make possible for the researcher to generalize such properties or characteristics to the population elements (Bougie and Sekaran, 2013). The major steps in sampling include
defining the population, determining the sample frame, determining the sampling design and the appropriate sample size then executing the sampling process.

3.3.2.1 Sampling Frame
The sampling frame is a physical representation of all the elements in the population from which the sample is drawn. Although sampling frame is useful in providing a listing of each element in the population, it may not always be current. The sampling frame was obtained from the East African Business Directory as at 2017.

3.3.2.2 Sampling Technique
The study generally adopted probability sampling in the course of its research. With more emphasis on stratified random sampling. Stratified random sampling involves a process of stratification or segregation followed by random selection of the subjects in each stratum. The population is first divided into mutually exclusive groups that are relevant, appropriate and meaningful in the context of the study (McBurney and White, 2010). Multistage sampling and stratified method was used in this study. Multistage makes repeated selection at different levels with the first stage corresponding to the selection of elements called primary units. At the second stage, subsets called secondary units are randomly selected from within each primary unit and the procedure repeated until the final stage. In cluster sampling, the population is divided into mutually exclusive subsets. Pervez and Kjell (2002) argue that using all the sample elements in all the selected clusters may be prohibitively expensive and not necessary. Under these circumstances, multistage cluster sampling becomes useful. Instead of using all the elements contained in the selected clusters, the researcher randomly selects elements from each cluster. The technique is used frequently when a complete list of all the members does not exist (Vicere, 2015).

3.3.2.3 Sample Size
A sample is a subset of the population. It comprises some members selected from it. Generally, elements of the population form the sample (McBurney and White, 2010). By studying the sample, the researcher was able to draw conclusions that generalize the population of interest in the study. Ligthelm and Van Wyk (2005) describe the sample size as a smaller set of the larger population. The sample size for this study was
statistically determined based on a precision of 5% and a confidence level of 95% according to Saunders, Lewis and Thornhill (2003) guide for different population sizes at 95% level of confidence. The sample distribution was as shown in Table 3.1.

Table 3.2 Sample Size Distribution

<table>
<thead>
<tr>
<th>SME Sector in the Economy</th>
<th>Population Distribution</th>
<th>Sample Population</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>15</td>
<td>6</td>
<td>14%</td>
</tr>
<tr>
<td>Investment Services</td>
<td>9</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>16</td>
<td>8</td>
<td>29%</td>
</tr>
<tr>
<td>Communication</td>
<td>20</td>
<td>8</td>
<td>29%</td>
</tr>
<tr>
<td>Transport services</td>
<td>10</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Data collection methods are an integral part of research design with data being obtained from either primary data sources or secondary data sources. The choice of data collection method depends on the facilities available, the degree of accuracy required, the expertise of the researcher, the time span on the study and other costs and resources associated with and available for data gathering (McBurney and White, 2010). For the purpose of the study, the researcher used questionnaires to collect data from the target population. According to Bougie and Sekaran (2013), a questionnaire is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives.

According to Collis and Hussey (2009), questionnaires are largely designed to collect large numbers of quantitative data. The researcher came up with a detailed questionnaire that was divided into different sections that also included demographic components where the respondents describe their personal profile while other sections of the questionnaires were guided by the objectives of the study. The questionnaires were personally administered to the respondents as it offered the researcher the opportunity to collect all the completed responses within a short period of time.
3.5 Research Procedures
The researcher conducted a pilot test for the questionnaire to ensure that the respondents were able to understand the questions within the instrument. Pilot testing involved the researcher handing the questionnaires to 10 random respondents from the target population and getting their feedback on the instrument. The 10 respondents were excluded from the final population that the study was conducted on. The researcher refined the instrument based on the feedback before administering it to the population.

The researcher basically administered the questionnaire personally to the respondents in the SME’s which were all headquartered in Nairobi. Personally administering the questionnaires to the respondents was advantageous as enabled the researcher to collect all the responses within a short period of time. It was also important as any doubt that the respondents had were clarified on the spot. The researcher also got the opportunity to introduce the research topic and motivate the respondents to dive their frank answers. In general, the researcher administered the questionnaire to the SME’s clearly defining the goal and objectives of the research and some of the expected outcomes once the research was completed. The respondents were given 4 days to fill the questionnaires.

To ensure a high response rate, the researcher attached a cover letter that indicated how the collected information would be used. It assured the respondents that their information would be used for academic purpose only and this encouraged their participation in the study. The respondents were also informed that the results would be shared with them in order for them to refine their businesses, and this highly encouraged their participation.

3.6 Data Analysis Methods
After the data has been collected, it is important to analyze the data that has been collected in order to facilitate interpretation. The data analysis also helps to see if the study objectives have been met. After collection of data, the researcher examined the raw data collected in order to avoid any possible errors that could arise. In addition, the researcher also analyzed the data to check for omissions and errors which need to be corrected. After correcting the errors and omissions, the researcher coded and input the data into the Statistical Package for Social Sciences (SPSS) software for analysis. The SPSS was used to analyze the data and then generate percentages and data distribution
tables. The findings in the data analysis were used to make inferences and summary findings in chapter four and five.

Data was analyzed using descriptive analysis that included means and percentages to show the frequency of responses and ratings of various items of the questionnaires. The standard deviation was used for analysis to indicate the measure of variability between the questionnaire items. Inferential statistics was utilized to measure the existing relationship between study variables. Correlation analysis was used to determine significant factors for strategic planning (independent variable) and performance of SMEs (dependent variable).

3.7 Chapter Summary
In this chapter, the research methodology has been clearly described which includes the target population, the sampling design. Moreover, the chapter also outlines the method that was used in data collection which was the use of questionnaires. Lastly, the researcher has also described how data analysis was conducted and the methods of analysis. The next chapter presents the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter focuses on presenting the results and findings of the study based on the analyzed questionnaires. Results and findings have been presented in the form of tables and figures. This chapter follows the chronology of the questionnaires that were used to collect data and explanations of the tables and figures have been offered to give meaning to the data presented.

