

**EFFECT OF STRATEGIC MANAGEMENT PRACTICES ON THE  
PERFORMANCE OF SMES IN KENYA**

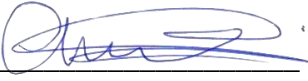
**MUNYIRI UNITER ESTHER NYAWIRA**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE MASTER DEGREE IN  
BUSINESS ADMINISTRATION OF  
MOUNT KENYA UNIVERSITY**

**NOVEMBER 2024**

### **DECLARATION AND APPROVAL**

This research project is my original work and has not been presented for a degree or any other award in any other university.

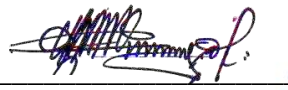
Signature: 

Date: 07/11/2024

**UNITER NYAWIRA**

### **Approval**

This project has been submitted for presentation with my approval as University Supervisor:

Signature: 

Date: 7/11/2024

**DR. PEARY KILEI**

## **DEDICATION**

This research project is dedicated to my mother Beth Wanjiru, my sister Liberty Wanjiku Munyiri for the inspiration, and my friend Ayub Bundi Solomon. God bless.



## **ACKNOWLEDGEMENT**

I express my gratitude to my supervisor Dr Peary Kilei for providing professional guidance and dedicating their efforts to shape my research project. I extend my appreciation to my friends who provided immense support throughout the research process. Additionally, I am thankful to the Almighty God for granting me the strength to undertake this research work.



## ABSTRACT

Strategic management practices are crucial for firms as they enable them to align their resources, goals, and actions towards achieving their objectives, gain a competitive advantage, and improve their performance. However, despite the increased recognition of the role played by proper strategy management, most of SMEs continue to experience poor performance despite them implementing strategies. Particularly, the deteriorating performance of SMEs in Kenya is a cause for concern, given the significant role they play in the country's economy. According to a report by the Kenya National Bureau of Statistics (KNBS), the number of SMEs that are operational has been declining over the years, and their contribution to the country's Gross Domestic Product (GDP) has also reduced. While poor strategies are one of the main reasons why some SMEs are struggling, the studies conducted are not conclusive on the relationship between adoption of strategies and performance. The study aimed to investigate the effect of strategic management practices on the performance of SMEs in Kenya. The study was guided by the following specific research objectives: to assess the effect of strategic planning on organizational performance of SMEs in Kenya, to evaluate the effect of strategy formulation on organizational performance of SMEs in Kenya, to determine the effect of strategy implementation on organizational performance of SMEs in Kenya and to examine the effect of strategic monitoring and evaluation on organizational performance of SMEs in Kenya. The study was anchored on three theories namely McKinsey 7S Model, Resource-Based View (RBV) Theory and Game Theory. The study adopted the descriptive research design was undertaken at Meru County. For this study, the target population will constitute of registered SME's in Meru County in Kenya based in the CBD. Slovin's formula (1960) was used to attain a sample of 96 SMEs which was selected using stratified random sampling. The study used primary data which was collected using questionnaires. The data collecting tools were pre-tested on ten respondents to improve reliability and validity. To establish the validity of the research instruments, the researcher was in consultation with the university supervisor and other experts on the flow wording and format of the research questionnaire. The data was analyzed using content analysis, descriptive statistics and inferential statistics. The analyzed data was then represented in figures and tables. The study found that strategic planning, formulation, implementation, and monitoring all have a positive and significant impact on the financial performance of SMEs in Kenya. Specifically, strategic planning ( $r = .430^{**}$ ,  $\beta = 0.255$ ), formulation ( $r = .427^{**}$ ,  $\beta = 0.871$ ), implementation ( $r = .417^{**}$ ,  $\beta = 0.501$ ), and monitoring ( $r = .296^{**}$ ,  $\beta = 0.206$ ) were all strongly associated with better financial outcomes, with strategic management practices collectively explaining 72.1% ( $R^2 = .721$ ) of the variance in financial performance. The study recommends that SMEs in Kenya develop comprehensive strategic planning frameworks to enhance their financial performance. Additionally, the study recommends that government agencies develop and promote guidelines for enhancing strategic planning among SMEs. The study further recommends that SMEs adopt a holistic approach to strategic management by integrating planning, formulation, implementation, and monitoring practices. The study suggests further research into the impact of strategic planning on the long-term sustainability of SMEs in Kenya. Additionally, examining the role of external factors, such as economic fluctuations or technological advancements, in influencing the effectiveness of strategic planning would provide a more comprehensive understanding of its impact on sustainability.

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## **ABBREVIATIONS AND ACRONYMS**

CBD	:	Central Business District
CBK	:	Central Bank of Kenya
GDP	:	Gross Domestic Product
KNBS	:	Kenya National Bureau of Statistics
OECD	:	Organization for Economic Cooperation and Development
RBV	:	Resource-Based View
SME	:	Small and Medium-sized Enterprises
SPSS	:	Statistical Package for Social Sciences
SWOT	:	Strengths, Weaknesses, Opportunities, and Threats



Mount Kenya University

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The corporate environment has become increasingly volatile in recent years, with many firms experiencing significant challenges such as collapsing or reporting losses. This volatility can be attributed to a number of factors, including increased competition, economic instability, and rapid technological change (Peter, 2020). Companies that are able to innovate and adapt quickly are more likely to survive and thrive in the current corporate environment. As a result, it has become more important than ever for firms to adopt appropriate strategic measures to overcome and mitigate these challenges and improve performance. By adopting proper strategies to mitigate these challenges, such as focusing on innovation, building strong relationships with customers and stakeholders, and maintaining a strong financial position, firms can position themselves for long-term success (Owako & Nyangara, 2021).

Strategy encompasses various elements, including delivering top-notch customer service, embracing current technology, identifying market gaps, transforming marketing approaches, and enhancing financial decisions like cost-efficiency and prioritizing employee productivity (Lynch, 2018). One key aspect of strategy is the delivery of top-notch customer service. This entails understanding and meeting customer needs and expectations, fostering customer loyalty, and ultimately ensuring customer satisfaction.

Embracing current technology is another crucial component of a robust business strategy. Incorporating cutting-edge technology not only enhances operational efficiency but also allows businesses to remain competitive in their respective markets (Pearce & Robinson, 2018). This may involve implementing innovative tools, automation processes, or

leveraging on data analytics for informed decision-making. Identifying market gaps is an integral part of strategic planning. Understanding the dynamics of the market and recognizing areas where demand exceeds supply or where there are unmet needs provides a strategic advantage. This insight allows businesses to tailor their products or services to address these gaps, gaining a competitive edge and maximizing market share.

Transforming marketing approaches is another dimension of strategic thinking. As consumer behavior and preferences evolve, so too must marketing strategies. This may involve shifting from traditional methods to digital platforms, adopting influencer marketing, or utilizing social media to engage with a target audience (Peter, 2020). An adaptable and forward-thinking marketing strategy ensures that the business remains relevant and resonates with its audience. Enhancing financial decisions is a critical aspect of strategic management. This includes prioritizing cost-efficiency measures to optimize resource allocation. Strategic financial decisions also involve prioritizing investments, managing risks, and ensuring sustainable profitability. Prioritizing employee productivity is equally important, as motivated and efficient employees contribute significantly to the overall success of the organization.

A well-thought-out strategy is flexible enough to anticipate environmental shifts, enabling the business to swiftly adapt and respond to stay competitive, ultimately ensuring its competitiveness (Owako & Nyangara, 2021). Consequently, strategic management encompasses conceiving, executing, and assessing decisions across all sectors of an organization, aiding in goal achievement, encompassing both strategy creation and execution. Kipley and Lewis (2019) emphasize that strategic management is primarily focused on an organization's future success and the route it takes to reach its long-term objectives.

In light of heightened competition, evolving external demands, and shifting business dynamics, companies in developing nations are compelled to evaluate and enhance their strategies and management practices (Owich et al., 2018). Thompson (2017) underscores that an organization's performance hinges on its ability to carve out a unique position, and strategic management practices are the means to attain that strategic positioning. Companies that neglect effective planning tools and practices not only become ensnared in sluggish planning processes but also struggle to compete under favorable conditions (Miriti, 2021). Numerous empirical studies in the realm of strategy have been outspoken about the scope of firms and their performance (Maldeniya et al., 2021; Dushime, 2022). Adoption of strategies is essential for SMEs as it enables them to survive and compete in the marketplace. SMEs face various challenges such as limited financial resources, market uncertainties, and insufficient skills and knowledge, making it challenging to survive and grow. Effective strategies help SMEs to overcome these challenges and achieve their goals. Some of the benefits of strategy adoption for SMEs include increased profitability, improved performance, enhanced competitiveness, and sustainable growth (Kianto, et al., 2019). Despite the importance of strategy adoption, SMEs face several challenges in implementing it. In developed states, SMEs have struggled to adopt strategic management practices, with only 33% of them having a formal strategic plan, and only 29% regularly monitoring their progress against strategic goals (Small Business Administration, 2019). Similarly, in Europe, only 36% of SMEs have a formal strategic plan, and only 16% monitor their progress (Eurostat, 2019).

In less developed nations, small and medium enterprises (SMEs) encounter notable hurdles, including restricted funding availability and a shortage of skilled workforce. To illustrate, Nigeria's SMEs constitute 96% of all businesses, yet only 30% of them manage to sustain operations beyond their fifth year, primarily attributable to challenges such as

financial limitations, inadequate infrastructure, and policy inconsistencies (Achumba & Nwankwo, 2019). Similarly, in Ghana, 92% of businesses are SMEs, but merely 10% operate formally, with the majority remaining informal due to financial constraints and limited market access (Kusi-Sarpong et al., 2018). In Kenya, SMEs contribute to approximately 75% of the overall businesses and employ around 7.5 million people (Kenya National Bureau of Statistics, 2016). Nevertheless, they grapple with issues like limited financial access, uncertainties in the market, and a dearth of skills and knowledge. For instance, in Meru County, a significant number of SMEs lack formal strategic management practices, hindering their growth and competitiveness in the market. Consequently, investigating the how strategic management practices influence SME performance in Meru County, Kenya is imperative.

#### **1.1.1 SMEs in Meru County**

SMEs constitute more than 80% of the country's businesses, making substantial contributions to both employment and GDP. As per the 2016 Economic Survey conducted by the Kenya National Bureau of Statistics, Kenya boasted around 7.5 million SMEs at that time, providing jobs for over 14.9 million individuals and contributing a noteworthy 28.5% to the nation's GDP. These SMEs are distributed across various sectors, encompassing production, trade, and services, with SME employment constituting nearly 70% of the total workforce (Kinyua & Jagong'o, 2022).

A recent survey carried out by the KNBS in 2020 revealed that the majority of SMEs in Meru County predominantly operate in the service sector, followed by trade and manufacturing. The service sector takes the lead with 62.4% representation among all SMEs, while trade and manufacturing account for 27.1% and 10.5%, respectively. Common types of SMEs in Meru County include retail shops, salons, beauty parlors, and restaurants. Nevertheless, these SMEs encounter several challenges, ranging from

restricted access to finance, inadequate infrastructure, and a scarcity of skilled labor. Compounding matters, many operate in the informal sector, limiting their access to markets and support services (KAM, 2021).

Despite governmental efforts to bolster SME growth and development in the country, including Meru County, various challenges persist. The Kenyan government has implemented diverse policies and initiatives, as evidenced by the establishment of the Micro and Small Enterprises Authority (MSEA) aimed at providing business development services and financial support to SMEs. However, SMEs in Meru County grapple with ongoing challenges, including insufficient access to financing, inadequate infrastructure, and a shortage of skills and knowledge (Kobia & Munyoki, 2017).

## **1.2 Statement of the Problem**

Strategic management practices are crucial for firms as they enable them to align their resources, goals, and actions meant to promote competitive advantage, and improve their performance (Lubis, 2022; Nagurney, 2021). However, despite the increased recognition of the role played by proper strategy management, most of SMEs continue to experience poor performance despite them implementing strategies (Shahzad, et al., 2020). A survey conducted by the Central Bank of Kenya, (2020) revealed that 67% of SMEs in Kenya experienced a decline in revenue due to the COVID-19 pandemic. Additionally, 43% of SMEs reported a decline in their profit margins, while 36% reported a decline in their customer base. The challenges facing SMEs in Kenya are multifaceted, and poor strategies are one of the reasons why some of these firms are struggling (IFC, 2019).

A study by the Kenya Association of Manufacturers (KAM) revealed that many SMEs in Kenya lack proper business plans and strategies, which makes it difficult for them to compete effectively in the market (KAM, 2019). Additionally, many SMEs have limited

access to finance, which hampers their growth and expansion. Another major challenge facing SMEs in Kenya is the unfavorable business environment, which includes high taxes, corruption, and inadequate infrastructure (GEM, 2020). These factors make it difficult for SMEs to operate efficiently, and they end up incurring high operating costs.

While poor strategies are one of the main reasons why some SMEs are struggling, the studies conducted are not conclusive on underlying strategic management and SME performance relationship. Elmuti and Kathawala (2018) on a sample of 102 SMEs in the United States found that those that had implemented strategic planning had higher levels of financial performance compared to those that had not. Hill and Jones (2021) and Li and Liu (2020) found that firms that had a well-defined strategy and implemented it effectively were more likely to achieve their goals and objectives. A study by Wanjiru and Kiarie (2019) on SMEs in Kenya found that the adoption of market-oriented strategies (such as customer focus and market research) was positively related to business performance. In a study of 170 manufacturing SMEs in Pakistan, Shahzad et al. (2020) concluded that quality management practices was positively related to financial performance.

Further, the available studies have failed to assess the association between different strategic management practices and performance of organizations, more so SMEs. Other factors such as firm-specific characteristics, industry conditions, and external environment may also play a role in shaping the relationship between strategy adoption and performance. There is thus scarce and somewhat inconclusive literature available which is insufficient to interpret organizational performance and strategic management in SMEs which necessitated this study that attempted to answer the research question; what is the influence of strategic management practices on the performance of SMEs in Kenya?

### **1.3 Purpose of the Study**

The study aimed to investigate the effect of strategic management practices on the performance of SMEs in Kenya.

### **1.4 Objectives of the Study**

The study was guided by the following specific research objectives:

- i. To assess the effect of strategic planning on performance of SMEs in Kenya.
- ii. To evaluate the effect of strategy formulation on performance of SMEs in Kenya.
- iii. To determine the effect of strategy implementation on performance of SMEs in Kenya.
- iv. To examine the effect of strategic monitoring and evaluation on performance of SMEs in Kenya.

### **1.5 Research Questions**

The study addressed the following research questions:

- i. What is the effect of strategic planning on performance of SMEs in Kenya?
- ii. What is the effect of strategy formulation on performance of SMEs in Kenya?
- iii. What is the effect of strategy implementation on performance of SMEs in Kenya?
- iv. What is the effect of strategic monitoring and evaluation on performance of SMEs in Kenya?

### **1.6 Significance of the Study**

This research will assist the trade ministry of the country in gaining a deeper insight into the strategic management techniques employed by the businesses under its jurisdiction.

It will shed light on how these practices can be harnessed to enhance performance. The Ministry of Trade can also utilize this knowledge to organize seminars and educational

sessions for SMEs, aiding them in making informed decisions and improving their business operations. The study will specifically focus on strategic management methods that are suitable for local businesses, considering their current resources and financial stability. The ministry can use the diverse strategic decision-making approaches identified in this study as a reference point for shaping future policies and standards for SMEs in general.

This study will serve as a platform for SME owners to voice the challenges they face regarding strategic management in their businesses. By pinpointing these issues, SME owners and those responsible for governance can make well-informed decisions on how to enhance their performance. Moreover, it will also address the public's curiosity about the extent to which strategic management approaches impact SME performance. Beyond relying solely on information from the ministry, business owners can access online resources to educate themselves on various tactics and their effects on their company's performance.

By exploring the influence of these strategies on management and on performance, the study's findings will enrich discussions on SME performance and strategic management, contributing to theories and literature available on this subject. Additionally, other scholars can use the collected information to delve into areas not yet covered by the study. The study's conclusions and recommendations by this study will serve as a reference for them when replicating similar research in different locations.

### **1.7 Scope of the Study**

The research was conducted on the SMEs founded in Meru County, there are many SMEs present within the country but through sampling, a section of the SMEs will be prioritized for the study. The study targeted SMEs that operate in Central Business District and its environs that are registered with the Meru County Licensing Office. It sought to establish

how the performance of these firms has been affected by the strategic management practices adopted. Data was collected using questionnaires and analysed using descriptive and inferential analysis. The time scope of the study was over the past five years to gain insight into long-term trends and patterns. By analysing data from 2018 to 2023, this research aimed to provide a current and relevant assessment to the policymakers, practitioners and entrepreneurs in the region.

### **1.8 Study Limitations**

Some of the individuals approached for this research were hesitant to share information due to concerns about confidentiality. To address this issue, the researcher provided an introductory letter from the University, assuring the respondents that any information they provided would be kept confidential and used solely for academic purposes. Additionally, permission to collect data was sought from the head of projects in all constituencies. It is important to note that the study's scope was limited because it focused solely on SMEs in Meru County. Consequently, the findings might not be representative of all SMEs in Kenya or other counties. Furthermore, the research's reliance on primary data collected through questionnaires presented limitations, as the accuracy of the data collected through questionnaires was challenging to verify, and there was potential for the data to be subjective or biased. To enhance the data's reliability, Likert scales and objective questions were employed, while leading questions were avoided.

### **1.9 Delimitations**

The study was delimited to SMEs in Meru County. The study adopted a descriptive research design targeting all the SMEs in the CBD of the county. Primary data was used in the study.

### **1.10 Assumptions of the Study**

The study made the following assumptions.

- i. The respondents will cooperate in taking part in the study.
- ii. The respondents are knowledgeable on strategies adopted by SMEs in Meru County.
- iii. The data collection instruments will be sufficient in obtaining the information being sought after by the study.
- iv. There is a relationship between adoption of strategies and performance of SMEs.



### **1.11 Operational definitions of Terms**

**Environmental analysis:** Involves evaluating both internal and external factors that could impact an organization's decision-making and overall performance. This encompasses a thorough assessment of political, economic, social, technological, legal, and environmental elements that may influence the organization's day-to-day operations.

**Strategy formulation:** The process of creating a company's long-term goals and developing plans to attain them. This entails a comprehensive analysis of the organization's strengths, weaknesses, opportunities, and threats, leading to the identification of the most efficient course of action to reach the company's objectives.

