

## **EFFECT OF STRATEGIC PLANNING ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN PROFESSIONAL SERVICE SECTOR IN KENYA**

**Darius O. Otieno<sup>1</sup>, Prof. G. S. Namusonge<sup>2</sup>, Dr. Fred Mugambi<sup>3</sup>**

<sup>1</sup>College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Mombasa CBD. P O Box 90420-80100, Mombasa, Kenya.

Email: [dariusotieno@yahoo.com](mailto:dariusotieno@yahoo.com)

<sup>2</sup>Full Professor, College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Main Campus. P O Box 62000-0200, Nairobi, Kenya

<sup>3</sup>Kenya Revenue Authority (KRA), P O Box 62000-80100 Nairobi, Kenya

### **ABSTRACT:**

*This paper investigates the effect of strategic management process on the performance of SMEs in Nairobi. Strategic management is a process of analyzing the current situation, developing suitable strategies, putting those strategies into action, and evaluating, modifying, or changing those strategies as required. This process is vital for the survival of any organizations. The major factors evaluated in the study were strategy formulation, strategy evaluation, environmental scanning and strategy implementation. Cross-sectional study design was used. Stratified and random sampling techniques were used to select 384 Small and Medium Enterprises located in Nairobi Central Business District. The findings revealed that environmental scanning, strategy formulation, strategy implementation and strategy evaluation have a positive effect on the financial performance of professional service SMEs in Kenya. Thus it can be concluded that SMEs that have adopted strategic planning process are likely to experience better financial performance. Professional SMEs should adopt strategic planning practices as a way to improve business performance.*

**KEYWORDS:** Strategic Management, Strategy Formulation, Strategy Evaluation, Environmental Scanning, Strategy Implementation, Small and Medium Enterprises

**Introduction**

Small and Medium Enterprises (SMEs) play a very important role in a nation's economy. It is evident that SMEs constitute a high proportion of a nation's business activities and generate more employment opportunities than the large corporations in recent years. SMEs, however, are very vulnerable, and their failure rate is very high as The Business Statistics Office (UK) observed that "60 per cent (of small business) fail in the first three years of existence" and in the United States, the picture is much the same as "eighty percent of all startups succumb within their first five years". Ultimately, a more robust SMEs sector helps to build a nation's wealth, without it having to woo investments of sophisticated technology. It is felt that strategic management, a key pillar for corporate survival, may be adapted and applied to ensure better SMEs' performance, on a more consistent basis. Strategic management is a process of analyzing the current situation, developing suitable strategies, putting those strategies into action, and evaluating, modifying, or changing those strategies as required. The essential activities in strategic management process can be depicted as 'situation analysis, strategy formulation, strategy implementation, and strategy evaluation' (Robbins & Coulter 2005).

For strategic management process to be effective, it must be implemented when everyone within the business understands the strategy. Formal strategy processes are rare in SMEs. However, even though strategies are not explicit, literature points out that both emergent and intended strategy exist in those companies.

**Statement of the Problem**

SMEs play an important role in economic and social development as they generate a significant share of GDP in any country (approximately 70% in Kenya), provide a very important number of jobs (63.6% in Kenya in 2008 according to the Small Business Act), generate a large proportion of technical innovations, ensure the creation of the middle class, create prerequisites for professional, economic, social and cultural achievement of the population.

In a developing economy such as Kenya, this sector is considered to be a source of innovation, flexibility and economic development. Due to insufficient resources and strong competition that characterizes today's economic environment, SMEs are characterized by strong volatility. Strategic planning process which develops and implements decisions on the future direction of the organization is vital for the survival of any organization because it helps companies adapt to changing environment and is applicable to all management levels and all types of organizations (Pushpakumari, & Watanabe, 2009).

Strategic planning process continued to gain traction in SMEs, albeit not through the formal strategic planning process but the informal process. Sandada & Dhurup (2014) asserts that strategic planning process is increasing in terms of adoption among SMEs. He further argues that strategic planning process is used by SMEs differently in various sectors. Questions still abound with regard to its effect on performance on SMEs in various sectors. Although a number of studies have been carried out on the relationship between strategic planning process and performance of SMEs in different sectors, mixed and inconclusive finding still exists.