4.2 Response Rate and Reliability Results

4.2.1 Response Rate
The researcher managed to distribute all the 70 questionnaires to the study’s target population and only 63 were returned. This represented 90% of the response rate and was sufficient to proceed with the analysis.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>63</td>
<td>90</td>
</tr>
<tr>
<td>Did not Respond</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 General Information

4.3.1 Gender
The researcher sought to determine the gender distribution of the population and the results presented in Figure 4.1 indicate that 76% were male, and 24% were female. These results show that more males run SMEs compared to females, this could as a result of the nature of the industry.
Figure 4.1 Gender

4.3.2 Education
The researcher sought to determine the education level of the population and the results presented in Figure 4.2 indicate that 2% had diplomas, 42% had degrees, 25% had postgraduate diplomas, 23% had masters and 8% had certificates. These results show that SME owners and managers were well educated and thus could understand the study questionnaires.

Figure 4.2 Education

4.3.3 Age
The researcher sought to determine the age bracket of the population and the results presented in Figure 4.3 indicate that 52% were aged between 26-35 years, 43% were aged between 36-45 years, 2% were 25 years and below and 2% were aged between 46 years and above. These results show that most SME owners and managers were young and mid-aged adults. This could be explained by the country’s demographics.
4.3.4 Number of Years in Business

The researcher sought to determine the number of years the businesses had been in operation and the results presented in Figure 4.4 indicated that 54% of the respondents specified that the business had been in operation for 3-6 years, 31% indicated that the business had been in operation for 7-10 years, 7% indicated that the business had been in operation for less than 3 years and 15 years and over respectively and 2% indicated that the business had been in operation for 11-14 years. These results show that most of the SMEs had been in business for more than 4 years, making the population significant for the study.
4.3.5 Nature of Business

The researcher sought to determine the nature of business of the SMEs and the results presented in Figure 4.5. The findings illustrated that 52% were in service business, and 48% were commercial trade and retail. These results show that all areas of the SME industry were represented, meaning that the study results could easily be applied to all SME sectors.

![Figure 4.5 Nature of Business](image)

4.3.6 Number of Employees

The researcher sought to determine the number of employees that had been hired in each of the SMEs and the results presented in Figure 4.6. The findings indicate that 41% had 5-10 employees, 40% had 11-30 employees, 14% had 31-50 employees, 3% had 50 employees and above, and 2% had less than 5 employees. These results show that most of the SMEs had hired many employees and contributed greatly to employment in the country, and the results showed that the population was significant to the study.

![Figure 4.6 Number of Employees](image)
4.4 Descriptive Statistics

4.4.1 Vision, Mission and Action Plan in Strategic Planning

The respondents were asked to rate several vision, mission, and action plan factors and their influence on SME performance using the scale: 1-Strongly Disagree, 2-Disagree 3-Neutral, 4-Agree, and 5-Strongly Agree. The results were as presented in Table 4.2.

The findings indicates that the company mission and vision are crucial elements of strategic management in the organization as strongly agreed to by 57% of the respondents. The business vision and growth are reinforced by strategic focus on market growth and profits as strongly agreed by 67% of the respondents. The findings also revealed that 63% strongly agreed that in the business plan, owners/ managers always decide on who is going to do what and by when and in what order for so as to be successful. 63% also strongly agreed that as a business man, owners and managers consistently apply a disciplined approach to strategic planning in order to be ready for any market changes. At times when the business has gone off track, owners/ managers use strategic planning to redirect my recovery process as agreed to by 57% of the respondents.

Furthermore 54% agreed that Strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they were meeting their goals and objectives Findings also revealed that 54% strongly agreed that as business men, owners/ managers they include employees in the decision-making plan of their business. As business men, owners/ managers have developed a decision-making routine that simplifies the process of decision-making for them as strongly agreed to by 62% of the respondents. As an entrepreneur, owners/managers have improved their level of understanding of competitors strategies through strategic planning as agreed to by 57% of the respondents. Lastly 59% strongly agreed that high competition in the market has reinforced owners/ managers’ ability in making effective choices about when to leave marketplaces and about which new ones to move into and being innovative as agreed to by all the respondents.
### Table 4.2 Rating of Vision, Mission and Action Plan in Strategic Planning Factors

<table>
<thead>
<tr>
<th>Vision mission and action plan</th>
<th>SD (%)</th>
<th>D (%)</th>
<th>N (%)</th>
<th>A (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company mission and vision are crucial elements of strategic management in my organization</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>40</td>
<td>57</td>
</tr>
<tr>
<td>My business vision and growth are reinforced by my strategic focus on market growth and profits</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>30</td>
<td>67</td>
</tr>
<tr>
<td>In my business plan, I always decide on who is going to do what and by when and in what order for so as to be successful</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>37</td>
<td>63</td>
</tr>
<tr>
<td>As a business man, I consistently apply a disciplined approach to strategic planning in order to be ready for any market changes</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>29</td>
<td>63</td>
</tr>
<tr>
<td>At times when my business has gone off track, I use strategic planning to redirect my recovery process</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>40</td>
<td>57</td>
</tr>
<tr>
<td>Strategic planning has helped me establish benchmarks or milestones that show me whether or not I am meeting my goals and objectives</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>43</td>
<td>54</td>
</tr>
<tr>
<td>As a business man, I include my employees in the decision-making plan of my business</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>As business man, I have developed a decision-making routine that simplifies the process of decision-making for me</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>33</td>
<td>62</td>
</tr>
<tr>
<td>As an entrepreneur I have improved my level of understanding of my competitors strategies through strategic planning</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>41</td>
<td>57</td>
</tr>
<tr>
<td>High competition in the market has reinforced my ability in making effective choices about when to leave marketplaces and about which new ones to move into and being innovative</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