**Strategy implementation:** Involves translating a company's strategic plans into practical steps. This encompasses the allocation of resources, delegation of responsibilities, and the creation of action plans to execute the objectives outlined during the strategy formulation phase.

**Strategic monitoring and evaluation:** Entails regularly tracking and assessing the progress of a company's strategic plan. This ongoing process helps in identifying any deviations from the original plan, allowing for necessary adjustments to keep the company on course toward achieving its goals.

**Organizational performance:** Serves as a gauge for measuring how effectively an organization is meeting its objectives. This measurement includes financial performance, customer satisfaction, employee engagement, and other key performance indicators aligned with the organization's goals.

**Small and Medium-sized Enterprises (SMEs):** Refer to businesses with fewer than 500 employees and generate lower revenue compared to larger corporations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This segment addresses pertinent literature associated with the research goals. The theoretical review will concentrate on diverse theories and frameworks linked to the investigation, delving into their projects and consequences on the research variables. The empirical literature will scrutinize additional studies carried out that bear relevance to the investigation. The chapter also encompasses the conceptual framework, scrutinizing the interconnection between the dependent and independent variables.

#### 2.2 Empirical Literature Review

Companies that are able to innovate and adapt quickly are more likely to survive and thrive in the current corporate environment. As a result, it has become more important than ever for firms to adopt appropriate strategic measures to overcome to mitigate these challenges and improve performance. Owako and Nyangara (2021) found that by adopting proper strategies to mitigate these challenges, such as focusing on innovation, building strong relationships with customers and stakeholders, and maintaining a strong financial position, firms can position themselves for long-term success

Pearce and Robinson (2018) found that embracing current technology is another crucial component of a robust business strategy. Incorporating cutting-edge technology not only enhances operational efficiency but also allows businesses to remain competitive in their respective markets. Owako and Nyangara (2021) found that a well-thought-out strategy is flexible enough to anticipate environmental shifts, enabling the business to swiftly adapt and respond to stay competitive, ultimately ensuring its competitiveness.

Consequently, strategic management encompasses conceiving, executing, and assessing decisions across all sectors of an organization, aiding in goal achievement, encompassing both strategy creation and execution. Kiple and Lewis (2019) emphasize that strategic management is primarily focused on an organization's future success and the route it takes to reach its long-term objectives.

Thompson (2017) underscores that an organization's performance hinges on its ability to carve out a unique position, and strategic management practices are the means to attain that strategic positioning. Companies that neglect effective planning tools and practices not only become ensnared in sluggish planning processes but also struggle to compete under favorable conditions (Miriti, 2021). Numerous empirical studies in the realm of strategy have been outspoken about the scope of firms and their performance (Maldeniya et al., 2021; Dushime, 2022).

Kianto, et al., (2019) alludes that adoption of strategies is essential for SMEs as it enables them to survive and compete in the marketplace. SMEs face various challenges such as limited financial resources, market uncertainties, and insufficient skills and knowledge, making it challenging to survive and grow. Effective strategies help SMEs to overcome these challenges and achieve their goals. Some of the benefits of strategy adoption for SMEs include increased profitability, improved performance, enhanced competitiveness, and sustainable growth. Despite the importance of strategy adoption, SMEs face several challenges in implementing it. In developed states, SMEs have struggled to adopt strategic management practices, with only 33% of them having a formal strategic plan, and only 29% regularly monitoring their progress against strategic goals (Small Business Administration, 2019). Similarly, in Europe, only 36% of SMEs have a formal strategic plan, and only 16% monitor their progress (Eurostat, 2019).

### **2.2.1 Strategic Planning and Organizational Performance**

Manga'na (2017) proposed that the examination of an organization's surroundings directly correlates with the performance of Matatu SACCO. The pertinence of this research to the present study mirrors its objectives in investigating environmental analysis's impact on organizational performance within SMEs. Vudzijena (2017) demonstrated that the characteristics of environmental scanning exhibit a significant positive correlation with the performance of retail SMEs in Harare, according to their research.

Banda (2020) looked into the exploration of environmental conditions' impact on PACRA. Employing a qualitative design with a sample size of 40 individuals, the study gathered data from both primary and secondary sources. Analysis was conducted using an Excel spreadsheet. The study unveiled that employees trust environmental scanning as it aids in monitoring the internal and external environments of the organization, anticipating potential opportunities or threats, and making adjustments to leverage the company's strengths against its weaknesses.

Nkemchor and Ezeanolue (2021) disclosed that strategic planning, strategy formulation, strategy implementation, and strategic evaluation all exert a positive and substantial influence on the organizational performance of tertiary institutions in Delta State, Nigeria. Kanano and Wanjira (2021) indicated a positive association between these three strategic planning practices and supermarket performance in Nakuru Town. Notably, strategy formulation emerged as the most influential factor affecting supermarket performance. The study underscored the importance of evaluating formulated strategies in Nakuru supermarkets, concluding that effective strategy formulation significantly enhances supermarket performance, and advocated for efficient risk management to ensure successful strategy implementation.

### **2.2.2 Strategy Formulation and Organizational Performance**

Singh and Panda (2015) investigated the influence of organizational culture on the emergence of strategic leadership. Executives at Nalco Holding Company in Minnesota participated in a survey, utilizing a snowball sampling method across various company departments. Employing descriptive statistics and one-sample t-tests for data analysis, the study discovered a significant positive correlation between organizational culture and the development of strategic leadership. The conclusion drawn emphasized that a positive organizational culture fosters the cultivation of future strategic leaders, leading to consistent enhancements in organizational performance.

Owich, Katuse, and Ngari (2018) delved into the impact of strategy formulation on the organizational performance of companies listed on the Nairobi Securities Exchange (NSE). Through simple linear regression analysis, the study revealed a positive association between company performance and strategy formulation, aligning with the objectives of the current research project.

Maldeniya, Chathuranga, and Marasinghe (2021) conducted a study within Sri Lankan firms to assess the influence of strategic management practices on the performance of Small and Medium Enterprises (SMEs). The findings indicated a positive effect of strategic management practices, encompassing strategy formulation, evaluation, and implementation, on SME performance in Sri Lanka. This study aligns with the present research's objectives, focusing on examining the impact of strategic management practices on SME organizational performance.

Miriti (2021) explored the impact of strategic leadership on the organizational performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya, with a specific focus on the mediating role of strategy execution. The study revealed a moderate practice of strategic leadership and strategy execution, resulting in moderately

satisfactory performance. Additionally, it highlighted that strategy execution partially and significantly mediated the relationship between strategic leadership and performance, shedding light on the role of strategic leadership and its influence on organizational performance.

### **2.2.3 Strategy Implementation and Organizational Performance**

Gachua (2017) examined factors affecting strategy implementation in Private Universities in Kiambu County, Kenya, revealing that insufficient funding posed challenges to supporting strategy implementation. Magiri (2018) investigated strategy implementation at the Kenya Police Service Headquarters, identifying a positive relationship between resource availability, organizational structure, and organizational performance. Njenga (2018) studied the effect of strategy implementation on the performance of Broadcast Solutions International Ltd., revealing a positive but relatively weak statistical association between the two.

Owako and Nyangara (2021) explored the influence of strategic resource allocation on the performance of KIWASCO, highlighting the significant impact of resource allocation on organizational performance. Ekon and Isayas (2022) investigated the relationship between strategic management practices and SME performance in Nigeria, finding significant impacts of strategic management practices on organizational performance.

### **2.2.4 Strategy Monitoring & Evaluation and Organizational Performance**

Abdalla (2018) explored the effects of strategy evaluation on organizational performance, identifying approaches such as a well-established evaluation culture and clear evaluation procedures that enhance organizational performance. Muluye (2018) studied the role of monitoring and evaluation (M&E) in the performance of public organization projects in Ethiopia, revealing significant and positive effects of M&E variables on project performance. Peru (2019) examined the role of monitoring and

evaluation systems in promoting the performance of Non-Governmental Organizations (NGOs) in Juba County, South Sudan, indicating that NGOs without monitoring and evaluation systems demonstrated better performance.

Kihuha (2018) investigated the routine of Monitoring and Evaluation (M&E) at United Nations Environment Program (UNEP) Global Environment Facility (GEF) Projects in Kenya, highlighting factors influencing M&E practices. Seje et al. (2021) evaluated the implementation of strategic plans by Principals in public secondary schools in Nyamira County, Kenya. Findings revealed that while strategic plans were available with clear implementation designs, the actual implementation levels were low, weak, and ineffective, hampered by constraints such as inadequate funding and weak control and evaluation structures.

## **2.3 Theoretical Review**

### **2.3.1 McKinsey 7S Model**

McKinsey 7S Model by Robert H. Waterman, is based on 7 elements: strategy, structure, systems, shared values, skills, staff, and style. According to the model, each of these elements is interdependent and must be aligned with the others in order for an organization to achieve its objectives (Kumar, 2019). The assumptions of the model are that organizations are complex and dynamic systems, and that changes to one element of the system will have ripple effects throughout the organization. The McKinsey 7S Model, developed by management consultants

At its core, the model assumes that organizations are complex systems where different components interact dynamically (Muluye, 2018). One crucial assumption underlying the 7S Model is that organizations must be adaptable and responsive to changes in their external environment. The dynamism of the business environment requires organizations to continuously reassess and adjust their internal components to remain competitive

(Gachua, 2017). This assumption reflects the model's acknowledgment of the rapidly changing nature of industries and the need for organizations to evolve over time. The adaptability assumption underscores the model's relevance in dynamic and uncertain business landscapes.

The model also assumes that organizational change is a multifaceted process that requires a coordinated effort across different dimensions. Change is seen as a holistic transformation that involves not only structural adjustments but also shifts in strategy, skills development, leadership style, and shared values. This assumption aligns with the idea that successful change initiatives involve a comprehensive understanding of how different organizational aspects interact and influence one another.

The McKinsey 7S Model is relevant in the corporate setting because it helps managers to identify and understand the interconnectedness of the different elements of an organization (Odeh, 2021). The model has several propositions. First, that an organization's structure, systems, and processes must be aligned with its strategy. Second, that an organization's shared values, skills, and staff must be aligned with its structure, systems, and processes. Third, that an organization's style (i.e., its management style and culture) must be aligned with its shared values.

The strengths of the McKinsey 7S Model include its ability to provide a holistic view of an organization, its emphasis on the interdependence of different elements of an organization, and its applicability to a wide range of organizations and industries. However, some limitations of the model include its focus on internal factors to the exclusion of external factors, and the potential for oversimplification of complex organizational dynamics. Other scholars have used the McKinsey 7S Model in various ways. For example, some have used the model to analyze the alignment of organizational

culture and strategy, while others have used it to examine the impact of leadership on organizational effectiveness.

This model is particularly relevant to the objectives of assessing the effect of strategic planning, formulation, implementation, and monitoring on the performance of SMEs in Kenya. The 7S framework's focus on the alignment of strategy, structure, and systems provides insight into how SMEs might streamline these elements to enhance strategic planning and execution. For instance, the model's emphasis on internal alignment (e.g., strategy with staff and systems) relates directly to the effectiveness of strategic formulation and implementation in achieving organizational goals, aligning with the study's objectives of evaluating various strategic management practices.

In the context of SMEs in Kenya, the McKinsey 7S Model could be used to analyze the alignment of various elements of these organizations, such as their strategy, structure, and staff, and to identify areas where changes may be needed in order to improve performance. For example, if an SME is struggling to achieve its strategic objectives, an analysis of the alignment of its various elements using the McKinsey 7S Model may reveal that changes are needed in its organizational structure or staff in order to better support the execution of its strategy.

### **2.3.2 Resource-Based View (RBV) Theory**

Originally proposed by Wernerfelt (1984), RBV theory assumes that firms are heterogeneous and possess unique resources and capabilities, which can create a competitive advantage (Lubis, 2022). The strengths of the RBV theory are its emphasis on firm-specific resources and capabilities and their potential to create sustained competitive advantage (Valaei, et al., 2022). RBV lacks guidance on how firms can develop or acquire valuable and rare resources. Scholars have used the RBV theory to examine the relationship between firm resources and capabilities and firm performance.

For example, Wang et al. (2019) found that a firm's marketing resources, including customer orientation, market research, and brand management, can positively influence its performance.

At the core of the RBV theory lies the assumption that firms are heterogeneous in their resource endowments. Barney (2019) argues that not all resources are equally valuable, rare, inimitable, and non-substitutable. This assumption implies that firms possess unique bundles of resources that can be leveraged to gain a competitive edge. Heterogeneity, therefore, becomes a fundamental premise of the RBV theory, as it suggests that firms differ in their ability to accumulate and deploy resources strategically.

In addition, the RBV theory assumes that firms are rational actors seeking to maximize their economic returns. This assumption is consistent with the neoclassical economic perspective but may oversimplify the complexities of organizational decision-making and behavior. Firms, in reality, may face constraints and exhibit bounded rationality, leading to suboptimal resource allocation decisions. Recognizing these limitations is crucial for a more nuanced understanding of how firms leverage resources within the RBV framework.

Moreover, the RBV theory assumes that the resources and capabilities contributing to a firm's competitive advantage are internal to the organization. This assumption draws a boundary between internal and external factors, emphasizing that internal factors, such as human capital, organizational culture, and proprietary technologies, are the primary sources of sustained competitive advantage. This perspective stands in contrast to industry-based theories that focus on external factors like market structure and competition.

While the RBV theory has been influential, it has faced critiques and challenges. Critics argue that the RBV places too much emphasis on internal factors, neglecting the importance of external factors in shaping a firm's competitive position. They contend that external factors, such as market dynamics and regulatory environments, play a significant role in determining a firm's success. Additionally, the RBV's assumption of resource immobility has been questioned in the context of rapidly changing industries and technological advancements that can facilitate the transfer of resources between firms.

The RBV theory underpins the study's objective of examining how SMEs in Kenya can leverage unique resources and capabilities to improve performance. By identifying the firm's valuable, rare, inimitable, and non-substitutable (VRIN) resources, RBV theory relates directly to strategic planning and formulation practices, which aim to position the organization competitively. This theory emphasizes internal resource development as a basis for sustained advantage, aligning with the objective of understanding how SMEs can enhance resource allocation and management to boost their performance in a competitive environment.

Similarly, Kianto et al. (2019) found that a firm's knowledge management capabilities can lead to superior innovation performance. Other studies have used RBV to explore the role of organizational culture, human resources, and technology in creating competitive advantage. According to this theory, SMEs in Meru County can use RBV to identify and leverage their unique resources and capabilities, such as knowledge of local markets or access to certain raw materials, to gain a competitive advantage.

### **2.3.3 Game Theory**

Game Theory was initialized by John von Neumann 1940s, and has since been applied in various fields, including economics, political science, and management. The propositions of Game Theory include the assumption that players are rational decision-

makers who aim to maximize their utility (Nagurney, 2021). Additionally, players have incomplete information about the strategies and preferences of other players. Game Theory also assumes that players' strategies are interdependent, and the outcome of one player's strategy depends on the strategies chosen by other players.

One fundamental assumption of Game Theory is the concept of rationality. Game theorists assume that all players involved in a game are rational actors who aim to maximize their utility (Gibbons, 2013). Rationality, in this context, implies that individuals make decisions based on a consistent set of preferences and strive to achieve outcomes that yield the highest possible satisfaction. This assumption simplifies the analysis by eliminating erratic behavior and allows for the prediction of choices based on perceived self-interest.

Another assumption inherent in Game Theory is that players aim to maximize their own utility without regard for the well-being of others (Fehr & Schmidt, 2017). This self-interest assumption simplifies the analysis by focusing on individual motivations, but it may not capture the complexity of human behavior in situations where cooperation or altruism plays a role. The assumption of pure self-interest may overlook instances where individuals derive satisfaction from contributing to collective outcomes.

Furthermore, Game Theory typically assumes that all players possess the same level of cognitive abilities and analytical skills (Rubinstein, 2016). This assumption ensures a level playing field in terms of strategic thinking and decision-making. However, in reality, there can be significant disparities in cognitive abilities, information processing, and strategic foresight among individuals. These differences can impact the dynamics of strategic interactions and challenge the assumption of equal cognitive prowess.

Lastly, Game Theory assumes that players make decisions simultaneously (Aumann & Dreze, 2017). This simultaneous move assumption simplifies the modeling process by eliminating the need to consider the temporal dimension of decision-making. However, in many real-world scenarios, players make sequential decisions, and the order of moves can significantly influence the outcomes of the game. Ignoring sequential decision-making may limit the applicability of Game Theory in situations where timing is a critical factor.

Game Theory's strengths include its ability to model complex interactions between decision-makers and predict outcomes. It can help identify optimal strategies for players to achieve their goals and can be used to analyze the competitive dynamics between firms in the same industry. (Maschler, et al., 2020). However, the theory has limitations, including the assumption of perfect rationality and the simplification of complex social phenomena. Scholars have used Game Theory in various studies to analyze decision-making in different contexts, including strategic management. For instance, in a study by Li and Zeng (2019), Game Theory was used to predict strategies implemented by firms. Game Theory provides an analytical framework to examine the competitive dynamics among SMEs, especially regarding the objectives of strategy formulation and implementation. As SMEs compete in similar industries, they often make strategic decisions with limited information about their rivals, highlighting interdependence in strategy formulation. Game Theory's focus on strategic interaction aligns with the objective of evaluating the effects of strategic implementation, particularly how SMEs can adopt optimal strategies to enhance performance while accounting for competitor actions and market conditions. This approach allows SMEs to anticipate competitor responses, further refining strategic planning and execution.