**KEY:** SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

#### 4.4.2 Strategic Planning Practices by Small and Medium Enterprises

The respondents were asked to rate several strategic planning practices by small and medium enterprises factors and their influence on SME performance using the scale: 1-Strongly Disagree, 2-Disagree 3-Neutral, 4-Agree, and 5-Strongly Agree. The results were as presented in Table 4.6.
### Table 4.3 Strategic Planning Practices by Small and Medium Enterprises Factors

<table>
<thead>
<tr>
<th>Strategic planning practices</th>
<th>SD (%)</th>
<th>D (%)</th>
<th>N (%)</th>
<th>A (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature of my business requires specific, predetermined behavior by means of formal direction and control to be successful</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>57</td>
<td>33</td>
</tr>
<tr>
<td>Strategic planning structures and systems in my business contribute towards building my organizational capabilities that drive my performance</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>59</td>
<td>38</td>
</tr>
<tr>
<td>Strategic planning is the foundation that improves my business processes and ultimately reduces my internal costs of operation</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>65</td>
<td>33</td>
</tr>
<tr>
<td>As an SME owner, I find myself in an environment of constant technological change</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>56</td>
<td>43</td>
</tr>
<tr>
<td>As a business man, I am keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>60</td>
<td>33</td>
</tr>
<tr>
<td>As an entrepreneur I monitor my environment by collecting information in all environmental sectors, sort out relevant information and adjust my business to meet future forecasts</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>56</td>
<td>40</td>
</tr>
<tr>
<td>Strategic planning is vital for business men to give a dependable direction of assessing the most appropriate methods for enhancing a product/ item</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>68</td>
<td>30</td>
</tr>
<tr>
<td>My business enterprise concentrates on producing products/ services that meet the desires or needs of various target markets</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>65</td>
<td>29</td>
</tr>
<tr>
<td>Despite the existence of the support programmes that provide my business with a back-up plan, my business continues to weaken or face stunted growth</td>
<td>17</td>
<td>33</td>
<td>27</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>My business has an advantage in terms of making quick decisions and the willingness to take risks</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>70</td>
<td>21</td>
</tr>
</tbody>
</table>

**KEY:** SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

The findings indicated that 57% of the respondents agreed that the nature of SME business requires specific, predetermined behavior by means of formal direction and control to be successful. Strategic planning structures and systems in their business contribute towards building SME organizational capabilities that drive performance as agreed to by 59% of the respondents. Strategic planning is the foundation that improves SME business processes and ultimately reduces internal costs of operation as agreed to by 65% of the respondents. 56% agreed that SME owners/ managers find themselves in an environment of constant technological change. SME owners/ managers are keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the
market trend as agreed to by 60% of the respondents. 56% agreed that entrepreneurs monitor their environment by collecting information in all environmental sectors, sort out relevant information and adjust their business to meet future forecasts. The findings further revealed that 68% agreed that Strategic planning is vital for business men to give a dependable direction of assessing the most appropriate methods for enhancing a product/item, 65% agreed that their business enterprise concentrates on producing products/services that meet the desires or needs of various target markets. 33% of the respondents disagreed that despite the existence of the support programs that provide their business with a back-up plan, it continues to weaken or face stunted growth and finally 70% agreed that their business has an advantage in terms of making quick decisions and the willingness to take risks.

4.4.3 Influence of Strategic Planning Practices on SMEs’ Performance

The respondents were asked to rate several strategic planning practices on SME performance factors and their influence on SME performance and the results were presented in Table 4.4

The findings reports that setting performance targets and the preceding process of strategic planning is an important aspect of performance management for SMEs as agreed to by 62% of the respondents. Strategic planning and target setting allows SME owners/managers to translate organization vision and strategy into strategic objectives that are associated with medium to long-term goals as agreed to by 65% of the respondents. While setting targets, SME owners/managers combine human expertise and organizational resources to implement value-creating organizational strategies as agreed to by 54% of the respondents. The findings further illustrated that 59% agreed that target setting allows SME owners/managers to reconfigure existing business capabilities and also build new capabilities, 33% agreed that SME owners/managers normally grant rewards to employees to influence their behavior, 57% agreed that SME owners/managers have a feedback systems in place that influences the development of new capabilities and organizational learning.

The findings also demonstrated that SME business has loyal customers facilitating their ability to work easily and achieve their objectives and outperform set targets as agreed to by 63% of the respondents. SME owners/managers use communication as an essential
determinant of customer dedication and satisfaction strategy as agreed to by 62% of the respondents. 68% agreed that feedback given by customers helps SME businesses to reinforce their operational systems and subsequently turns out to be more focused and 63% agreed that the pursuit of personal non-economic goals is something SME owners/managers are willing to sacrifice the prospect of achieving greater financial rewards.

Table 4.4 Strategic Planning Practices on SME Performance Factors

<table>
<thead>
<tr>
<th>Influence of strategic planning practices</th>
<th>SD (%)</th>
<th>D (%)</th>
<th>N (%)</th>
<th>A (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting performance targets and the preceding process of strategic planning is an important aspect of performance management for my organization</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>62</td>
<td>38</td>
</tr>
<tr>
<td>Strategic planning and target setting allows me to translate my organization vision and strategy into strategic objectives that are associated with medium to long-term goals</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>While setting targets, I combine human expertise and organizational resources to implement my value-creating organizational strategies</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>54</td>
<td>37</td>
</tr>
<tr>
<td>Target setting allows me to reconfigure my existing business capabilities and also build new capabilities</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>59</td>
<td>35</td>
</tr>
<tr>
<td>I normally grant rewards to my employees to influence their behavior</td>
<td>6</td>
<td>5</td>
<td>19</td>
<td>33</td>
<td>37</td>
</tr>
<tr>
<td>I have a feedback systems in place that influences the development of new capabilities and my organizational learning</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>57</td>
<td>35</td>
</tr>
<tr>
<td>My business has loyal customers facilitating my ability to work easily and achieve my objectives and outperform my set targets</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>63</td>
<td>33</td>
</tr>
<tr>
<td>I use communication as an essential determinant of customer dedication and satisfaction strategy</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>62</td>
<td>37</td>
</tr>
<tr>
<td>The feedback given by my customers helps my business to reinforce its operational systems and subsequently turns out to be more focused</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>68</td>
<td>29</td>
</tr>
<tr>
<td>The pursuit of personal non-economic goals is something I am willing to sacrifice the prospect of achieving greater financial rewards</td>
<td>2</td>
<td>2</td>
<td>11</td>
<td>63</td>
<td>22</td>
</tr>
</tbody>
</table>

KEY: SA-Strongly Agree, A-Agree, N-Neutral, D- Disagree, SD-Strongly disagree

4.4.4 SME performance

The study sought to assess the performance of the respondent’s enterprise and the findings were presented in table 4.5. The findings illustrated that 54% indicated that the overall performance of the organization last year was slightly above average, 49%
indicated that the overall performance of the organization relative to major competitors last year was average, 51% reported that the overall sales growth of the organization relative to major competitors last year was average, 51% also indicated that the organization was satisfied with return on investment which was average, 48% indicated that the organization was satisfied with return on equity last year which was slightly above average and 52% indicated that the organization was satisfied with return on asset last year which was slightly above average.

Table 4.5 SME performance

<table>
<thead>
<tr>
<th>SME performance</th>
<th>Far above average (%)</th>
<th>Slightly above average (%)</th>
<th>Average (%)</th>
<th>Slightly below average (%)</th>
<th>Far below average (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The overall performance of the organisation last year was</td>
<td>3</td>
<td>54</td>
<td>41</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>The overall performance of the organisation relative to major competitors last year was</td>
<td>2</td>
<td>48</td>
<td>49</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>The overall sales growth of the organisation relative to major competitors last year was</td>
<td>2</td>
<td>46</td>
<td>51</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>The organisation was satisfied with return on investment</td>
<td>2</td>
<td>44</td>
<td>51</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>The organisation was satisfied with return on equity last year</td>
<td>2</td>
<td>48</td>
<td>48</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>The organisation was satisfied with return on asset last year</td>
<td>2</td>
<td>52</td>
<td>41</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

4.5 Inferential Statistics

The data analysis followed a two-step approach. First the measurement model was assessed and analyzed to confirm construct validity. The second step involved establishing the relationships between all latent variables using structural equation modelling (SEM). PLS algorithm and Bootstrapping algorithm was run in SmartPLS 2.0

4.5.1 Measurement Model

The confirmatory factor analysis was conducted in order to assess the extent to which the observed data fits the pre-specified theoretically driven model. This was assessed through construct reliability, convergent and discriminant validity and construct
unidimensionality. Construct uni-dimensionality was performed through the verification of the cross loadings of scales and constructs to ensure that the scales loaded heavily on the relevant constructs. All the loadings and cross loadings were adequate and loaded heavily on the relevant constructs as indicated in table 4.6.

Table 4.6 Cross Loading

<table>
<thead>
<tr>
<th></th>
<th>Action Plan</th>
<th>Performance</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>-0.206</td>
<td>0.852</td>
<td>-0.224</td>
</tr>
<tr>
<td>P2</td>
<td>-0.260</td>
<td>0.926</td>
<td>-0.248</td>
</tr>
<tr>
<td>P3</td>
<td>-0.137</td>
<td>0.886</td>
<td>-0.129</td>
</tr>
<tr>
<td>P4</td>
<td>-0.255</td>
<td>0.923</td>
<td>-0.107</td>
</tr>
<tr>
<td>P5</td>
<td>-0.227</td>
<td>0.883</td>
<td>-0.031</td>
</tr>
<tr>
<td>P6</td>
<td>-0.102</td>
<td>0.755</td>
<td>-0.121</td>
</tr>
<tr>
<td>SPP2</td>
<td>0.338</td>
<td>-0.201</td>
<td>0.884</td>
</tr>
<tr>
<td>SPP4</td>
<td>0.036</td>
<td>0.003</td>
<td>0.643</td>
</tr>
<tr>
<td>SPP5</td>
<td>0.152</td>
<td>-0.119</td>
<td>0.718</td>
</tr>
<tr>
<td>SPP6</td>
<td>0.304</td>
<td>-0.093</td>
<td>0.751</td>
</tr>
<tr>
<td>SPP8</td>
<td>-0.097</td>
<td>-0.056</td>
<td>0.556</td>
</tr>
<tr>
<td>VMA1</td>
<td>0.763</td>
<td>-0.088</td>
<td>0.070</td>
</tr>
<tr>
<td>VMA10</td>
<td>0.818</td>
<td>-0.176</td>
<td>0.207</td>
</tr>
<tr>
<td>VMA2</td>
<td>0.798</td>
<td>-0.147</td>
<td>0.078</td>
</tr>
<tr>
<td>VMA3</td>
<td>0.881</td>
<td>-0.272</td>
<td>0.223</td>
</tr>
<tr>
<td>VMA4</td>
<td>0.791</td>
<td>-0.184</td>
<td>0.167</td>
</tr>
<tr>
<td>VMA5</td>
<td>0.814</td>
<td>-0.126</td>
<td>0.216</td>
</tr>
<tr>
<td>VMA6</td>
<td>0.872</td>
<td>-0.192</td>
<td>0.207</td>
</tr>
<tr>
<td>VMA7</td>
<td>0.784</td>
<td>-0.213</td>
<td>0.340</td>
</tr>
<tr>
<td>VMA8</td>
<td>0.777</td>
<td>-0.113</td>
<td>0.283</td>
</tr>
<tr>
<td>VMA9</td>
<td>0.765</td>
<td>-0.251</td>
<td>0.451</td>
</tr>
</tbody>
</table>