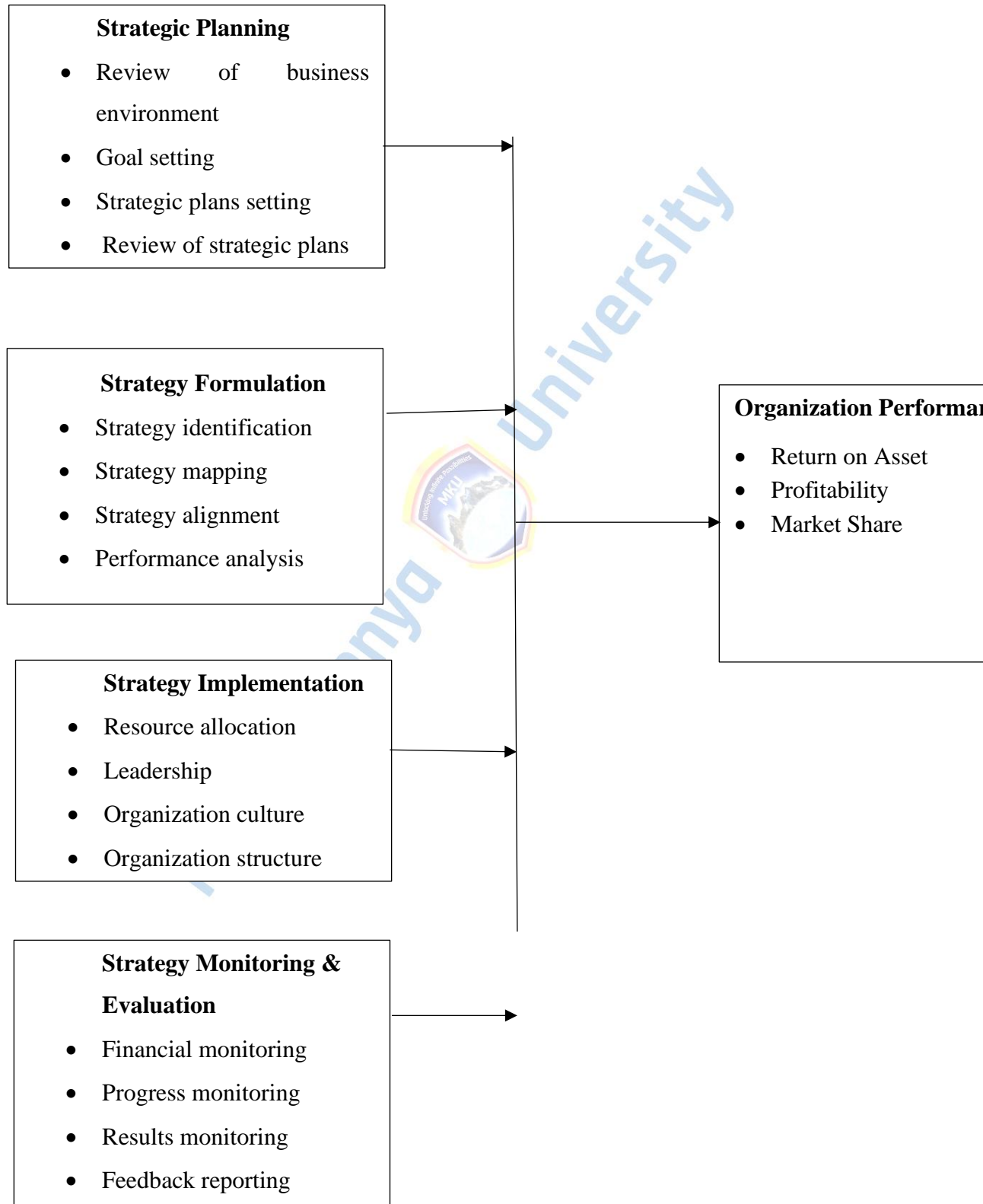
In the context of SMEs in Kenya, Game Theory can be used to explain the effect of strategic management practices on their performance. For example, the theory can be used to analyze the competitive dynamics between SMEs in the same industry and identify the optimal strategies for SMEs to achieve a competitive advantage. Additionally, Game Theory can be used to model the interactions between SMEs and their suppliers, customers, or competitors, and predict the outcomes of those interactions. It thus provides a useful framework for analyzing decision-making in strategic situations among these firms.

#### **2.4 Conceptual Framework**

Conceptual framework is an idea derived from various relevant fields and used to structure the presentations that illustrates the relationship between the research variables (Mugenda & Mugenda, 2008). Figure 2.1 shows the conceptual framework which adopted by the study.

*Independent Variables*

*Dependent*



***Figure 2. 1 Conceptual Framework***

**Source: (Researcher, 2024)**

The relationship between the independent variables and the dependent variable, organization performance, is a critical aspect in understanding the dynamics that contribute to an organization's success. The independent variables encompass various factors related to strategic planning, strategy formulation, strategy implementation, and strategy monitoring & evaluation. In the realm of strategic planning, which includes situation analysis, goal setting, strategic plans and regular reviews of strategies.

Moving to strategy formulation, which involves strategy identification, mapping, alignment, and performance analysis, the relationship lies in crafting a robust and effective strategy. Identifying the right strategy sets the direction for the organization, and strategy mapping ensures a clear visualization of how different components align with the overall objectives. Alignment ensures that organizational activities are cohesive and directed towards common goals. Performance analysis continually assesses the strategy's effectiveness, providing insights for adjustments. The quality of strategy formulation is closely tied to organizational performance metrics, influencing outcomes such as return on assets, profitability, and market share.

Strategy implementation, encompassing resource allocation, leadership, organizational culture, and structure, directly shapes how strategies are executed and, consequently, impacts organizational performance. Efficient resource allocation ensures that the necessary resources are directed toward strategic initiatives, directly influencing financial metrics like profitability and return on assets. Leadership plays a pivotal role in guiding the organization through strategy execution, while organizational culture and structure define how well the organization adapts to change and implements strategic initiatives.

The final phase of the process, strategy monitoring & evaluation, involves financial monitoring, progress monitoring, results monitoring, and feedback reporting. Financial monitoring ensures that the financial aspects align with strategic objectives. Progress monitoring tracks the advancement of strategic initiatives, while results monitoring assesses the overall impact on organizational performance metrics. Feedback reporting facilitates continuous improvement by providing insights into what is working well and areas that may require adjustment.

As for the dependent variable, organization performance, it encompasses key metrics such as return on assets, profitability, market share, and flexibility. Return on assets reflects the efficiency of resource utilization, profitability indicates the financial health of the organization, market share signifies competitiveness, and flexibility gauges the organization's adaptability to changing circumstances. The dependent variable is influenced by the interplay of the independent variables throughout the strategic management process, reflecting the organization's ability to navigate its internal and external environment effectively. In summary, the relationship between the independent and dependent variables is intricate, with each phase of the strategic management process playing a distinct role in shaping organizational performance.

## **2.5 Recap of literature review**

Though the available theories support the relevancy of adopting strategic management practices, the studies conducted have not been fully conclusive on the effects on performance. Majority of the studies and theories are also from western authors hence cannot be equally compared locally. The issues that SMEs in industrialized countries confront are not the same as those that SMEs in poor countries face. Countries that are members of the Organization for Economic Cooperation and Development (OECD) also

have a fund for aiding even start-ups, however developing countries like Kenya do not have the same benefit (OECD, 2017).

Strategic management practices across SMEs present a study gap not explored. Manga'na (2017) proposed that the examination of an organization's surroundings directly correlates with the performance of Matatu SACCO. Vudzijena (2017) demonstrated that the characteristics of environmental scanning exhibit a significant positive correlation with the performance of retail SMEs in Harare, according to their research. Miriti (2021) explored the impact of strategic leadership on the organizational performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya, with a specific focus on the mediating role of strategy execution. The study revealed a moderate practice of strategic leadership and strategy execution, resulting in moderately satisfactory performance.

Owako and Nyangara (2021) explored the influence of strategic resource allocation on the performance of KIWASCO, highlighting the significant impact of resource allocation on organizational performance. Ekon and Isayas (2022) investigated the relationship between strategic management practices and SME performance in Nigeria, finding significant impacts of strategic management practices on organizational performance. Seje et al. (2021) evaluated the implementation of strategic plans by Principals in public secondary schools in Nyamira County, Kenya. Findings revealed that while strategic plans were available with clear implementation designs, the actual implementation levels were low, weak, and ineffective, hampered by constraints such as inadequate funding and weak control and evaluation structures. There is thus an urgent need to provide local empirical evidence among the SME sector, a knowledge gap this study will aim at addressing.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Within research methodology, various components contribute to a comprehensive approach. These components include the research design, which outlines the overall strategy and structure of the study, whether it be experimental, observational, or survey-based. Sampling techniques are employed to select a representative subset of the population under study, ensuring that findings can be generalized. Data collection methods, such as surveys, interviews, or experiments, are chosen based on the nature of the research questions. Statistical and analytical tools are then applied to process and interpret the collected data. The ultimate goal of research methodology is to produce reliable, valid, and generalizable results, contributing to the advancement of knowledge within a particular field.

#### 3.2 Research Methodology

Research methodology refers to the systematic and logical approach employed by researchers to conduct and analyze their investigations (Kothari, 2014). It serves as the framework that guides the entire research process, encompassing the design, data collection, analysis, and interpretation of findings. A well-defined research methodology is crucial for ensuring the reliability and validity of research outcomes. It involves the identification and selection of appropriate research methods, techniques, and tools that align with the research objectives and questions. For this study, a descriptive research design was adopted, as it enables an in-depth analysis of the relationship between strategic management practices and the performance of SMEs in Kenya. This approach is suitable for understanding the current state of affairs and identifying trends or patterns

within the targeted population, aligning well with the study's objectives of examining the effects of specific strategic practices on performance (Saunders et al., 2019). Descriptive research is particularly valuable in business research, as it provides a clear and structured framework for exploring associations between variables, thus enhancing the generalizability and relevance of findings (Creswell & Creswell, 2018).

### **3.3 Research Design**

The study adopted the descriptive research design. According to Sekaran and Bougie (2016), descriptive research design is appropriate when the aim is to describe the characteristics of a population or phenomenon. The use of descriptive research design allows researchers to collect data from a sample of the population and to summarize and present the data using descriptive statistics. This design also enables researchers to identify patterns and trends in the data, which can provide insights into the phenomenon being studied.

### **3.4 Location of the study**

The location of the study was Meru County. It is located in the eastern region of Kenya. It is bordered by Isiolo County to the north, Tharaka-Nithi County to the west, Embu County to the south-west, Kitui County to the south, and Laikipia County to the north-west as per appendix I.

### **3.5 Target Population**

For this study, the target population constituted of registered SME's in Meru County in Kenya. According to County Government of Meru, (2021) the County has a total of 2,647 registered SMEs in the CBD and this is the population that was targeted as per Table 3.1. The unit of analysis for this study were individual organizations with the targeted respondents being the owner or their equivalents.

**Table 3.1: Study Population**

<b>SME Category</b>	<b>Population</b>
Retail	1,244
Service	794
Wholesale	344
Manufacturing	265
<b>Total</b>	<b>2,647</b>

*Source; County Government of Meru, (2022)*

### **3.6 Sampling**

#### **3.6.1 Sample Size**

To identify the study sample, Slovin's formula (1960) as shown below was used to attain 96 SMEs.

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

Where:

n= sample size

N= population (2647)

E= margin of error (10%+ 0.1)

$$n = \frac{2647}{1 + 2647 * (0.162)}$$

$$n = \frac{2647}{1 + 2647 * 0.01}$$

$$n = \frac{2647}{1 + 26.47}$$

$$n = \frac{2647}{27.47}$$

$$n = 96.42$$

There when rounded off, the sample size (n) required was approximately 96 respondents who were drawn from Meru County Central Business District.

### 3.6.2 Sampling Technique

A sampling methodology is the method used by an investigator to select a sample size from the overall population (Cooper & Schindler, 2014). To identify a sample under each stratum, stratified random sampling was employed. The weight of the stratum was determined by comparing the number of respondents in each stratum to the total population, as shown in Table 3.2. Stratified random sampling is more appropriate because the sample is derived from a heterogeneous community. Stratified sampling is also used when there is a significant disparity in a group. The sampling technique therefore ensures that each component is well represented.

**Table 3.2: Sampling Frame**

<b>SME Category</b>	<b>Population</b>	<b>Sample</b>	<b>Percentage</b>
Retail	1,244	45	47%
Service	794	29	30%
Wholesale	344	12	13%
Manufacturing	265	10	10%
<b>Total</b>	<b>2,647</b>	<b>96</b>	<b>100%</b>

### 3.7 Research Instruments

This study employed primary data collection through the use of questionnaires. The selection of questionnaires as the preferred data collection method is driven by their capacity to efficiently gather a wide range of data in a relatively short timeframe (Cresswell, 2017). Questionnaires are a widely adopted data collection tool and offer an efficient means to collect responses from a sizable sample before conducting analysis. They are particularly valuable for obtaining information that cannot be easily observed but is vital for research purposes, such as description, explanation, and hypothesis testing. The questionnaires were organized into sections, each tailored to address specific

research objectives. Respondents' perspectives were assessed using a Likert Scale, where they assigned scores ranging from 1 to 5 to various aspects, occasionally accompanied by brief explanations. e calls and emails to ensure a high response rate.

### **3.8 Testing for validity and reliability**

To enhance the reliability and validity of the data collection tools, a pilot test was conducted with ten respondents, distinct from the study's primary participants. The pilot sample were asked to provide feedback and suggestions regarding the clarity of instructions, the comprehensibility of questions, and the relevance of the content. Additionally, the pilot survey sought feedback on the instrument's design and content, aiming for a more efficient and practical administration approach. The pilot testing was repeated as necessary until the data collection instruments meet the researcher's satisfaction.

#### **3.8.1 Research Instrument Validity**

Validity pertains to the extent to which the test items accurately represent the content they are intended to measure (Yin, 2013). To establish the validity of the research instruments, the researcher collaborated with the university supervisor and other experts to assess the wording, flow, and format of the research questionnaire. Content validity was adopted, ensuring that the measuring instrument sufficiently covers the study's topic.

#### **3.8.2 Research Instrument Reliability**

Reliability measures the degree to which research instruments yield consistent results across repeated trials (Mugenda, 2008). In this study, the reliability of the instruments was assessed using Cronbach's alpha, which evaluates the internal consistency of items or questions. Cronbach's alpha can range from 0 to 1, with 0 indicating a highly error-prone instrument and 1 signifying a complete absence of error. A reliability coefficient

(alpha) of 0.7 or higher is considered indicative of acceptable reliability (Radhakrishna, 2007).

### **3.9 Data Collection Method and Procedures**

Mount Kenyatta University's transmittal letter was used to apply for a permission from the National Council of Science, Technology, and Innovation (NACOSTI). The study permission and transmittal letter was utilized to set up meetings with SMEs' management and target respondents. The questionnaires were administered using a drop-and-pick approach to guarantee that respondents have enough time to complete the questionnaires and that a high response rate is achieved. Following up with the responders were done by phone calls and emails. The procedure was repeated until a response rate of more than 70% is achieved.

### **3.10 Data analysis techniques and procedures**

Completed questionnaires underwent a thorough check for completeness and consistency. Cronbach's alpha was computed to assess the internal consistency of the collected data, thereby ensuring its validity and reliability. The data were coded to facilitate the analysis of the responses. Qualitative data from open-ended questions were subjected to content analysis, focusing on interpretation rather than quantification. Quantitative data from closed-ended questions were analyzed using statistical software such as the Statistical Package for Social Sciences (SPSS). Descriptive statistics, including frequencies, percentages, standard deviation, and arithmetic mean, were employed. Inferential statistics such as regression and correlation analysis were used to determine relationships between variables. The analyzed data were presented through figures and tables.

#### **3.10.1 Multiple Regression Analysis**

The regression model to be used will take the following format:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;  $\alpha$  is model intercept,  $\beta_1$ - $\beta_5$  are the various intercepts, Y is Organization Performance,  $X_1$  is Environmental Analysis,  $X_2$  is Strategy Formulation,  $X_3$  is Strategy Implementation and  $X_4$  is Strategic Monitoring and Evaluation and  $\varepsilon$  is the error term.

### 3.10.2 Test of Significance

There was an analysis of Variance known as ANOVA which will be performed to determine whether the model was sufficient enough in explaining the relationship that existed between the study variables. This is used in accessing any substantial variances between two or more sample groups at the chosen probability level (Mugenda, 2008).

### 3.10.3 Regression Assumptions

The analysis involved diagnostic tests to assess normality, auto-correlation, and multi-collinearity. Auto-correlation was evaluated using the Durbin Watson test, which examined whether the residuals in regression analysis exhibited randomness and lacked correlation with other factors, including their correlations at different time intervals. Multi-collinearity tests were applied to the regression model to ensure that accurate inferences could be drawn about the relationship between the dependent and predictor variables. The Variance Inflation Factor (VIF) and tolerance levels were utilized to identify the presence of multi-collinearity, with the option to address it by eliminating strongly correlated variables. Additionally, the degree of skewness and kurtosis was employed as an indicator of normality.

### 3.10.4 Operationalization of research variables

Table 3.3 shows operationalization of the research variables.

**Table 3.3: Operationalization of Variables**

Variable	Indicator	Measuring of Indicators	Type of analysis	Tests
Dependent	Organization Performance	<ul style="list-style-type: none"> <li>• Return on Asset</li> <li>• Profitability</li> </ul>	Descriptive, and non-	T-test and Analysis of

Variable	Indicator	Measuring of Indicators	Type of analysis	Tests
		<ul style="list-style-type: none"> <li>• Market Share</li> <li>• Flexibility</li> </ul>	parametric statistics.	Variance
Independent	Environmental Analysis	<ul style="list-style-type: none"> <li>• SWOT analysis</li> <li>• PESTLE analysis</li> <li>• Scenario planning</li> <li>• Porter's Five Forces</li> </ul>	Descriptive, and non-parametric statistics.	T-test and Analysis of Variance
Independent	Strategy Formulation	<ul style="list-style-type: none"> <li>• Strategy identification</li> <li>• Strategy mapping</li> <li>• Strategy alignment</li> <li>• Performance analysis</li> </ul>	Descriptive, and non-parametric statistics.	T-test and Analysis of Variance
Independent	Strategy Implementation	<ul style="list-style-type: none"> <li>• Resource allocation</li> <li>• Leadership</li> <li>• Organization culture</li> <li>• Organization structure</li> </ul>	Descriptive, and non-parametric statistics.	T-test and Analysis of Variance
Independent	Strategic Monitoring and Evaluation	<ul style="list-style-type: none"> <li>• Financial monitoring</li> <li>• Progress monitoring</li> <li>• Results monitoring</li> <li>• Feedback reporting</li> </ul>	Descriptive, and non-parametric statistics.	T-test and Analysis of Variance

### 3.11 Ethical Consideration

Ethical standards of the study were observed by ensuring that all information acquired from all sources was correctly acknowledged. In addition, permission was requested from the institution to gather data. The university provided an introduction letter outlining the researcher's role and the goal of the study. All given information was used purely for academic purposes and remained absolutely confidential. The researcher also guaranteed that no individual, organization, or party was harmed as a result of this investigation.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents research findings and discussion in line with the study objectives. The outcomes are also discussed with reference to reviewed empirical literature in chapter two. The chapter starts by providing results on response rate. The results on descriptive, diagnostic tests and inferential analysis including correlation and regression results are presented.