4.5.2 Construct Reliability

Construct reliability was assessed by computing the composite reliability and the Cronbach’s alpha of the constructs. Composite reliability measures were evaluated by using SmartPLS. The Cronbach alphas were all above the 0.6 threshold as specified for PLS analysis (Hair et al., 2011) indicating good reliability and composite reliability of reflective items were all above the acceptable 0.7 threshold which means all the variables in the study exhibited construct reliability. All constructs were viewed to have acceptable reliability levels because the composite reliability scores for all constructs were above the 0.7 threshold. Details of construct reliability are presented in Table 4.7.
<table>
<thead>
<tr>
<th>Table 4.7 Reliability of Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>Vision mission and action Plan</td>
</tr>
<tr>
<td>SME Performance</td>
</tr>
<tr>
<td>Strategic planning practices</td>
</tr>
</tbody>
</table>

4.5.4 **Construct validity (Convergent and Discriminant Validity)**

Convergent validity was assessed using Average Variance extracted (AVE) which if the value of AVE for the factors exceed the cutoff value of 0.5, confirms convergent validity (Bryman, 2012). To satisfy the requirement of discriminant validity of the measurement model, this study followed the criterion suggested by Fornell and Larcker (1981). The discriminant validity was confirmed as the square root of a construct’s AVE (in bold and on diagonal) was greater than the correlation between the construct and other constructs in the model as indicated in table 4.8.

<table>
<thead>
<tr>
<th>Table 4.8 Convergent and Discriminant Validity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variables</strong></td>
</tr>
<tr>
<td>Vision mission and action Plan</td>
</tr>
<tr>
<td>SME Performance</td>
</tr>
<tr>
<td>Strategic planning practices</td>
</tr>
</tbody>
</table>

4.6 **Structural Model (SEM)**

The structural model was estimated to extract the estimates for standard coefficients. The significance of the estimates was evaluated by the T statistic values provided
Figure 4.7 Path Coefficients and Factor Loadings for the Structural Model

Figure 4.8 T Values for the Structural Model

Figure 4.7 shows that the R-squared is 0.471 meaning that the Vision Mission Action Plan, and Strategic planning practices jointly explain 47.1% variations in SME performance. All the paths were significant at 0.05 level of significance as their T value were greater than 1.96. The path coefficient for Vision Mission Action Plan is 0.202. This indicates that a unit increase in Vision Mission Action Planning would result in 20.2%
increase in SME performance. The path coefficient for Strategic planning practices is 0.122. This indicates that a unit increase in Strategic planning practices would result in 12.2% increase in SME performance as indicated in figure 4.7 and 4.8 and table 4.9

<table>
<thead>
<tr>
<th>Path</th>
<th>Path coefficient</th>
<th>Standard Error</th>
<th>T Statistics</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision Mission Action Plan -&gt;</td>
<td>0.202</td>
<td>0.077</td>
<td>2.622</td>
<td>0.011</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic planning practices -&gt;</td>
<td>0.122</td>
<td>0.057</td>
<td>2.158</td>
<td>0.035</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.7 Chapter Summary

This chapter has presented the results and findings of the study following the chronology of the questionnaires. Data has been analyzed using descriptive analysis of means and percentages to show frequency of responses and ratings of various study items. The next chapter presents the study discussions, conclusions, and recommendations.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction
This chapter concludes the study and is divided in the following sections: 5.1 offers the chapter introduction, 5.2 gives summary of findings, 5.3 presents the study discussions, 5.4 presents the study conclusions, and 5.5 offers the study recommendations.

5.2 Summary
The purpose of the study was to establish the effects of strategy planning in the management of Small and Medium Enterprises (SMEs) in Nairobi. The study was guided by the following research questions: How the use of vision, mission and action plans in the strategic planning process lead to the performance of Small Enterprises, what are some of the strategic planning practices by SME’s and what is the influence of these SME’s performance?

The study used the descriptive research design because it employs a survey research. The population consisted of all SMEs in Nairobi. According to Circuit Business Systems Group Limited (CBS), and International Congress of E-government (ICEG) (2016) SME Baseline survey results, the total number of enterprises per 1,000 residents of the Kenyan population is 43 SMEs. The sampling frame was obtained from the East African Business Directory as at 2017. The study adopted probability sampling and specifically stratified random sampling. The sample size for this study was 30. The researcher used questionnaires to collect data from the target population. The researcher coded and input the data into the Statistical Package for Social Sciences (SPSS) software for analysis. Data was analyzed using descriptive analysis that included means and percentages to show the frequency of responses and ratings of various items of the questionnaires. The standard deviation was used for analysis to indicate the measure of variability between the questionnaire items. Inferential statistics was utilized to measure the existing relationship between study variables. Correlation analysis was used to determine significant factors for strategic planning (independent variable) and performance of SMEs (dependent variable).
The study showed that that a company’s mission and vision are crucial elements of strategic management in the organization, and business vision and growth are reinforced by strategic focus on market growth and profits. The study revealed that strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they are meeting their goals and objectives, and SME owners/ managers include employees in the decision-making plan of their business. SME owners/ managers have developed a decision-making routine that simplifies the process of decision-making for them, and they have improved their level of understanding of competitors strategies through strategic planning.

The study revealed that the nature of SME business requires specific, predetermined behavior by means of formal direction and control to be successful, and strategic planning structures and systems in the business contribute towards building SME organizational capabilities that drive performance. The study indicated that SME owners/ managers are keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend, and entrepreneurs monitor their environment by collecting information in all environmental sectors, sort out relevant information and adjust their business to meet future forecasts. The study showed that, the existence of the support programmes that provide SME business with a back-up plan has ensured that SME businesses are strengthened and have realized growth, and SME businesses have an advantage in terms of making quick decisions and the willingness to take risks.

The study showed that setting performance targets a allows SME owners/ managers to translate organization vision and strategy into strategic objectives that are associated with medium to long-term goals, and also to reconfigure existing business capabilities and also build new capabilities. The study revealed that SME owners/ managers normally do not grant rewards to employees to influence their behavior, and SME owners/ managers have a feedback systems in place that influences the development of new capabilities and organizational learning, and feedback given by customers helps SME businesses to reinforce their operational systems and subsequently turns out to be more focused.
5.3 Discussions

5.3.1 Vision, Mission and Action Plan in Strategic Planning

The study indicates that company mission and vision are crucial elements of strategic management in the organization. These results concur with Hunger and Wheelen (2012) who note that mission and vision are crucial elements of strategic management. The study showed that business vision and growth are reinforced by strategic focus on market growth and profits. These results are similar to Hunger and Wheelen (2010) who state that, in addition to the company’s vision, growth will be reinforced by a strategic focus on market, growth and profits.

In the business plan, owners/ managers always decide on who is going to do what and by when and in what order for so as to be successful. The results concur with Baum et al. (2009) who orate that, action planning typically includes deciding who is going to do what and by when and in what order for the organization to reach its strategic goals. The study also indicates that SME owners and managers consistently apply a disciplined approach to strategic planning in order to be ready for any market changes. The results are similar to those of Kantabutra and Avery (2010) which indicate that, companies consistently applying a disciplined approach to strategic planning are better prepared to evolve as the market changes and as different market segments require different needs for the products or services of the company.

At times when the business has gone off track, owners/ managers use strategic planning to redirect their recovery process. The results are similar to those of Kantabutra and Avery (2010) which indicate that, when the business gets off track a strategic plan can help direct the recovery process. The study also shows that strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they were meeting their goals and objectives. The results are similar to those of Kantabutra and Avery (2010) which indicate that, a vision of success clarifies which tactics, activities or programs should be of priority, and helps identify which are not particularly appropriate or useful, and it also helps you to establish benchmarks or milestones to indicate whether or not you are meeting your goals and strategic objective.

SME owners/ managers include employees in the decision-making plan of their business, and that SME owners/ managers have developed a decision-making routine that
simplifies the process of decision-making. These results are similar to Matthews and Scott (2015) who observed that, entrepreneurs face a more hostile or uncertain environment in their decision-making activities, they do not have access to extensive information such as managers of large firms, and that, large firms often develop decision-making routines that simplify the process of decision-making for managers.

SME owners/managers have improved their level of understanding of competitors strategies through strategic planning. These results concur with Wiklund, Davidsson and Delmar (2013) who observed that an organization can gain non-financial benefits by gaining an improved understanding of Competitors Strategies. Strategic planning process helps organizations in understanding competitive situations and devising competitive advantage-creating strategies; getting closer to customers; reducing cost bases, and or improving the attractiveness of the organization’s customer interactions to facilitate high levels of customer satisfaction.

High competition in the market has reinforced owners/ managers’ ability in making effective choices about when to leave marketplaces and about which new ones to move into and being innovative. These results concur with Wiklund, Davidsson and Delmar (2013) who observed that high levels of competition, particularly, lead to scenarios of much marketplace change and so reinforce the need for strong ability in: making effective choices about when to leave marketplaces and about which new ones to move into; and being innovative to get ahead of the competitive race, or at least to stay in it.

5.3.2 Strategic Planning Practices by Small and Medium Enterprises
The nature of SME business requires specific, predetermined behavior by means of formal direction and control to be successful. These results differ with Jelinek and Litterer (2005) who orate that, SMEs do not require specific, predetermined behavior by means of formal direction and control from upper management as employees have a shared understanding of what will enable individuals to choose effective actions for themselves. Strategic planning structures and systems in SME businesses contributes towards building SME organizational capabilities that drive performance. These results are similar to Terziovski’s (2010) study that observed that strategic planning structures and systems in SMEs contributes towards building organizational capabilities and is a key driver for
performance. The study also indicates that strategic planning is the foundation that improves SME business processes and ultimately reduces internal costs of operation. These results are similar to Terziovski’s (2010) study that observed that, strategic planning to be the basis for process improvements and ultimately reduce internal costs in manufacturing firms.

SME owners/ managers find themselves in an environment of constant technological change. These results concur with Schraedr (2012) who observed that, today, emerging small and medium-sized enterprises find themselves in an environment of constant technological change. The study revealed that SME owners/ managers are keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend. These results concur with Martino (2012) who observed that, the first method is to identify trends or cycles of some kind in order to find patterns in historical data.

Entrepreneurs monitor their environment by collecting information in all environmental sectors, sort out relevant information and adjust their business to meet future forecasts. These results concur with Grant (2008) who notes that, environmental monitoring process involves collection of information in all environmental sectors, screening to sort out relevant information, evaluation to specify its significance, and establishment of hypotheses, and finally setting of a threshold level when to actually make the forecast.

Strategic planning is vital for business men to give a dependable direction of assessing the most appropriate methods for enhancing a product/ item. The results agree with Thompson (2010) who states that, the central standards of vital administration give a dependable diagram to assessing the most appropriate methods for enhancing an item. This may incorporate bundling an item in an unexpected way, changing the shading, or even the limited time system.

SME business enterprise concentrates on producing products/ services that meet the desires or needs of various target markets. The results agree with Thompson (2010) who states that, it is likewise fundamental to highlight that enterprises concentrates on the
desires or needs of various target markets. The desires of various target markets are related with elevated requirements of variety.

Despite the existence of the support programmes that provide SME business with a back-up plan, SME business do not continue to weaken or face stunted growth. These results disagree with Baloyi (2010) who states that, despite the existence of many SME support programmes that provide backing to SMEs, most SMEs in developing countries continue to weaken (not all SMEs are experiencing growth).

SME businesses have an advantage in terms of making quick decisions and the willingness to take risks. These results disagree with Mcllquham-Schmidt (2010) who states that, the strengths and weaknesses of SMEs in terms of innovation and exporting have also been widely discussed: typically, smaller firms are said to have advantages in terms of quick decision making, willingness to take risk and flexibility in responding to new market opportunities; while larger firms have advantages linked to scale and the availability of specialist resources.