#### 4.2 Response Rate

A total of 96 questionnaires were issued to the participants who were owners or their equivalents of registered SME's in Meru County. Table 4.1 shows the results.

**Table 4.4: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Responded	84	88%
Not Responded	12	12%
Total	96	100%

**Source: Research Data (2024)**

The findings above indicate that out of the 96 questionnaires, 84 were properly filled and returned. This represented 88% response rate. A response rate above 80% is considered

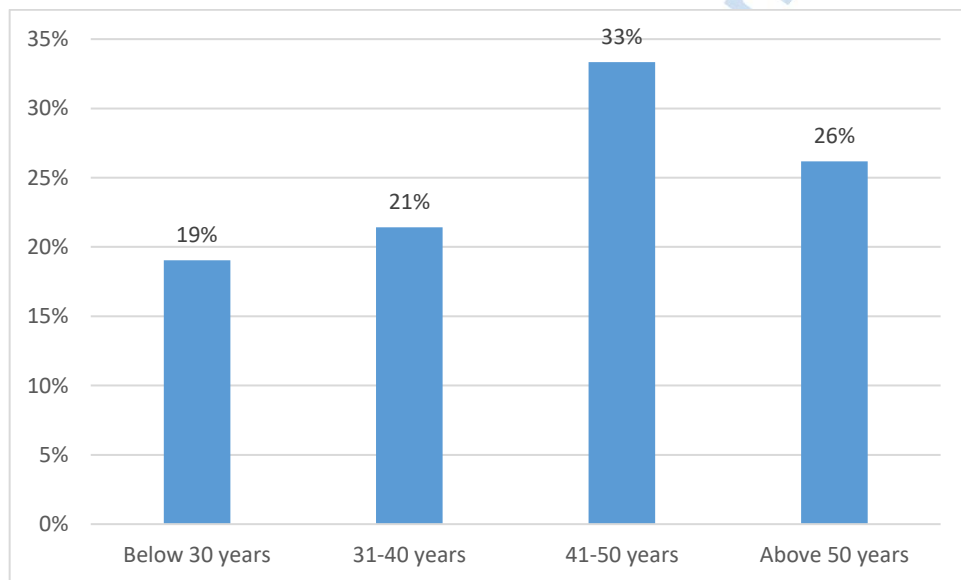
very good for analysis (Saunders et al., 2019). Hence, the response rate was adequate for analysis in this study.

### 4.3 Background Information

This section represents the background information in relation to the study.

#### 4.3.1 Age of the Respondents

On the respondents' distribution by age, majority of the respondents were above 30 years (81%) with only 19% being below 30 years as shown by Figure 4.1.

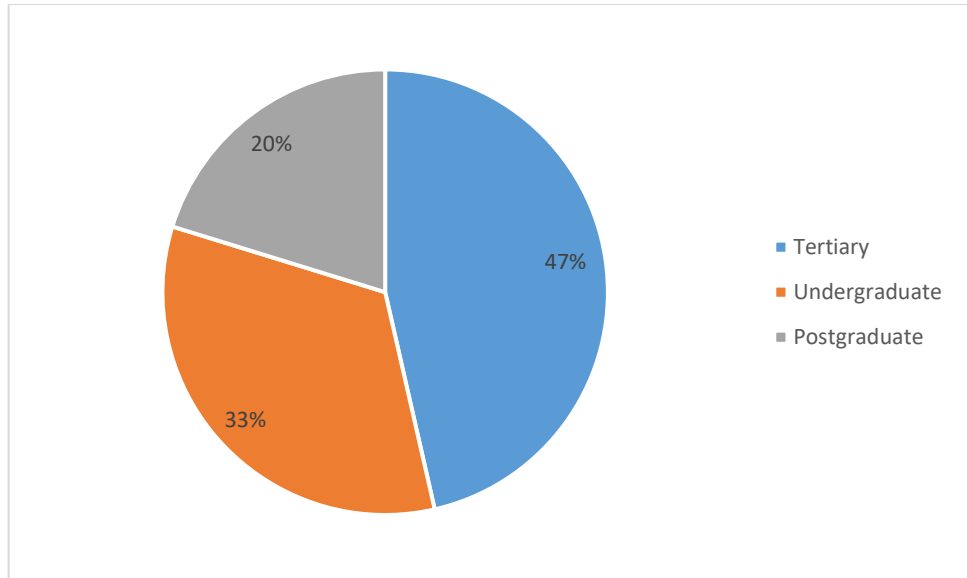


**Figure 4. 2 Gender of the Respondents**

**Source: Research Data (2024)**

#### 4.3.2 Education Level of Respondents

The study also aimed at establishing the education level of the respondents whereby 47% had tertiary certification, 33% had undergraduate degrees and 20% had post graduate degrees as shown by Figure 4.2. This shows that all of the respondents had attained higher levels of learning.

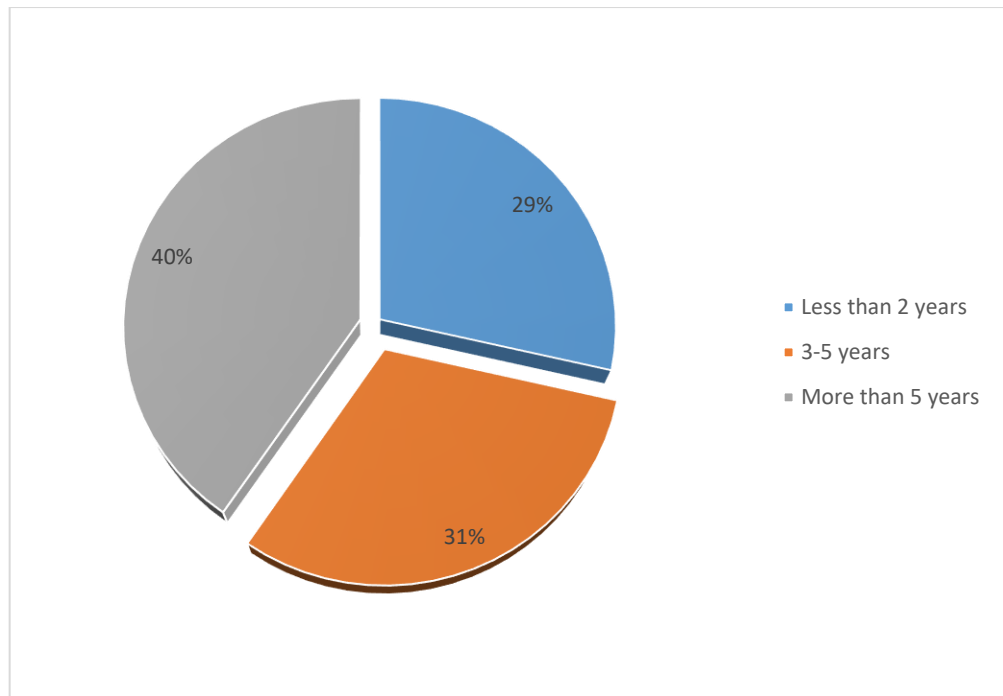


**Figure 4. 3 Education Level of Respondents**

**Source: Research Data (2024)**

#### **4.3.3 Age of SMEs**

On the age of the SMEs based on the duration they had been operational, 31% had been operational for 3-5 years, 29% for less than 2 years and 40% for more than 5 years as shown by Figure 4.3. This shows that majority of the SMEs had been operational for a considerable duration of time of more than 2 years.

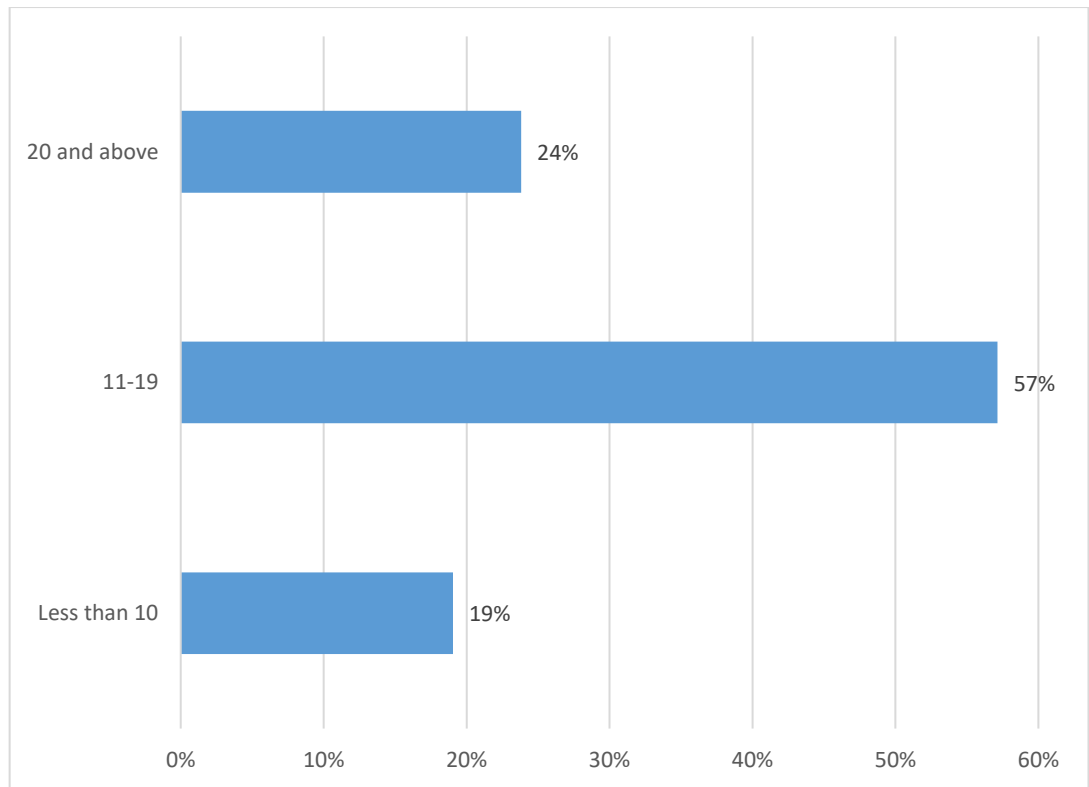


**Figure 4. 4 Age of SMEs**

**Source: Research Data (2024)**

#### **4.3.4 Number of Employees**

On the number of employees in the SMEs, majority of SMEs had less than 20 employees (76%), an indication of their relatively small size as shown by Figure 4.4.



**Figure 4. 5 Number of Employees**

**Source: Research Data (2024)**

#### **4.4 Descriptive Analysis**

This section presents descriptive analysis results for each of the study variables. A scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent was used.

##### **4.4.1 Performance of SMEs**

The dependent variable in this study is performance of SMEs in Kenya. The respondents were asked to rate the extent to which they agree with the statements relating to performance. The results are indicated in Table 4.2.

**Table 4. 5 Performance of SMEs**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Profitability	3.44	1.202
Growth	3.95	1.221
Efficiency	3.90	1.093
Revenue	3.10	1.669
Equity of the Firm	3.48	0.857
Employee Orientation	3.70	1.503
Customer Orientation	2.95	1.760
Strategic partners Orientation	2.21	1.271
Competitive Orientation	2.65	1.594
<b>Average Meanscore</b>	<b>3.27</b>	<b>1.352</b>

**Source: Research Data (2024)**

The findings show that profitability is a critical measure of SME performance, as it directly influences the sustainability and growth potential of a business. The mean score for profitability was 3.44, with a standard deviation of 1.202. This indicates that, on average, the SMEs were moderately profitable, although there was considerable variation in the respondents' ratings. Some SMEs reported higher profitability, while others were less profitable, reflecting differences in market conditions, management practices, and

competitive environments. The variability suggests that while some SMEs are thriving, others are struggling to achieve and maintain profitability, potentially due to the differing levels of strategic management practices employed.

Growth, another vital performance indicator, had a higher mean score of 3.95 with a standard deviation of 1.221, indicating that many SMEs experienced moderate to significant growth. The relatively high mean score suggests that a majority of the SMEs were expanding their operations, potentially increasing their market share and customer base. However, the standard deviation indicates that growth rates varied, with some SMEs achieving substantial growth while others experienced slower expansion. The growth metric is crucial as it often correlates with a company's ability to innovate, attract investment, and sustain its operations in a competitive market.

Efficiency, which reflects how well SMEs utilize their resources to achieve their objectives, was rated with a mean score of 3.90 and a standard deviation of 1.093. This score suggests that most SMEs in the study were fairly efficient, managing their resources well to produce desired outcomes. Efficiency is closely tied to profitability and growth, as more efficient firms are typically better at controlling costs and optimizing operations, leading to higher profitability and faster growth. The lower standard deviation in efficiency compared to other indicators suggests more consistent performance among SMEs in this area, indicating that many have adopted practices that help them operate effectively despite the challenges they may face.

Revenue generation, a direct measure of a company's financial performance, had a lower mean score of 3.10, with a standard deviation of 1.669. This indicates that while some SMEs were performing well in terms of revenue, others were struggling. The significant variability in the revenue figures highlights the diverse economic realities faced by SMEs

in Kenya, where factors such as market demand, competition, and economic conditions can heavily influence sales and revenue outcomes. This lower mean score suggests that while growth and efficiency were relatively high, these did not always translate into higher revenues, possibly due to pricing strategies, market saturation, or operational challenges.

Equity of the firm, which indicates the owners' residual interest in the assets after liabilities are accounted for, had a mean score of 3.48 and a standard deviation of 0.857. The moderate mean score suggests that SMEs had varying levels of equity, with some firms being well-capitalized while others had less equity, potentially affecting their ability to secure financing and invest in growth opportunities. The relatively lower standard deviation indicates more uniformity in equity levels across the surveyed SMEs, suggesting that most firms maintained a stable, though not necessarily high, equity position.

Employee orientation, reflecting how well SMEs engage and manage their workforce, had a mean score of 3.70 and a standard deviation of 1.503. This score suggests that while many SMEs place significant emphasis on employee management, there is considerable variability in how effectively they do so. Firms with strong employee orientation are likely to benefit from higher employee satisfaction, productivity, and retention, which can contribute to overall business performance. However, the high standard deviation indicates that some SMEs may need to improve their employee management practices to better align with those of their more successful counterparts.

Customer orientation, which measures how well SMEs understand and meet customer needs, was rated with a mean score of 2.95 and a standard deviation of 1.760. This relatively low score suggests that many SMEs are struggling to fully align their

operations with customer expectations, which could limit their competitive advantage and market growth. The high standard deviation further indicates significant differences in customer orientation practices among the SMEs, with some firms excelling while others lag behind. This gap in customer focus may impact long-term business success, as customer satisfaction and loyalty are critical drivers of sustained revenue and growth.

Strategic partners orientation, which assesses the extent to which SMEs collaborate with other firms to achieve mutual goals, had the lowest mean score of 2.21 with a standard deviation of 1.271. This suggests that many SMEs in Kenya do not prioritize or effectively manage partnerships, which could be a missed opportunity for growth and innovation. Strategic partnerships can provide SMEs with access to new markets, technologies, and resources, helping them to scale and compete more effectively. The low mean score and relatively moderate standard deviation suggest that improving strategic partner relationships could be a key area for SMEs to enhance their overall performance.

Competitive orientation, which measures how SMEs position themselves relative to competitors, was also rated relatively low with a mean score of 2.65 and a standard deviation of 1.594. This indicates that many SMEs may not be fully leveraging competitive strategies to differentiate themselves in the market. A strong competitive orientation is essential for maintaining market share and achieving sustainable growth, particularly in dynamic and competitive environments. The variability in this area suggests that while some SMEs have developed robust competitive strategies, others may need to enhance their focus on market positioning and competitive differentiation.

Overall, the average mean score of 3.27 across all performance indicators reflects a moderate level of performance among SMEs in Kenya, with significant variability in

how well individual firms are doing in specific areas. The study highlights the need for SMEs to strengthen their strategic management practices, particularly in areas like customer and competitive orientation, to improve their overall performance and sustainability in the market. The findings show the importance of tailored strategies that address the unique challenges and opportunities faced by SMEs, helping them to enhance their profitability, growth, and long-term success.

The performance metrics identified in Table 4.2 align closely with existing literature on SME performance indicators. Profitability and growth are commonly cited as primary indicators of SME success, as they directly reflect a firm's ability to sustain itself financially and expand within competitive markets (Gherhes et al., 2016). Efficiency is frequently discussed in research as a critical driver of profitability, with scholars noting that resource optimization is often challenging for SMEs due to limited capacity (Tangen, 2021). Revenue, while essential to performance, can be affected by diverse factors such as demand fluctuations and competitive pressures, aligning with studies that show variability in revenue performance among SMEs in developing economies (Olawale & Garwe, 2019).

#### 4.4.2 Strategic Planning

The first objective was to assess the effect of strategic planning on performance of SMEs in Kenya. The respondents were asked to rate the extent to which they agree with the statements relating to strategic planning. The results are indicated in Table 4.3.

**Table 4. 6 Strategic Planning**

Statement	Mea n	Std. Dev

Our firm constantly reviews the business environment and comes up with strategies.	3.56	1.547
The firm has set up short term and long term goals.	4.39	1.030
We have a strategic plan in place to guide the business.	3.93	1.336
Strategic plans are regularly reviewed	3.75	1.325
<b>Average Meanscore</b>	<b>3.91</b>	<b>1.309</b>

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**Source: Research Data (2024)**

As shown, one of the key aspects evaluated was how frequently firms review the business environment and develop strategies accordingly. The mean score for this statement was 3.56, with a standard deviation of 1.547, indicating a moderate extent of environmental scanning and strategy development. This suggests that while some SMEs regularly monitor the business environment to adjust their strategies, others may do so less frequently or systematically. The variability in responses highlights the differences in strategic planning maturity among SMEs, where some may be more attuned to external changes, thereby better positioning themselves for success.