5.3.3 Influence of Strategic Planning Practices on SME’s Performance

Setting performance targets and the preceding process of strategic planning is an important aspect of performance management for SMEs. These results are similar to Klatt, Schlafke, and Moller (2011) who state that, setting performance targets and the preceding process of strategic planning are important aspects of performance management.

Strategic planning and target setting allows SME owners/ managers to translate organization vision and strategy into strategic objectives that are associated with medium to long-term goals. These results concur with Chenhall (2015) who opines that, the context of strategic performance management, strategic planning and target setting allow for the translation of vision and strategy into strategic objectives that are associated with medium to long-term performance.

While setting targets, SME owners/ managers combine human expertise and organizational resources to implement value-creating organizational strategies. These
results concur with Barney (1991) who orates that, target setting constitutes an organizational and strategic routine by which SME owners combine human (expertise in research and development) and organizational (sales network) resources to implement value-creating strategies.

Target setting allows SME owners/ managers to reconfigure existing business capabilities and also build new capabilities. These results concur with Augier and Teece (2009); and Eisenhardt and Martin (2010) who orate that, target setting contributes to a firm’s dynamic capabilities that allow managers to reconfigure existing and to build new capabilities for identifying and seizing opportunities into their organizations.

SME owners/ managers normally did not grant rewards to employees to influence their behavior. These results concur with Hopwood (2013) who orates that, granting rewards can significantly influence a subordinate’s behavior, and that, organizations use incentive systems to stimulate desired behavior of their employees by aligning an individual’s goals with those of the organization.

SME owners/ managers have a feedback systems in place that influences the development of new capabilities and organizational learning. These results concur with Grafton et al. (2010) who orates that, depending on how feedback systems are used in an interactive or diagnostic way, an incentive system can influence the development of new capabilities through organizational learning or the deployment and reconfiguration of existing capabilities.

SME businesses have loyal customers facilitating their ability to work easily and achieve their objectives and outperform set targets. These results are similar to Spillan (2003) who observed that, a business with loyal customers can without much of a stretch achieves its objectives or outperform the stipulated targets. Then again, the absence of loyalty among customers prompts to the destruction of a business.

SME owners/ managers use communication as an essential determinant of customer dedication and satisfaction strategy. These results are similar to Hill and Jones (2012) who observed that, communication is generally considered in the business world as the
absolute most essential determinant of customer dedication. All customers need to remain in contact with the endeavor.

Feedback given by customers helps SME businesses to reinforce their operational systems and subsequently turns out to be more focused. The results agree with Jeffs (2008) who states that, feedback given by customers helps a business to reinforce its operational system and subsequently turns out to be more focused. The part of strategic management in the enhancement of customer dedication can likewise be assessed as far as the commitment it makes towards reliability.

The pursuit of personal non-economic goals is something SME owners/ managers are willing to sacrifice the prospect of achieving greater financial rewards. These results concur with Collins-Dodd, Gordon and Smart (2014); and Lewis (2014) who orate that, the pursuit of personal non-economic goals is something for which some owner-managers are willing to sacrifice the prospect of greater financial rewards to achieve.

5.4 Conclusions
5.4.1 Vision, Mission and Action Plan in Strategic Planning
The study concludes that a company’s mission and vision are crucial elements of strategic management in the organization, and business vision and growth are reinforced by strategic focus on market growth and profits. The study concludes that SME managers/ owners have plans that decide on who is going to do what and by when and in what order. SME owners and managers consistently apply a disciplined approach to strategic planning in order to be ready for any market changes, and at times when the business has gone off track, owners/ managers use strategic planning to redirect their recovery process. The study concludes that strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they are meeting their goals and objectives, and SME owners/ managers include employees in the decision-making plan of their business. SME owners/ managers have developed a decision-making routine that simplifies the process of decision-making for them, and they have improved their level of understanding of competitors strategies through strategic planning. High competition in the market has reinforced owners/ managers’ ability in making effective choices about
when to leave marketplaces and about which new ones to move into and being innovative.

5.4.2 Strategic Planning Practices by Small and Medium Enterprises

The study concludes that the nature of SME business requires specific, predetermined behavior by means of formal direction and control to be successful, and strategic planning structures and systems in the business contribute towards building SME organizational capabilities that drive performance. Strategic planning is the foundation that improves SME business processes and ultimately reduces internal costs of operation, and SME owners/ managers find themselves in an environment of constant technological change. The study concludes that SME owners/ managers are keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend, and entrepreneurs monitor their environment by collecting information in all environmental sectors, sort out relevant information and adjust their business to meet future forecasts. Strategic planning is vital for business men to give a dependable direction of assessing the most appropriate methods for enhancing a product/ item, and SME business enterprise concentrates on producing products/ services that meet the desires or needs of various target markets. The study concludes that, the existence of the support programmes that provide SME business with a back-up plan has ensured that SME businesses are strengthened and have realized growth, and SME businesses have an advantage in terms of making quick decisions and the willingness to take risks.

5.4.3 Influence of Strategic Planning Practices on SME’s Performance

The study concludes that setting performance targets and the preceding process of strategic planning is an important aspect of performance management for SMEs since it allows SME owners/ managers to translate organization vision and strategy into strategic objectives that are associated with medium to long-term goals. SME owners/ managers combine human expertise and organizational resources to implement value-creating organizational strategies. Target setting allows SME owners/ managers to reconfigure existing business capabilities and also build new capabilities. The study concludes that SME owners/ managers normally do not grant rewards to employees to influence their behavior, and SME owners/ managers have a feedback systems in place that influences the development of new capabilities and organizational learning. SME business has loyal
customers facilitating their ability to work easily and achieve their objectives and outperform set targets, and SME owners/ managers use communication as an essential determinant of customer dedication and satisfaction strategy. The study concludes that feedback given by customers helps SME businesses to reinforce their operational systems and subsequently turns out to be more focused, and the pursuit of personal non-economic goals is something SME owners/ managers are willing to sacrifice the prospect of achieving greater financial rewards.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Vision, Mission and Action Plan in Strategic Planning
The study recommends SME owners and managers to have strategic plans in place that would facilitate the implementation of their vision and mission. Without implementation, SMES’ vision and mission resort to being great ideas on paper than SMEs’ cannot benefit from. Their implementation plans need to be systematic, consistent, and measurable.