The study also assessed the establishment of short-term and long-term goals within SMEs, which is a crucial component of effective strategic planning. This statement received the highest mean score of 4.39, with a standard deviation of 1.030. This suggests that most SMEs have clearly defined both short-term and long-term goals, which is essential for guiding business operations and ensuring sustained growth. The relatively lower standard deviation indicates more consistency among firms in setting these goals, which is a positive indicator of strategic planning practices. However, the fact that not

all firms scored a 5 suggests that there is still room for improvement in goal-setting practices among some SMEs.

Another critical element examined was whether SMEs have a strategic plan in place to guide their business activities. This statement received a mean score of 3.93, with a standard deviation of 1.336. The score indicates that most firms have some form of strategic plan, though the extent to which these plans are comprehensive and effectively implemented may vary. A strategic plan serves as a roadmap for the business, helping to align resources and efforts towards achieving set objectives. The moderate standard deviation suggests that while strategic planning is common, the quality and thoroughness of these plans differ across the SMEs surveyed.

The regular review of strategic plans was also assessed, with a mean score of 3.75 and a standard deviation of 1.325. This indicates that while many SMEs do review their strategic plans periodically, there is variability in how frequently and effectively these reviews are conducted. Regularly updating strategic plans is essential for ensuring that businesses remain aligned with their goals and responsive to changes in the external environment. The variability in responses suggests that some firms may need to adopt more rigorous processes for reviewing and updating their strategic plans to maintain their relevance and effectiveness. Overall, the findings suggest that strategic planning is moderately to largely practiced among SMEs in Kenya, with most firms recognizing the importance of setting goals and having a strategic plan in place. However, the variability in responses indicates that there is still room for improvement, particularly in the areas of environmental scanning, strategy development, and regular review of strategic plans.

Strategic planning is moderately to largely practiced among SMEs in Kenya, as shown by their engagement in setting both short-term and long-term goals (mean score: 4.39),

a crucial practice for guiding operations and sustaining growth (Onukwube et al., 2021). While most SMEs also maintain strategic plans (mean score: 3.93), there is variability in environmental scanning and regular updates to these plans, which are essential for agility in shifting markets (Mwangi & Namada, 2020). This highlights the need for more systematic review processes to enhance responsiveness and alignment with external changes (Ngure & Karemu, 2022). Overall, while strategic planning is present, the inconsistent practices underscore areas for improvement in adaptability and long-term effectiveness among Kenyan SMEs.

#### 4.4.3 Strategic Formulation

The second objective was to evaluate the effect of strategy formulation on performance of SMEs in Kenya. The respondents were asked to rate the extent to which they agree with the statements relating to strategy formulation. The results are shown in Table 4.4.

**Table 4. 7 Strategic Formulation**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm has a policy relating to strategy identification.	3.86	1.569
Strategies for the companies are mapped to performance goals.	3.87	1.360
Strategy for the firm is aligned with long term goals of the firm.	3.40	0.958
Strategy performance analysis is carried out to assess the success in implementing strategies.	3.62	1.326
<b>Average Meanscore</b>	<b>3.69</b>	<b>1.303</b>

**Source: Research Data (2024)**

The results indicate one of the key areas explored was whether the firms have a policy in place for strategy identification. The mean score for this statement was 3.86, with a standard deviation of 1.569. This relatively high mean indicates that many SMEs have established policies to guide the identification of strategies, which is crucial for ensuring that the strategies developed are aligned with the firm's mission and objectives. However, the wide standard deviation suggests that there is significant variability among firms, with some having well-defined policies while others may lack formalized processes for strategy identification. This inconsistency can impact the effectiveness of the strategies and, consequently, the overall performance of the firms.

The study also looked at whether the strategies of the companies are mapped to performance goals, which is a critical aspect of effective strategy formulation. The mean score for this statement was 3.87, with a standard deviation of 1.360. This score indicates that most SMEs recognize the importance of linking their strategies to specific performance goals, ensuring that the strategic initiatives undertaken by the firm are directly contributing to its success. The moderate standard deviation suggests that while this practice is common, there are differences in how rigorously firms ensure that their strategies are mapped to performance outcomes, which may affect the overall impact of these strategies on business performance.

Another important factor assessed was the alignment of strategies with the long-term goals of the firm. This statement received a mean score of 3.40, with a standard deviation of 0.958, indicating that while some firms are aligning their strategies with long-term goals, others may not be as focused on long-term strategic alignment. The lower mean score, relative to other aspects of strategy formulation, suggests that aligning strategies with long-term objectives may be a challenge for some SMEs, possibly due to resource constraints, market uncertainties, or a short-term focus. The relatively low standard

deviation indicates that the extent of strategic alignment is fairly consistent across the SMEs surveyed, though there is still room for improvement.

Finally, the practice of carrying out strategy performance analysis to assess the success of strategy implementation was evaluated, with a mean score of 3.62 and a standard deviation of 1.326. This suggests that while many SMEs conduct performance analyses to evaluate the effectiveness of their strategies, there is variability in how systematically this is done. Regular strategy performance analysis is crucial for identifying areas where strategies may need to be adjusted to better achieve the desired outcomes. The moderate mean score and standard deviation indicate that while performance analysis is a common practice, the depth and frequency of these analyses may vary, potentially affecting the firms' ability to respond to challenges and opportunities effectively. Overall, the findings suggest that while strategy formulation is moderately practiced among SMEs in Kenya, there is variability in how well these practices are implemented.

In Kenyan SMEs, strategy formulation appears moderately implemented, as indicated by a mean score of 3.69 across key aspects. Most firms have policies guiding strategy identification (mean: 3.86), which supports alignment with core business objectives; however, variability in formalization suggests inconsistencies in strategy quality and impact (Mwangi & Namada, 2020). Mapping strategies to performance goals (mean: 3.87) is generally prioritized, although differences exist in rigor, potentially affecting outcomes (Karanja & Wanjiru, 2022). Additionally, while aligning strategies with long-term goals is valued (mean: 3.40), many firms face challenges with long-term focus due to resource constraints (Onukwube et al., 2021). Strategy performance analysis, essential for refining approaches, is moderately practiced (mean: 3.62), but its uneven application indicates that some SMEs may lack comprehensive mechanisms to assess and adapt strategies effectively.

#### 4.4.4 Strategy Implementation

The third objective was to determine the effect of strategy implementation on performance of SMEs in Kenya. The respondents were asked to rate the extent to which they agree with the statements relating to strategy implementation. The results are shown in Table 4.5.

**Table 4. 8 Strategy Implementation**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Adequate resources both financial and non-financial have been allocated to strategy implementation.	3.76	1.402
Appropriate leadership is allocated to strategic implementation within the firm.	4.25	1.325
Organization culture supports and promotes strategic management practices.	3.79	1.290
Organization structure is appropriate and supportive of organization strategic management practices.	3.75	1.211
<b>Average Meanscore</b>	<b>3.89</b>	<b>1.307</b>

**Source: Research Data (2024)**

The study evaluated the allocation of adequate resources, both financial and non-financial, to support strategy implementation. The mean score for this statement was 3.76, with a standard deviation of 1.402. This suggests that while many SMEs recognize the importance of resource allocation in strategy implementation, there is variability in how well-resourced these efforts are. Adequate resource allocation is essential for

ensuring that strategic initiatives are successfully executed, and the relatively high standard deviation highlights that some firms may struggle with providing sufficient resources, which could hinder the effectiveness of their strategic efforts.

The study also examined the role of leadership in strategy implementation, which is a crucial factor in ensuring that strategic plans are effectively executed. This statement received the highest mean score of 4.25, with a standard deviation of 1.325. The high mean score indicates that most SMEs have appropriate leadership in place to guide the implementation of their strategies, which is a positive indicator of effective strategy execution. However, the standard deviation suggests that there are still some variations in leadership effectiveness, with some firms potentially lacking the strong leadership needed to drive successful strategy implementation.

Another important factor assessed was whether the organizational culture supports and promotes strategic management practices. The mean score for this statement was 3.79, with a standard deviation of 1.290. This score indicates that organizational culture is generally supportive of strategy implementation in many SMEs, but there is room for improvement. A culture that promotes strategic thinking and execution is vital for aligning the organization's efforts towards achieving its strategic goals. The variability in responses suggests that while some firms have cultivated a culture conducive to strategic management, others may need to focus more on embedding these practices within their organizational culture to enhance their strategic effectiveness.

The study also explored whether the organization's structure is appropriate and supportive of strategic management practices. The mean score for this statement was 3.75, with a standard deviation of 1.211, indicating that most SMEs have organizational structures that support strategy implementation, but there are variations in how well these

structures facilitate strategic management. An appropriate organizational structure is essential for ensuring that roles, responsibilities, and workflows are aligned with the strategic objectives of the firm. The standard deviation suggests that while many SMEs have supportive structures in place, others may need to reassess and adjust their structures to better support their strategic goals. Overall, the findings suggest that strategy implementation is moderately to largely practiced among SMEs in Kenya, with leadership playing a significant role in driving these efforts. However, the variability in resource allocation, organizational culture, and structure highlights areas where SMEs can improve to enhance their strategic implementation processes.

The findings indicate that Kenyan SMEs demonstrate a moderate to strong emphasis on strategy implementation, with an overall mean of 3.89. Effective leadership is especially prioritized, showing the highest mean (4.25), suggesting that most firms have leaders equipped to guide strategy execution—essential for successful outcomes (Mwaniki & Muathe, 2021). However, variability in leadership effectiveness implies room for improvement in some firms. Resource allocation (mean: 3.76) and supportive organizational structures (mean: 3.75) are recognized but inconsistently practiced, which may impact implementation quality and resilience (Njiru & Bett, 2022). Lastly, while organizational culture is generally supportive (mean: 3.79), the variability signals that some SMEs could further foster cultures conducive to strategic management. These findings underscore the need for consistent resourcing, strong leadership, and cultural alignment to enhance strategy implementation in the SME sector.

#### **4.4.5 Strategic Monitoring and Evaluation**

The fourth objective was to examine the effect of strategic monitoring and evaluation, on performance of SMEs in Kenya. The respondents were asked to rate the extent to

which they agree with the statements relating to strategic monitoring and evaluation. The results are shown in Table 4.6.

**Table 4. 9 Strategic Monitoring and Evaluation**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
There is tool in place to monitor financial progress of implementation strategy implementation process.	4.21	1.271
Progress monitoring is done on regular basis.	3.65	1.594
Results are monitored and corrective measures initiated on timely manner.	3.55	1.800
There is monitoring feedback channel for receiving feedback on strategy implementation.	3.86	1.059
<b>Average Meanscore</b>	<b>3.82</b>	<b>1.431</b>

**Source: Research Data (2024)**

The study assessed the presence of tools to monitor the financial progress of the strategy implementation process. This statement received a high mean score of 4.21, with a standard deviation of 1.271. The high mean suggests that most SMEs have established tools to monitor the financial aspects of their strategy implementation, which is crucial for ensuring that strategic initiatives are on track and financially viable. However, the standard deviation indicates that while many firms have such tools in place, others may still be lacking in this area, which could lead to difficulties in tracking financial performance and making informed decisions.

Another important aspect of strategic monitoring and evaluation is the regularity with which progress is monitored. The mean score for this statement was 3.65, with a standard

deviation of 1.594. This indicates that while some SMEs conduct progress monitoring on a regular basis, others may not do so as consistently. Regular progress monitoring is essential for identifying any issues or deviations from the strategic plan early on, allowing for timely adjustments to be made. The wide standard deviation suggests that the frequency and rigor of progress monitoring vary among the SMEs, which could affect the overall effectiveness of their strategic management efforts.

The study also explored the extent to which results are monitored and corrective measures are initiated in a timely manner. The mean score for this statement was 3.55, with a standard deviation of 1.800. This relatively lower mean score indicates that there may be challenges in ensuring that monitoring results lead to timely corrective actions. The high standard deviation further suggests that there is significant variability in how promptly SMEs respond to issues identified during the monitoring process. Timely corrective measures are critical for maintaining the alignment of strategy implementation with the firm's goals, and delays in taking action can undermine the effectiveness of the strategic initiatives.

Additionally, the presence of a monitoring feedback channel for receiving feedback on strategy implementation was evaluated. The mean score for this statement was 3.86, with a standard deviation of 1.059. This score suggests that many SMEs have established feedback channels to facilitate communication regarding the progress and challenges of strategy implementation. Feedback channels are important for ensuring that information flows effectively within the organization, enabling management to make informed decisions based on the insights provided by different stakeholders. The relatively lower standard deviation indicates that this practice is more consistently applied across the SMEs compared to other aspects of strategic monitoring and evaluation. Overall, the findings suggest that while strategic monitoring and evaluation are moderately practiced

among SMEs in Kenya, there are areas where improvements can be made. The presence of financial monitoring tools and feedback channels is relatively strong, but the regularity of progress monitoring and the timeliness of corrective actions vary significantly between firms.

The findings reveal that strategic monitoring and evaluation practices are moderately established among Kenyan SMEs, with an overall mean of 3.82. Tools for monitoring financial progress scored highest (mean: 4.21), highlighting that many SMEs prioritize financial oversight as a key aspect of strategy implementation (Odhiambo & Njuguna, 2022). However, the regularity of progress monitoring (mean: 3.65) and timeliness of corrective actions (mean: 3.55) show greater variability, suggesting that while some firms practice rigorous and timely monitoring, others lag behind. Consistent feedback mechanisms (mean: 3.86) are also widely in place, allowing for effective communication on implementation issues. This indicates that while SMEs recognize the importance of strategic monitoring, more uniform application of these practices, especially around prompt corrective measures, could enhance strategic effectiveness and support sustained performance (Kamau & Ombongi, 2023).

#### **4.5 Diagnostic Tests**

Prior to inferential analysis, several diagnostic tests were conducted. The purpose of running the tests was to ensure that the data series was not biased, which would result to wrong estimations. The tests included multicollinearity, normality, linearity, heteroscedasticity, and auto-correlation tests.

##### **4.5.1 Multicollinearity Test**

The study tested multicollinearity between independent variables using VIF. A value of 1 indicates that there is no correlation between independent variables. VIFs between 1

and 5 suggest that there is a moderate correlation, but it is not severe enough to warrant corrective measures. VIFs greater than 10 represent critical levels of multicollinearity.

**Table 4. 10 Collinearity Statistics**

	<b>Tolerance</b>	<b>VIF</b>
Strategic Planning Practices	1.24	1.158
Strategy Formulation Practices	2.25	1.139
Strategy Implementation Practices	2.24	1.147
Strategy Monitoring and Evaluation Practices	1.10	1.257

**Source: Research Data (2024)**

The collinearity statistics in Table 4.7 indicate that all individual VIF values are below the critical threshold of 10, and all tolerance values are above 0.2, suggesting no serious multicollinearity issues among the independent variables in this study. If tolerance values had been lower than 0.5, it would signal moderate multicollinearity, requiring closer examination. In such cases, adjustments like removing or combining correlated variables might be necessary to improve model accuracy and ensure reliable regression estimates.

#### **4.5.2 Normality Test**

To test the normality of the data, Shapiro-Wilk test was conducted where a P value (Sig. value) greater than 0.05 results to acceptance of the null hypothesis (Ho: Data is normally distributed). On the other hand, a P value less than 0.05 results to rejection of the null hypothesis.

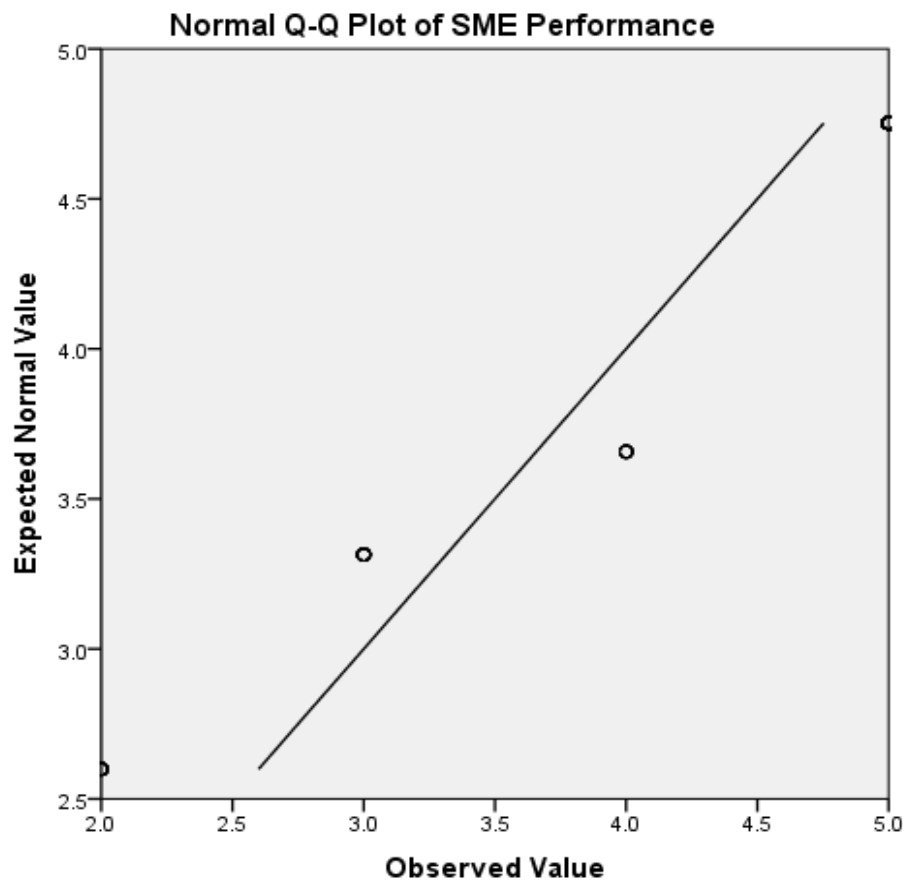
**Table 4. 11 Normality Test using Shapiro-Wilk**

	<b>Statistic</b>	<b>Df</b>	<b>Sig.</b>
Strategic Planning Practices	0.983	176	0.231
Strategy Formulation Practices	0.925	176	0.137
Strategy Implementation Practices	0.916	176	0.125
Strategy Monitoring and Evaluation Practices	0.964	176	0.225
a Lilliefors Significance Correction			

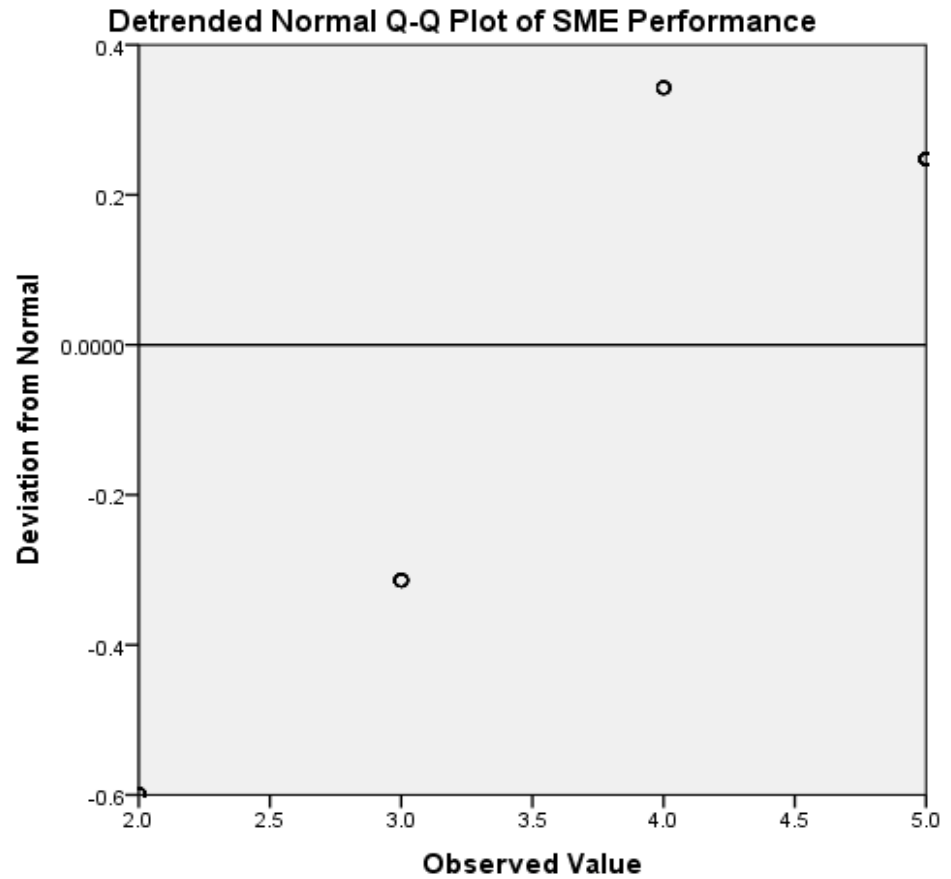
**Source: Research Data (2024)**

The results in Table 4.8 indicate that the significance value for all the variables was greater than 0.05. This led to acceptance of the null hypothesis of normal distribution implying that data representing the variables was normally distributed.

The Q-Q plot was further utilized in this study to check for normalcy. As shown, the points formed a straight line if the quantiles is from the same theoretical distribution (population) hence normal distribution. Figure 1 displays the Q-Q plot that was produced.



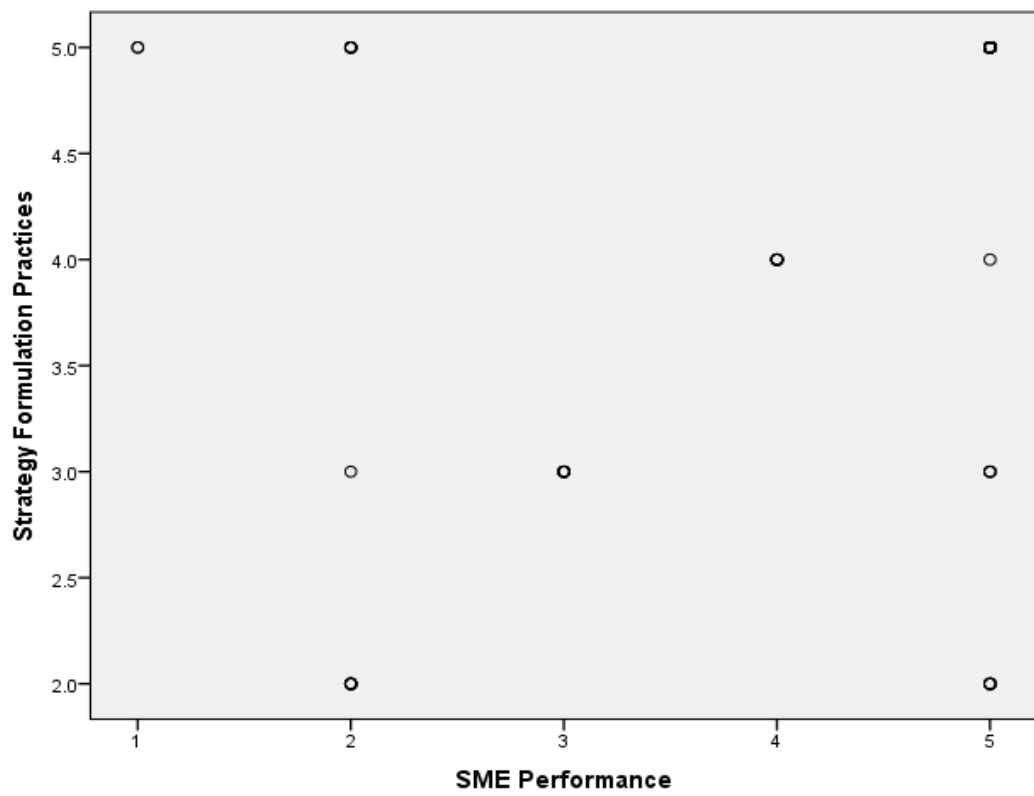
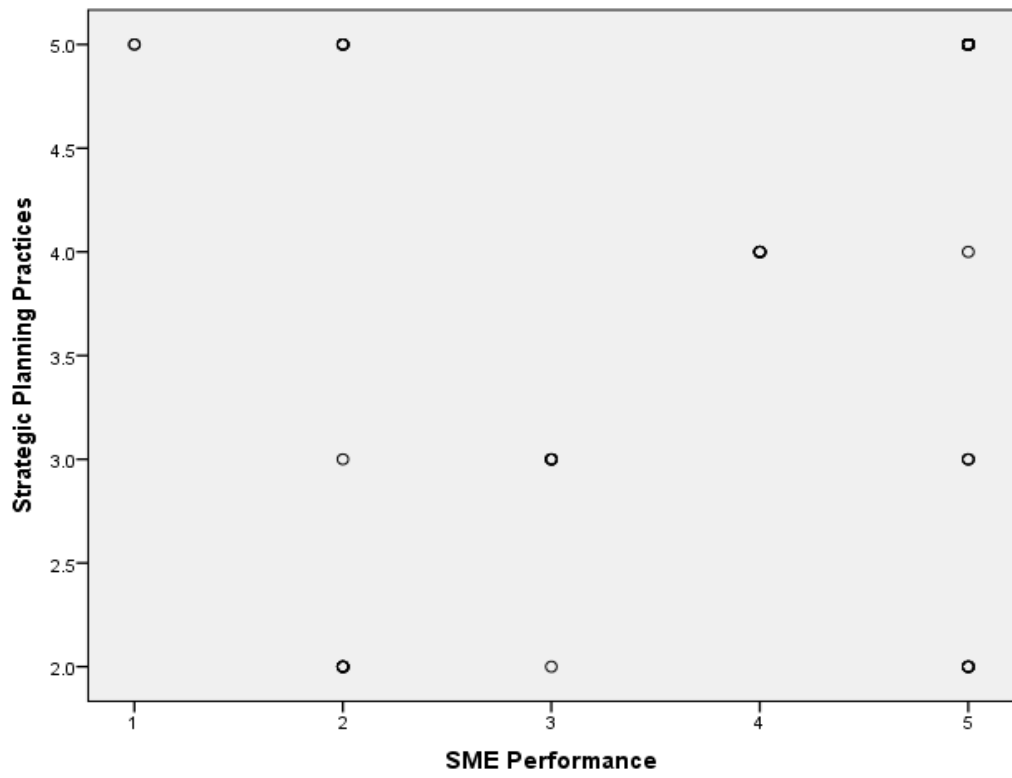
**Figure 4. 6 Normal Q-Q Plot**

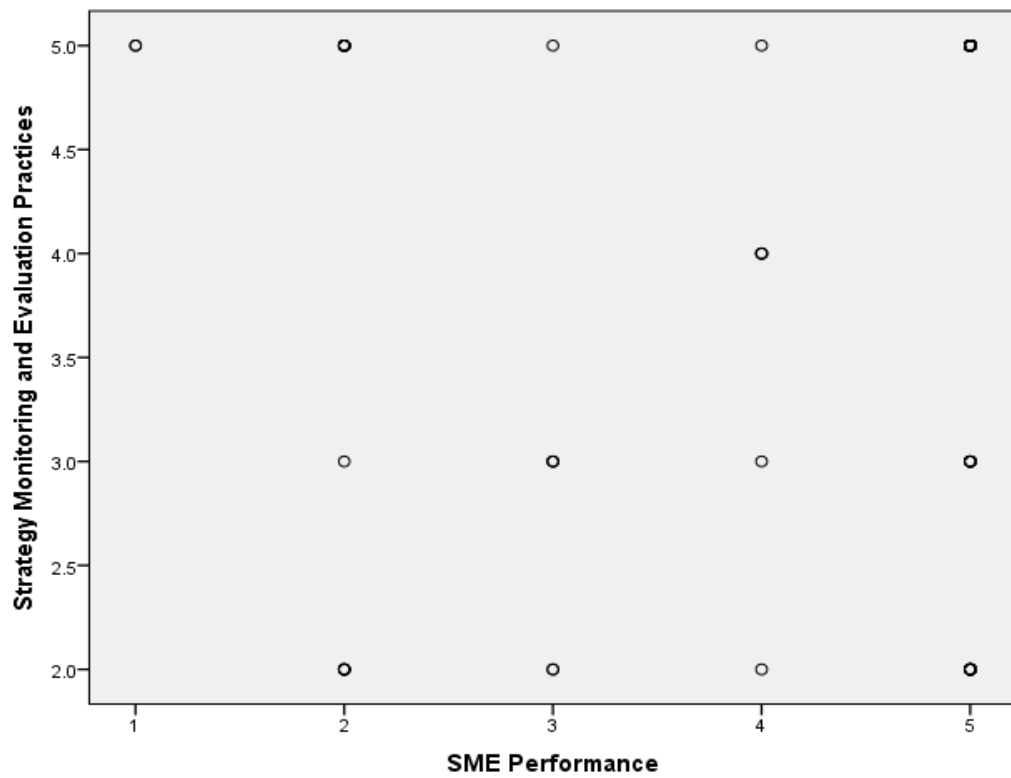
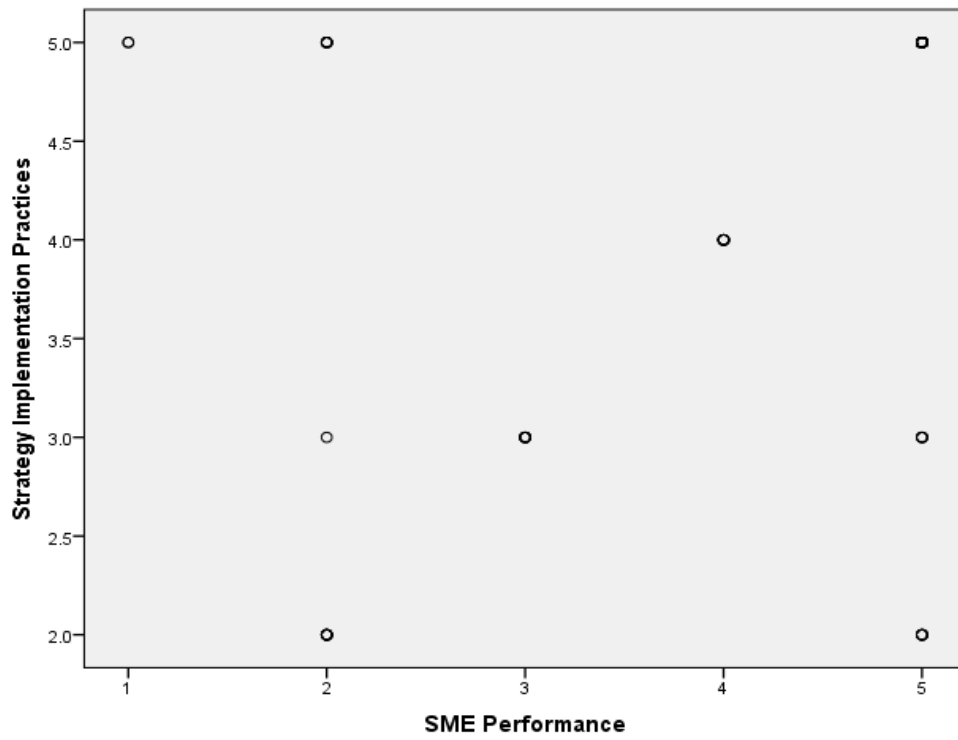


**Figure 4. 7 Detrended Normal Q-Q Plot**

#### **4.5.3 Linearity Test**

Linearity was tested using scatterplots. It was expected that the relationship between variables should be fairly linear before the regression models are applied (Jain, Agarwal, Thinakaran & Parekhji, 2017).





**Figure 4. 8 Linearity test using Scatter Plots**

**Source: Research Data (2024)**

The scatter plots in Figure 4.7 reveal existence of linear dependence between the independent variables and dependent variable. This is demonstrated by the fit lines in each of the plots.

#### 4.5.4 Heteroscedasticity Test

Heteroscedasticity occurs when the variance of the errors varies across the observations. This study used Breusch-Pagan/ Cook-Weisberg to test for Heteroscedasticity. The findings obtained are presented by Table 4.9.

**Table 4. 12 Heteroscedasticity Test**

H0	Chi2 (4)	Prop>Chi2
Constant variance	0.292	0.531

**Source: Research Data (2024)**

The study obtained a chi square of 0.292 and p-value of 0.531 > 0.05. This indicated that at 95 percent confidence, the null hypothesis of homoscedasticity was accepted. Hence, heteroscedasticity was not a problem and therefore the data was appropriate for analysis.

#### 4.5.5 Test for Auto Correlation

Auto-correlation is an assumption of regression analysis where the residuals are purely random and that the residuals would not correlate with anything else, including with each other at different time points. Durbin-Watson test was used to test autocorrelation the findings obtained for the auto correlation tests are presented by Table 4.10.

**Table 4. 13 Test for Auto Correlation**

Model	Durbin-Watson
1	1.543

Predictors: (Constant), Strategy Monitoring and Evaluation Practices, Strategic Planning Practices, Strategy Implementation Practices, Strategy Formulation Practices

**Source: Research Data (2024)**

The Durbin Watson obtained as shown by Table 4.10 is 1.543 which is within the critical  $1.5 < d < 2.5$ . This implies that there was no linear serial correlation in the multiple regression model.

#### 4.6 Inferential Analysis

This section presents both correlation and regression results on the relationship between non-tariff barriers and financial performance.

##### 4.6.1 Correlation Analysis

This sub-section provides results on the correlation between non-tariff barriers and financial performance. Table 4.11 shows the outcome.

**Table 4. 14 Correlation Matrix**

		<b>SME Performa nce</b>	<b>Strateg ic Planni ng Practic es</b>	<b>Strategy Formulati on Practices</b>	<b>Strategy Implementat ion Practices</b>	<b>Strategy Monitori ng and Evaluati on Practices</b>
SME Performance	Pearson Correlati on	1	.430**	.427**	.417**	.186
	Sig. (2- tailed)		.000	.000	.000	.090
Strategic Planning Practices	Pearson Correlati on	.430**	1	.996**	.991**	.688**
	Sig. (2- tailed)	.000		.000	.000	.000
Strategy Formulation Practices	Pearson Correlati on	.427**	.996**	1	.995**	.706**

		<b>SME Performance</b>	<b>Strategic Planning Practices</b>	<b>Strategy Formulation Practices</b>	<b>Strategy Implementation Practices</b>	<b>Strategy Monitoring and Evaluation Practices</b>
	Sig. (2-tailed)	.000	.000		.000	.000
Strategy Implementation Practices	Pearson Correlation	.417**	.991**	.995**	1	.719**
	Sig. (2-tailed)	.000	.000	.000		.000
Strategy Monitoring and Evaluation Practices	Pearson Correlation	.296**	.688**	.706**	.719**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	84	84	84	84	84

**Source: Research Data (2024)**

The correlation matrix reveals that there is a statistically significant positive correlation between SME performance and strategic planning practices, with a Pearson correlation coefficient of .430\*\*. This suggests that as SMEs engage more in strategic planning, their overall performance tends to improve. The significance level (Sig. 2-tailed) of .000 indicates that this relationship is highly significant. Strategic planning, which involves setting objectives, analyzing internal and external environments, and determining the best courses of action, appears to be a critical driver of success for SMEs in Kenya. This finding aligns with the broader understanding that well-structured planning helps organizations navigate uncertainties and align their resources effectively.

Similarly, the correlation between SME performance and strategy formulation practices is also positive and statistically significant, with a Pearson correlation coefficient of .427\*\*. The significance level is again .000, underscoring the importance of strategy formulation in enhancing SME performance. Strategy formulation involves the development of specific strategies based on the analysis of internal and external environments. The strong correlation suggests that when SMEs invest in carefully crafting their strategies, they are more likely to experience better performance outcomes. This could be due to the fact that well-formulated strategies provide clear guidance and direction, enabling SMEs to focus their efforts on the most promising opportunities while mitigating risks.

In addition, strategy implementation practices show a positive correlation with SME performance, with a Pearson correlation coefficient of .417\*\* and a significance level of .000. This indicates that effective implementation of strategies is crucial for achieving desired performance levels in SMEs. Strategy implementation involves putting the formulated strategies into action, which requires efficient resource allocation, coordination of activities, and monitoring of progress. The positive correlation suggests that SMEs that are adept at translating their strategies into operational activities tend to perform better. This emphasizes the importance of not only having well-developed strategies but also ensuring that these strategies are effectively executed.

On the other hand, the correlation between SME performance and strategy monitoring and evaluation practices is weaker, with a Pearson correlation coefficient of .186 and a significance level of .090. Although this correlation is positive, it is not statistically significant, suggesting that the direct impact of strategy monitoring and evaluation on SME performance may be less pronounced compared to the other strategic management practices examined in the study. Monitoring and evaluation are critical for assessing the

effectiveness of strategies and making necessary adjustments. However, the weaker correlation might imply that while these practices are important, their direct influence on performance is perhaps more indirect or may depend on the effectiveness of the other strategic management practices.