5.5.1.2 Strategic Planning Practices by Small and Medium Enterprises
The study recommends SME owners to effectively and efficiently apply strategy planning in order for them to improve their business processes, reduce the cost of doing business, and to effectively deal with technological and environmental changes. Strategic planning will facilitate the ability of SMEs to be innovative in terms of products and services they offer.

5.5.1.3 Influence of Strategic Planning Practices on SME’s Performance
The study recommends SME owners/ managers to employ the use of rewards for their employees. Rewards either intrinsic or extrinsic are normally used by large organizations to influence employee behavior with relation to them improving performance. SME’s could also apply the same to facilitate better performance from their employees.

5.5.2 Recommendations for Further Studies
This study focused on establishing the effects of strategy planning on the performance of SMEs in Nairobi. The results were limited to the SMEs within Nairobi County and thus the study recommends similar research to be conducted on SMEs in other counties to ascertain the overall effect of strategy planning on SMEs.
REFERENCES


United States International University – Africa,
P.O. Box 14634 – 00800,
Nairobi.

To Whom It May Concern

Dear Sir/Madam,

**RE: REQUEST TO PARTICIPATE IN MY RESEARCH.**

I am pleased to inform you that am a graduate student at United States International University pursuing a Master’s degree in Business Administration, with a bias on strategic management. As partial fulfilment of my Business Research Methods Course, I am conducting a research on the effects of strategic planning in the performance of Small and Medium Enterprises in Nairobi.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

Yours Faithfully,

Shami Faith.
APPENDIX II: QUESTIONNAIRE

This questionnaire is designed to gather information concerning the nature and scope of strategic planning in your organization. Please describe the planning practices as you feel they truly exist in your organization, not as you believe they should exist. Data gathered with this questionnaire will be treated confidentially and presented only in summary form without disclosing the name or affiliation of the respondent.

Part A: General Information

1. What is your Gender?
   Male ( )    Female ( )

2. What is your highest level of education?
   Primary School ( )  Secondary School ( )  Certificate ( )  Diploma ( )
   Degree ( )  Post Graduate Diploma ( )  Masters ( )

3. What is your age range?
   Less than 25 years ( )  26-35 years ( )  36-45 Years ( )  56 years and over ( )

4. Number of years the business has been in operation
   Less than 3 years ( )  3-6 years ( )  7-10 years ( )  11- 14 years ( )
   15 years and over ( )

5. Nature of the Business/Operations
   Commercial, Trade and Retail ( )  Service ( )  Hospitality ( )
   Others (Please specify) ________________________________

6. Please indicate the number of employees in your enterprise
   Less than 5 ( )  5-10 ( )  11- 30 ( )  31- 50 ( )  Over 50 employees ( )
Part B: Vision, Mission and Action Plan in Strategic Planning

7. To what extent has vision, mission, and action strategic planning influenced performance in your business? Use the scale: SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree to rate the statements as it relates to your business.

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<td>Company mission and vision are crucial elements of strategic management in my organization</td>
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<td>My business vision and growth are reinforced by my strategic focus on market growth and profits</td>
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<td>In my business plan, I always decide on who is going to do what and by when and in what order for so as to be successful</td>
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<td>As a business man, I consistently apply a disciplined approach to strategic planning in order to be ready for any market changes</td>
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<td>At times when my business has gone off track, I use strategic planning to redirect my recovery process</td>
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<td>As a business man, I include my employees in the decision-making plan of my business</td>
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<td>As business man, I have developed a decision-making routine that simplifies the process of decision-making for me</td>
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<td>As an entrepreneur I have improved my level of understanding of my competitors strategies through strategic planning</td>
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<td>High competition in the market has reinforced my ability in making effective choices about when to leave marketplaces and about which new ones to move into and being innovative</td>
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### Part C: Strategic Planning Practices by SME’s

To what extent would you rate the following statements with regards to strategic planning practices in your organization? Use the scale: SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree.

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<td>The nature of my business requires specific, predetermined behavior by means of formal direction and control to be successful</td>
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<td>Strategic planning structures and systems in my business contribute towards building my organizational capabilities that drive my performance</td>
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<td>Strategic planning is the foundation that improves my business processes and ultimately reduces my internal costs of operation</td>
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<td>As an SME owner, I find myself in an environment of constant technological change</td>
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<td>As a business man, I am keen on monitoring and identifying trends or cycles of some kind in order to find patterns of the market trend</td>
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<td>My business enterprise concentrates on producing products/services that meet the desires or needs of various target markets</td>
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<td>My business has an advantage in terms of making quick decisions and the willingness to take risks</td>
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Part D: Influence of Strategic Planning Practices on SME’s Performance

To what extent would you rate the following statements with regards to influence of strategic planning practices on SME performance? Use the scale: SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree.

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<td>Setting performance targets and the preceding process of strategic planning is an important aspect of performance management for my organization</td>
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<td>Strategic planning and target setting allows me to translate my organization vision and strategy into strategic objectives that are associated with medium to long-term goals</td>
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<td>While setting targets, I combine human expertise and organizational resources to implement my value-creating organizational strategies</td>
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<td>Target setting allows me to reconfigure my existing business capabilities and also build new capabilities</td>
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<td>I normally grant rewards to my employees to influence their behavior</td>
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<td>I use communication as an essential determinant of customer dedication and satisfaction strategy</td>
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<td>The feedback given by my customers helps my business to reinforce its operational systems and subsequently turns out to be more focused</td>
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THANK YOU