The interrelationships among the strategic management practices themselves also provide valuable insights. For instance, the correlation between strategic planning practices and strategy formulation practices is extremely high, with a Pearson correlation coefficient of .996\*\* and a significance level of .000. This near-perfect correlation suggests that these two practices are almost inseparable in the context of SMEs in Kenya. Effective strategic planning seems to naturally lead to robust strategy formulation, indicating that SMEs that excel in planning are likely to also excel in formulating their strategies. This finding highlights the interconnected nature of strategic management practices, where strengths in one area often bolster strengths in another.

Moreover, strategy implementation practices are also highly correlated with both strategic planning practices ( $r = .991^{**}$ ) and strategy formulation practices ( $r = .995^{**}$ ), with significance levels of .000 in both cases. This suggests that SMEs that are strong in planning and formulation are also likely to be strong in implementation. The high correlations indicate that these practices are not only complementary but also mutually reinforcing. Effective planning and formulation provide a solid foundation for successful implementation, which in turn enhances overall performance. This interconnectedness underscores the importance of a holistic approach to strategic management, where all practices are developed and executed in a coordinated manner.

Furthermore, strategy monitoring and evaluation practices show strong correlations with strategic planning ( $r = .688^{**}$ ), strategy formulation ( $r = .706^{**}$ ), and strategy

implementation ( $r = .719^{**}$ ), all with significance levels of .000. These correlations suggest that while monitoring and evaluation may have a weaker direct impact on performance, they are nonetheless closely linked to the other strategic management practices. This reinforces the idea that monitoring and evaluation are integral to the overall strategic management process, helping to ensure that the strategies developed and implemented are achieving their intended outcomes.

#### 4.6.2 Regression Analysis

This sub-section provides regression results on the effect of strategic management practices on the performance of SMEs in Kenya. Tables 4.12, 4.13, and 4.14 present the model summary, ANOVA, and regression of coefficient results respectively.

**Table 4. 15: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859a	0.721	0.711	1.134

a. Predictors: (Constant), Strategy Monitoring and Evaluation Practices, Strategic Planning Practices, Strategy Implementation Practices, Strategy Formulation Practice

b. Dependent Variable: SME Performance

#### **Source: Research Data (2024)**

The model summary results in Table 4.12 indicate that all the four independent variables jointly explain 72.1% ( $R^2 = .721$ ) of the total variations in performance of SMEs in Kenya. This implies that the strategic management practices have a strong positive relationship with the performance of SMEs in Kenya.

**Table 4. 16: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.133	4	6.783	5.276	.001 <sup>b</sup>
	Residual	101.569	79	1.286		
	Total	128.702	83			

a. Predictors: (Constant), Strategy Monitoring and Evaluation Practices, Strategic Planning Practices, Strategy Implementation Practices, Strategy Formulation Practice

b. Dependent Variable: SME Performance

Source: Research Data (2024)

The regression ANOVA model in Table 4.13 indicate the P value being less than the alpha value ( $P < .05$ ), the proposed model is therefore statistically significant (good fit) in predicting the dependent variable. This implies that the strategic management practices are significant predictors of performance of the SMEs.

**Table 4. 17: Regression of Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.410	.497		4.845	.000
	Strategic Planning Practices	.255	1.183	.237	.216	.000
	Strategy Formulation Practices	.871	1.651	.797	.528	.000
	Strategy Implementation Practices	.501	1.175	.462	.426	.000

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Strategy Monitoring and Evaluation Practices	.206	.148	.208	1.391	.000

b. Dependent Variable: SME Performance

**Source: Research Data (2024)**

As shown, the regression model, which included strategic planning practices, strategy formulation practices, strategy implementation practices, and strategy monitoring and evaluation practices as independent variables, explained a significant portion of the variance in SME performance. The constant term in the model had an unstandardized coefficient (B) of 2.410, with a standard error of .497, and a t-value of 4.845, which was statistically significant at the .000 level. This indicates that even in the absence of the strategic management practices considered in the model, there is a baseline level of SME performance. However, the inclusion of strategic management practices significantly enhances this baseline performance, as evidenced by the positive coefficients for each practice.

Strategic planning practices had an unstandardized coefficient (B) of .255, with a standard error of 1.183, and a standardized beta coefficient of .237. The t-value for this variable was .216, and the significance level was .000. These statistics suggest that strategic planning practices positively impact SME performance, although the effect size is relatively modest. The positive beta coefficient indicates that a one-unit increase in

strategic planning practices is associated with an increase in SME performance, holding other factors constant. The significance level of .000 confirms that this relationship is statistically significant, meaning that strategic planning is an important predictor of SME performance. Strategic planning helps SMEs define clear objectives, identify opportunities and threats, and allocate resources effectively, which in turn contributes to improved performance.

The analysis also revealed that strategy formulation practices had a substantial impact on SME performance, with an unstandardized coefficient (B) of .871 and a standard error of 1.651. The standardized beta coefficient for this variable was .797, which is the highest among all the strategic management practices included in the model. The t-value for strategy formulation practices was .528, and the significance level was .000, indicating that the relationship between strategy formulation and SME performance is highly significant. This finding suggests that strategy formulation plays a critical role in driving SME performance, more so than the other practices examined. The high beta coefficient indicates that strategy formulation is a strong predictor of performance, with SMEs that excel in this area likely to achieve superior outcomes. This can be attributed to the fact that well-formulated strategies provide SMEs with a clear direction and a competitive edge, enabling them to respond effectively to market dynamics and achieve their performance goals.

Strategy implementation practices also showed a significant positive relationship with SME performance, with an unstandardized coefficient (B) of .501, a standard error of 1.175, and a standardized beta coefficient of .462. The t-value for this variable was .426, and the significance level was .000. These results indicate that strategy implementation practices are a significant determinant of SME performance, with a moderate effect size. The positive beta coefficient suggests that as SMEs improve their strategy

implementation processes, their performance is likely to improve. This finding underscores the importance of effectively executing the strategies that have been formulated. While formulating a sound strategy is crucial, its success ultimately depends on how well it is implemented. Effective implementation ensures that the strategies are translated into concrete actions that drive performance improvements.

Strategy monitoring and evaluation practices were also found to have a positive impact on SME performance, although the effect was smaller compared to the other strategic management practices. The unstandardized coefficient (B) for this variable was .206, with a standard error of .148, and a standardized beta coefficient of .208. The t-value for strategy monitoring and evaluation practices was 1.391, and the significance level was .000, indicating that the relationship is statistically significant. While the beta coefficient is lower than those for the other practices, the positive and significant relationship suggests that monitoring and evaluation are still important contributors to SME performance. Monitoring and evaluation allow SMEs to track the progress of their strategies, identify any deviations from the plan, and make necessary adjustments. Although the impact of these practices on performance may not be as pronounced as planning, formulation, or implementation, they play a crucial role in ensuring that strategies remain aligned with the overall business objectives and are effectively executed.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of the key findings of the study. This is followed by conclusions made thereafter and recommendations to both policy and practice. The recommendations issued are significant in proper management of Non-Tariff Barriers towards improved financial performance. The regression analysis result also indicated that strategic planning had a positive and significant effect on financial performance of SMEs in Kenya.

#### 5.2 Summary of Findings

This section provides a summary of the findings from the analysis. This is done in line with the objectives of the study.

##### 5.2.1 Strategic Planning and Performance of SMEs

The first objective was to assess the effect of strategic planning on performance of SMEs in Kenya. The correlation results indicated that strategic planning had a positive and significant association with financial performance of SMEs in Kenya ( $r = .430^{**}$ ,  $P = .000$ ). The regression analysis result also indicated that strategic planning had a positive and significant effect on financial performance of SMEs in Kenya ( $\beta = 0.255$ ,  $P = .000$ ). This implies that SMEs that engage in thorough planning are likely to achieve superior financial results compared to those that do not. Strategic planning helps SMEs to set clear goals, allocate resources effectively, and navigate market challenges, all of which contribute to improved financial stability and growth. The consistent positive effect across both correlation and regression analyses highlights the importance of strategic planning as a key component in driving financial success for SMEs.

Recent studies highlight a predominantly positive impact of strategic planning on SME performance, though some research reveals mixed results.

### **5.2.2 Strategic Formulation and Financial Performance of SMEs**

The second objective was to evaluate the effect of strategy formulation on performance of SMEs in Kenya. The correlation results indicated that strategic formulation had a positive and significant association with financial performance of SMEs in Kenya ( $r = .427^{**}$ ,  $P = .000$ ). The regression analysis result also indicated that strategic formulation had a positive and significant effect on financial performance of SMEs in Kenya ( $\beta = 0.871$ ,  $P = .000$ ). This relationship underscores the importance of having a systematic approach to strategy development, where SMEs create clear, actionable plans that align with their financial goals. Effective strategy formulation helps SMEs to identify opportunities, manage risks, and respond to market changes, thereby enhancing their financial performance. The consistency of the positive impact in both correlation and regression analyses highlights that strategic formulation is a key determinant of financial success for SMEs.

### **5.2.3 Strategy Implementation and Financial Performance of SMEs**

The third objective was to determine the effect of strategy implementation on performance of SMEs in Kenya. The correlation results indicated that strategic implementation had a positive and significant association with financial performance of SMEs in Kenya ( $r = .417^{**}$ ,  $P = .000$ ). The regression analysis result also indicated that strategic implementation had a positive and significant effect on financial performance of SMEs in Kenya ( $\beta = 0.501$ ,  $P = .000$ ). This implies that SMEs that not only develop but also successfully implement their strategies are likely to see enhanced financial results. Effective strategy implementation involves translating strategic plans into actionable steps, which is essential for achieving financial objectives. The consistent

positive results across both correlation and regression analyses emphasize that successful implementation of strategies is critical for financial performance.

#### **5.2.4 Strategic Monitoring and Evaluation, and Financial Performance of SMEs**

The fourth objective was to examine the effect of strategic monitoring and evaluation, on performance of SMEs in Kenya. The correlation results indicated that strategic monitoring and evaluation had a positive and significant association with financial performance of SMEs in Kenya ( $r = .296^{**}$ ,  $P = .000$ ). The regression analysis result also indicated that strategic monitoring and evaluation, had a positive and significant effect on financial performance of SMEs in Kenya ( $\beta = 0.206$ ,  $P = .000$ ). This relationship highlights the importance of not only implementing strategies but also continuously assessing their effectiveness and making necessary adjustments. Monitoring and evaluation help SMEs to track progress, identify issues, and optimize strategies, which contributes to better financial performance. The alignment of positive effects in both correlation and regression analyses underscores the value of strategic monitoring and evaluation in driving financial success.

#### **5.2.5 Strategic Management Practices and Financial Performance of SMEs**

The general objective of the study was to investigate the effect of strategic management practices on the performance of SMEs in Kenya. The regression analysis results revealed that the strategic management practices investigated had a strong positive effect on financial performance of SMEs in Kenya ( $R^2 = .721$ ). This suggests that the strategic management practices examined—strategic planning, formulation, implementation, and monitoring—collectively contribute significantly to financial success. The strong positive relationship highlights that SMEs which effectively employ a range of strategic management practices tend to achieve superior financial results. This comprehensive approach to strategic management ensures that SMEs are well-positioned to navigate

market challenges, optimize operations, and capitalize on opportunities. The high R-squared value underscores the robustness of the relationship, indicating that strategic management practices account for a substantial portion of the variance in financial performance.

### **5.3 Conclusion**

#### **5.3.1 Strategic Planning and Performance of SMEs**

The study concludes that strategic planning is a crucial factor influencing the financial performance of SMEs in Kenya. The correlation and regression analyses demonstrate that strategic planning positively impacts financial outcomes. This suggests that SMEs with structured and deliberate planning processes tend to achieve better financial results. The positive relationship observed underscores the role of strategic planning in enhancing financial stability and growth. Effective planning helps SMEs manage resources, set goals, and respond to market dynamics. The findings highlight the significance of strategic planning in driving financial success.

#### **5.3.2 Strategic Formulation and Financial Performance of SMEs**

The study concludes that strategy formulation plays a significant role in the financial performance of SMEs in Kenya. The analyses show a positive correlation and effect between strategy formulation and financial outcomes. This indicates that SMEs with well-defined and effective strategies tend to perform better financially. The importance of developing actionable and aligned strategies is emphasized by the findings. Effective strategy formulation contributes to financial success by setting clear objectives and plans. The results underscore the impact of strategy formulation on financial performance.

### **5.3.3 Strategy Implementation and Financial Performance of SMEs**

The study concludes that strategy implementation is a vital determinant of financial performance for SMEs in Kenya. The positive correlation and effect of strategy implementation on financial outcomes indicate its importance. SMEs that effectively execute their strategies achieve better financial results. The findings highlight that successful strategy execution translates into improved financial performance. The role of implementation in carrying out planned actions and achieving objectives is underscored. The results emphasize the significance of effective strategy implementation.

### **5.3.4 Strategic Monitoring and Evaluation, and Financial Performance of SMEs**

The study concludes that strategic monitoring and evaluation significantly affect the financial performance of SMEs in Kenya. The analyses show a positive correlation and effect of monitoring and evaluation on financial outcomes. This indicates that SMEs that regularly assess and adjust their strategies experience better financial performance. The findings emphasize the importance of ongoing assessment in maintaining and improving financial results. The role of monitoring and evaluation in tracking progress and optimizing strategies is highlighted. The results underscore the impact of strategic monitoring and evaluation on financial performance.

### **5.3.5 Strategic Management Practices and Financial Performance of SMEs**

The study concludes that strategic management practices as a whole have a strong positive effect on the financial performance of SMEs in Kenya. The high R-squared value indicates that the collective impact of various strategic practices contributes significantly to financial outcomes. The findings reveal that a comprehensive approach to strategic management, integrating planning, formulation, implementation, and monitoring, leads to improved financial performance. The results emphasize that each component of strategic management contributes to overall financial success. The strong positive

relationship observed underscores the effectiveness of strategic management practices in enhancing financial performance.

## **5.4 Recommendations**

### **5.4.1 Recommendations for Practice**

The study recommends that SMEs in Kenya develop comprehensive strategic planning frameworks to enhance their financial performance. Detailed strategic plans should include clear objectives, resource allocation strategies, and contingency plans to address potential challenges. SMEs are encouraged to involve key stakeholders in the planning process to ensure alignment with organizational goals and market conditions. Regular updates and reviews of the strategic plan should be conducted to adapt to changing business environments and market trends. Implementing a structured approach to strategic planning will help SMEs set achievable goals and track progress effectively. Additionally, investing in training for staff involved in strategic planning can improve the quality and execution of plans. Overall, a robust strategic planning framework is essential for achieving long-term financial success.

The study recommends that SMEs prioritize the formulation of detailed and actionable strategies to drive financial performance. This involves conducting thorough market analysis to identify opportunities and threats, and setting clear, measurable objectives. SMEs should adopt a systematic approach to strategy formulation, including defining specific actions and allocating responsibilities to ensure effective execution. Engaging in scenario planning can help anticipate potential challenges and devise contingency strategies. Collaboration among different departments during the strategy formulation process can lead to more comprehensive and effective strategies. Regularly revisiting and refining strategies based on performance data and market feedback is also crucial. A

well-formulated strategy will provide a solid foundation for achieving financial objectives.

The study recommends that SMEs implement their strategies with precision and diligence to improve financial outcomes. This includes establishing clear implementation plans with defined milestones, timelines, and responsible parties. SMEs should ensure that all employees understand their roles in executing the strategy and are equipped with the necessary resources and training. Monitoring progress against the implementation plan is essential to identify any deviations and make timely adjustments. Regular communication and coordination among teams involved in the implementation process will facilitate smooth execution. Performance metrics should be established to measure the effectiveness of the implementation and inform necessary changes. A focused and disciplined approach to strategy implementation is critical for achieving desired financial results.

The study recommends that SMEs integrate robust monitoring and evaluation practices into their strategic management processes. This involves setting up regular review sessions to assess the effectiveness of strategies and identify areas for improvement. SMEs should utilize performance metrics and key performance indicators (KPIs) to track progress and measure the impact of their strategies. Feedback from these evaluations should be used to make data-driven adjustments and optimize strategies for better performance. Engaging external auditors or consultants periodically can provide an objective assessment of strategic effectiveness. Documenting and analyzing past performance and lessons learned will contribute to continuous improvement. Effective monitoring and evaluation practices are vital for maintaining and enhancing financial performance.

The study recommends that SMEs adopt a holistic approach to strategic management by integrating planning, formulation, implementation, and monitoring practices. This comprehensive approach ensures that all aspects of strategic management are aligned and contribute to financial success. SMEs should develop standardized processes for each component of strategic management to ensure consistency and efficiency. Regular cross-functional meetings should be held to review and align strategic activities across different departments. Training programs focused on the integrated aspects of strategic management can enhance staff capabilities and ensure cohesive execution. Implementing a unified strategic management system will enable SMEs to respond more effectively to market changes and achieve better financial outcomes. A well-rounded strategic management approach is essential for overall business success.

The study recommends that SMEs invest in leadership development programs to enhance strategic management capabilities. Effective leadership is crucial for guiding the strategic planning, formulation, implementation, and evaluation processes. Training programs should focus on developing skills in strategic thinking, decision-making, and change management. Leaders should be equipped with the tools and knowledge to drive strategic initiatives and inspire their teams. Mentorship and coaching can further support leadership development by providing personalized guidance and feedback. Encouraging a culture of continuous learning and development among leaders will contribute to more effective strategic management. Investing in leadership development will strengthen the overall strategic management process and improve financial performance.

The study recommends that SMEs leverage technology to support strategic management practices. Implementing strategic management software can streamline planning, formulation, and monitoring processes by providing real-time data and analytics. Technology tools can facilitate collaboration among team members and enhance

communication throughout the strategic management cycle. Automated reporting and dashboards can offer insights into performance metrics and progress towards strategic goals. SMEs should also explore data analytics and business intelligence solutions to gain deeper insights into market trends and performance. Training staff to effectively use these technological tools will maximize their benefits. Integrating technology into strategic management practices will improve efficiency and support better financial outcomes.

The study recommends that SMEs foster a culture of strategic alignment across all levels of the organization. Ensuring that employees understand and are committed to the strategic goals of the company is essential for effective strategy execution. Regular internal communications should emphasize the importance of strategic objectives and how individual roles contribute to achieving them. Employee engagement initiatives, such as workshops and team-building activities, can enhance alignment and motivation. Recognizing and rewarding employees who contribute to strategic success will further reinforce the importance of alignment. A culture of strategic alignment will ensure that all efforts are directed towards achieving the company's financial goals. Promoting strategic alignment throughout the organization is crucial for achieving optimal financial performance.

The study recommends that SMEs engage in continuous competitive analysis to refine their strategic management practices. Understanding the competitive landscape is vital for developing and adjusting strategies that position SMEs effectively in the market. Regularly analyzing competitors' strategies, strengths, and weaknesses can provide valuable insights for enhancing one's own strategic approach. SMEs should use competitive intelligence to identify emerging trends and opportunities that can impact

their financial performance. Collaboration with industry experts and participation in industry events can also provide relevant competitive insights. Keeping abreast of competitive dynamics will help SMEs make informed strategic decisions and maintain a competitive edge. Ongoing competitive analysis is essential for refining strategies and achieving sustained financial success.

The study recommends that SMEs incorporate risk management strategies into their strategic planning and execution processes. Identifying and assessing potential risks early can help SMEs develop effective mitigation plans and avoid financial pitfalls. Risk management practices should be integrated into all stages of strategic management, from planning to implementation and evaluation. SMEs should establish a risk management framework that includes risk identification, assessment, and response strategies. Regular risk assessments and updates to risk management plans are essential to address new and evolving risks. Training employees in risk management practices will enhance their ability to contribute to the company's risk mitigation efforts. A proactive approach to risk management will support better financial performance and organizational resilience.

#### **5.4.2 Recommendations for Policy**

The study recommends that government agencies develop and promote guidelines for enhancing strategic planning among SMEs. This involves creating a framework that supports SMEs in establishing comprehensive and effective strategic plans. Authorities should facilitate access to resources and training programs that help SMEs understand and implement best practices in strategic planning. Providing financial incentives or subsidies for SMEs that invest in strategic planning initiatives could encourage widespread adoption. Additionally, establishing a network of advisory services that offer expert guidance on strategic planning can further support SMEs. By implementing these

measures, the government can help SMEs develop robust plans that drive better financial performance.

The study recommends that regulatory bodies encourage the integration of strategic management practices into the regulatory framework for SMEs. This includes mandating regular reporting on strategic planning and implementation activities as part of business compliance requirements. Developing standards for strategy formulation and evaluation can ensure consistency and effectiveness across SMEs. Authorities should also create incentives for SMEs that demonstrate successful implementation and monitoring of strategic practices. Providing clear guidelines and benchmarks for strategic management will help SMEs align their practices with industry standards. Strengthening the regulatory framework for strategic management will support improved financial outcomes for SMEs.

The study recommends that relevant agencies support the development of technology infrastructure to enhance strategic management in SMEs. This includes investing in digital tools and platforms that facilitate strategic planning, implementation, and monitoring. Support programs or tax incentives for SMEs that adopt advanced technology solutions for strategic management could also be beneficial. Ensuring access to affordable and user-friendly technology will help SMEs leverage digital tools to improve their strategic practices. Additionally, promoting digital literacy and training programs can enable SMEs to effectively use technology for strategic management. Strengthening technology infrastructure will support SMEs in achieving better financial performance through enhanced strategic management.

The study recommends that educational and professional development organizations create initiatives to promote continuous professional development in strategic

management for SME leaders. This includes developing programs and certifications focused on strategic planning, formulation, implementation, and evaluation. Funding or grants for leadership training and development can encourage SME leaders to enhance their strategic skills. Partnerships with educational institutions and industry experts to deliver relevant training programs are also recommended. Regularly updating these programs to reflect the latest trends and best practices in strategic management is essential. By investing in professional development, these organizations can help SME leaders improve their strategic capabilities and financial outcomes.

The study recommends that institutions implement support programs for SMEs focused on strategic risk management. This includes developing guidelines and resources to help SMEs identify, assess, and mitigate risks associated with their strategies. Workshops, seminars, and consultancy services on risk management can enhance SMEs' ability to manage potential threats. Financial assistance or incentives for SMEs that integrate risk management practices into their strategic planning should also be considered. Creating a risk management framework tailored for SMEs will help them navigate uncertainties and maintain financial stability. Strengthening support for risk management will contribute to improved financial performance and resilience of SMEs.

The study recommends that national agencies establish a framework for monitoring and evaluating strategic management practices among SMEs. This framework should include standardized metrics and performance indicators to assess the effectiveness of strategic management activities. A national registry or database to track SME performance and strategic outcomes would be beneficial. Providing regular reports and insights based on this data can help SMEs benchmark their practices and identify areas for improvement. Encouraging transparency and accountability in strategic management practices through this framework will support better financial performance. By implementing such a

framework, national agencies can facilitate continuous improvement and support the growth and success of SMEs.

### **5.5 Suggestions for Further Research**

The study suggests further research into the impact of strategic planning on the long-term sustainability of SMEs in Kenya. While the current findings highlight the positive effects of strategic planning on financial performance, it is crucial to explore how strategic planning contributes to the overall sustainability and resilience of SMEs over time. Future research could investigate how different types of strategic planning approaches—such as long-term versus short-term planning—affect SME longevity and adaptability in a dynamic market environment. Additionally, examining the role of external factors, such as economic fluctuations or technological advancements, in influencing the effectiveness of strategic planning would provide a more comprehensive understanding of its impact on sustainability.

The study suggests investigating the interplay between strategy formulation and innovation in SMEs. Given that strategy formulation is linked to financial performance, further research could explore how innovative strategies drive competitive advantage and business growth. This includes analyzing how SMEs integrate innovative practices into their strategic formulation processes and the effects of these practices on market positioning and financial outcomes. Research could also focus on identifying barriers to innovation within SMEs and how these barriers impact the success of strategic formulation. Understanding the relationship between strategy formulation and innovation can provide valuable insights into how SMEs can enhance their strategic approaches to foster innovation and drive performance.

The study also recommends exploring the effectiveness of different strategic management tools and technologies in improving SME performance. As technology plays a significant role in strategic management, future research could examine how various digital tools—such as strategic management software, data analytics, and business intelligence solutions—affect the efficiency and effectiveness of strategic practices. Investigating how SMEs utilize these tools in practice and the impact on their financial performance can provide insights into best practices and potential challenges. Additionally, research could evaluate the cost-benefit analysis of adopting advanced technologies for strategic management and their impact on SME competitiveness and growth. This area of research could help SMEs make informed decisions about technology investments to enhance their strategic management capabilities.

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## APPENDICES

### Appendix i: Questionnaire

#### SECTION A: DEMOGRAPHIC INFORMATION

1. Age
  - a) Below 30 years ( )
  - b) 31 – 40 years ( )
  - c) 41 – 50 years ( )
  - d) Above 50 years ( )
2. Education Level
  - a) Tertiary ( )
  - b) Undergraduate ( )
  - c) Postgraduate ( )
3. Age of SME
  - a) Less than 2 years ( )
  - b) 3-5 years ( )
  - c) More than 5 years ( )
4. Employees number
  - a) Less than 10 ( )
  - b) 11-19 ( )
  - c) 20 and above ( )

#### SECTION B: Strategic Management Practices (SMPs) on the Performance of SMEs

5. Has your firm adopted any strategic practices or policies in the last 5 years?  
YES ( )

NO ( )

6. Strategic Planning Practices

To what scale has the following strategic planning for you firm?. Use a scale of 1 to 5 where; 1-To no degree, 2- Little degree, 3- Moderate degree, 4- To a great degree, and 5- To a very great degree

FACTORS	1	2	3	4	5
Our firm constantly reviews the business environment and comes up with strategies.					
The firm has set up short term and long term goals.					
We have a strategic plan in place to guide the business.					
Strategic plans are regularly reviewed					

6. Which other factors have influenced your strategic planning practices?

.....  
 .....

**7. Strategy formulation practices**

To what extent has your firm adopted the various strategic planning practices to improve organization performance? Use a scale of 1 to 5 where; 1-To no degree, 2- Little degree, 3- Moderate degree, 4- To a great degree, and 5- To a very great degree

STRATEGIES	1	2	3	4	5
The firm has a policy relating to strategy identification.					
Strategies for the companies are mapped to performance goals.					
Strategy for the firm is aligned with long term goals of the firm.					
Strategy performance analysis is carried out to assess the success in implementing strategies.					

## Strategy Implementation

### 8. Strategy Implementation Practices

To what extent has your organization adopted the following strategy implementation practices to influence performance of the firm? Use a scale of 1 to 5 where; 1-To no degree, 2- Little degree, 3- Moderate degree, 4- To a great degree, and 5- To a very great degree

Strategy Implementation Practices	1	2	3	4	5

Adequate resources both financial and non-financial have been allocated to strategy implementation.					
Appropriate leadership is allocated to strategic implementation within the firm.					
Organization culture supports and promotes strategic management practices.					
Organization structure is appropriate and supportive of organization strategic management practices.					

### 9. Strategy Monitoring and Evaluation Practices

To what extent has your company implemented the following strategy monitoring and evaluation practices to improve performance? Use a scale of 1 to 5 where; 1-To no degree, Use a scale of 1 to 5 where; 1-To no degree, 2- Little degree, 3- Moderate degree, 4- To a great degree, and 5- To a very great degree

<b>Strategy Monitoring and Evaluation Practices</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is tool in place to monitor financial progress of implementation strategy implementation process.					
Progress monitoring is done on regular basis.					
Results are monitored and corrective measures initiated on timely manner.					
There is monitoring feedback channel for receiving feedback on strategy implementation.					

**SECTION C: Performance of SMEs**

10. How has the adoption of strategic management practices affected performance of your firm? Use a scale of 1 to 5 where; 1-To no degree, Use a scale of 1 to 5 where; 1-To no degree, 2- Little degree, 3- Moderate degree, 4- To a great degree, and 5- To a very great degree

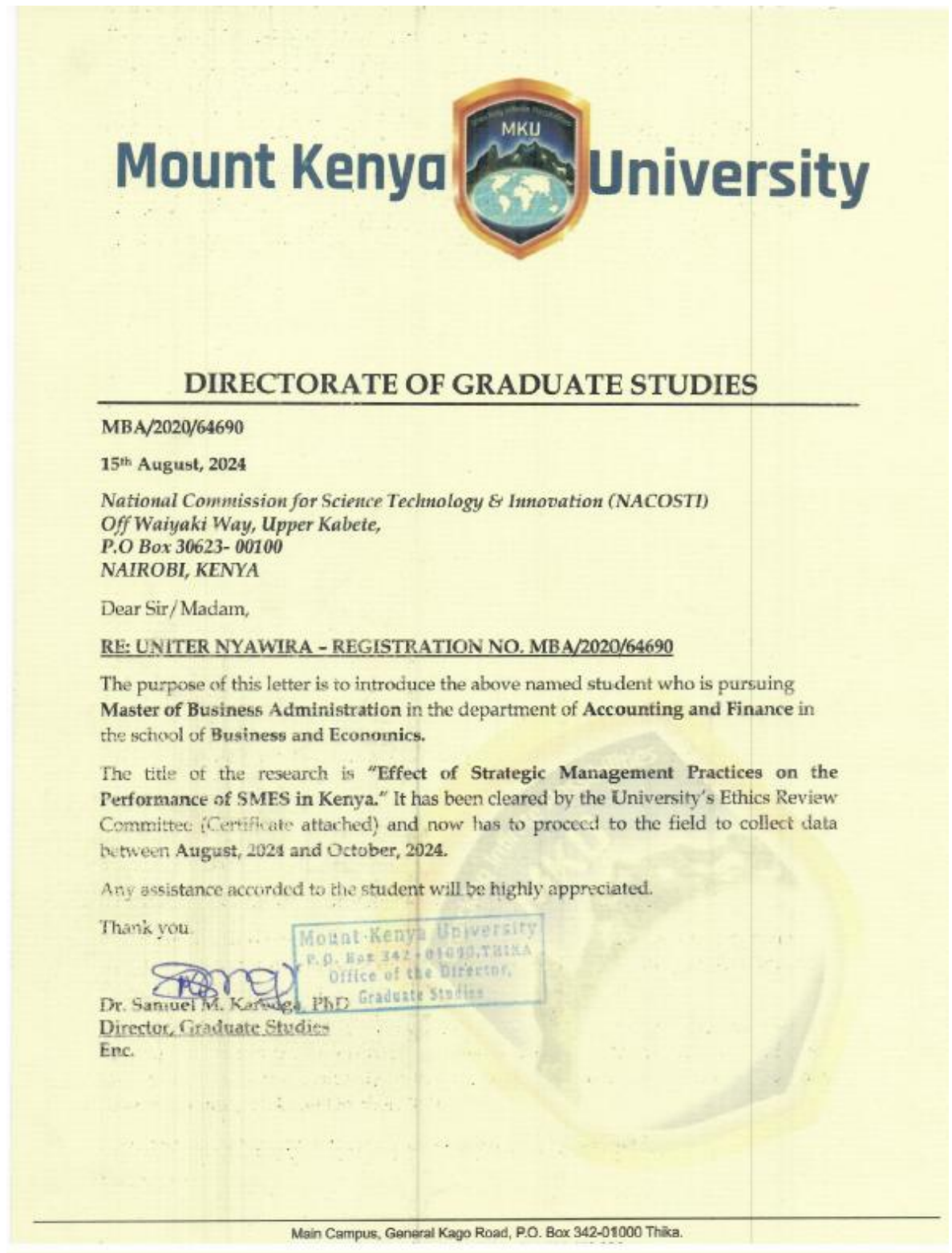
<b>Financial Indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Profitability					
Growth					
Efficiency					
Revenue					
Equity of the Firm					

<b>Non-financial Indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Employee Orientation					
Customer Orientation					
Strategic partners Orientation					


Competitive Orientation					
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## Appendix II: Ethical Clearance




**Appendix III: NACOSTI Permit**


  
**REPUBLIC OF KENYA**

**Ref No: 322377**


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**See overleaf for conditions**

## Appendix IV: Field Authorization

**Mount Kenya University**

REF: MKU/ISERC/4204  
TO: UNITER NYAWIRA

Date: 13 August 2024

REG: MBA/2020/64690

Dear Sir/Madam,

**RE: EFFECT OF STRATEGIC MANAGEMENT PRACTICES ON THE PERFORMANCE OF SMES IN KENYA**


This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3006**. The approval period is **13/08/2024 - 12/08/2025**.


This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

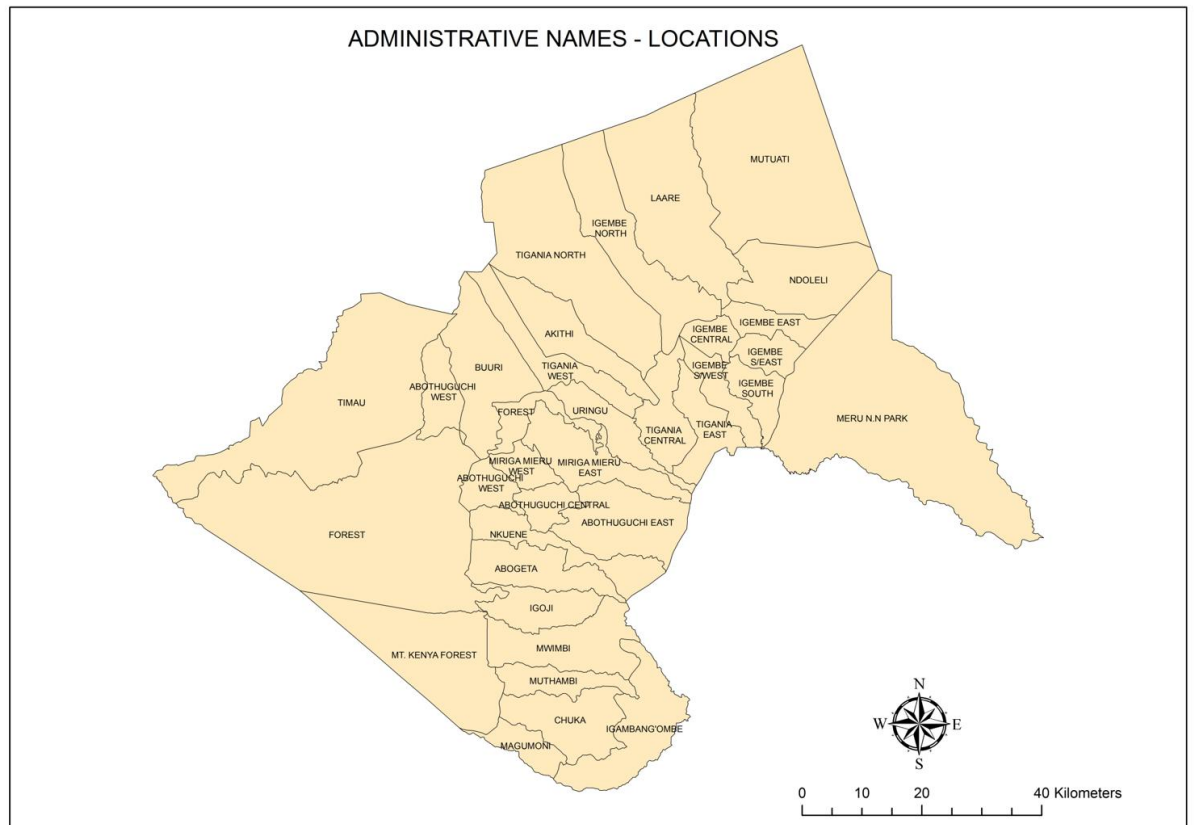
  
**Dr. Alfred Owino, PhD**  
Chairman, Mount Kenya University ISERC

**MOUNT KENYA UNIVERSITY  
ETHICS REVIEW COMMITTEE  
P.O. Box 342 - 01000,  
THIKA**

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## Appendix V: Study Location Map



Source. IEBC, 2023

Mount Kenya

## Appendix VI: Turnitin Report

### Uniter Munyiri

#### EFFECT OF STRATEGIC MANAGEMENT PRACTICES ON THE PERFORMANCE OF SMES IN KENYA

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Mount Kenya University

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