Regionally, studies by Aldehayyat and Twaissi (2011); Chen & Liu (2012) and Akinlabi, Akingbade and Dauda (2010) have all supported the importance of strategic planning process on SME performance. Locally, studies by Najib and Baroto (2016), Maroa & Muturi (2015) and Wairimu, and Theuri, (2014) have recognized the role of strategic planning process on the

performance of SMEs. Although many studies have carried locally, these studies analyzed the effect of strategic planning on the performance of SMEs but ignored SMEs in professional service SMEs, leaving a gap necessitating further studies. This study is an attempt to fill the gap by analyzing the effect of strategic planning process on the financial performance of SMEs in the professional service sector.

### **Objectives of the study**

The overall objective of this study was to investigate the effect of the strategic management process on the performance of SME's in Kenya. The specific objectives were to: (i) establish the effect of environmental scanning on the financial performance of professional service SMEs in Kenya (ii) determine the effect of Strategy Formulation on the financial performance of professional service SME's in Kenya, (iii) establish the effect of Strategy Implementation on the financial performance of professional service SMEs in Kenya and (iv) identify the effect of strategy evaluation on the financial performance of professional service SMEs in Kenya.

### **Research Hypothesis**

- H<sub>01</sub> There is a relationship between environmental scanning and the performance of professional service SMEs in Kenya
- H<sub>02</sub> There is a relationship between Strategy Formulation and the performance of professional service SME's in Kenya.
- H<sub>03</sub> There is a relationship between Strategy Implementation and the performance of professional service SME's in Kenya.
- H<sub>04</sub> There is a relationship between strategy evaluation and performance of professional service SME's in Kenya.

## **LITERATURE REVIEW/THEORETICAL UNDERPINNING**

### **Conceptual Framework**

Environmental scanning entails understanding the structure and causes of problems and issues to be addressed. This can be done by fully assessing both the external and internal factors of the business. External Assessment entails investigating the structure and dynamics of the environment surrounding the organization (De wit and Meyer, 2010) such as scanning of market environment and the broader environment. Internal Assessment encompasses analyzing the internal capacity and functioning of the organization and focuses on the business system in which a firm creates value and the organizational system that has been intended to facilitate business system.

Strategy Formulation involves the process of planning for long-term impact of the business. This planning aims at managing the opportunities and threats with the strengths and weaknesses of the organization which forms the basis of strategy formulation (Hunger and Wheelan (2006). They developed a scientific approach for performing the SWOT analysis whereby they combined the external strategic factors with the internal strategic factors which are built together into a summary of strategic factors with weights assigned to each. Other methods that can be employed in strategy formulation are Boston consulting group share matrix and product /market evolution matrix.

Strategy implementation has been described as the process through which the strategies and policies of an organization are transformed into performance measures like budgets, procedures, and programs. This is the most critical part of the process of strategic management. This involves

the daily decisions taking on how resources are allocated. Hunger and Wheelan (2006) described the implementation of strategies as operational planning. They developed a model that describes how the strategy implementation fits into the whole business strategic management process.

The last process of strategic management is evaluation and control, during which the corporate performance is compared with its expectations. Meanwhile, managers collect information from their subordinates to take prompt and corrective actions to solve problems (Analoui & Karami, 2003). The strategy evaluation and control is the last stage in the strategic management model. Therefore, based on the compared result with the desired performance, managers should make adjustments in the formulated strategy and/or the implementation (Karami, 2016).

## **Theoretical Framework**

### **Resource-based View Theory**

Initiated in the mid-1980s by (Wernerfelt, 1984; Rumelt, 1984; Barney, 1986), the Resource-Based View (RBV) central premise is that firms compete on the basis of their resources and capabilities. The resource-based view assumes that firms within an industry may be heterogeneous with respect to the bundle of resources that they control. Secondly, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms and are difficult to accumulate and imitate (Wernerfelt, 1995; Peteraf & Bergen, 2003).

A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney & Pandian, 1992, cited by Hooley & Greenley 2005; Smith & Rupp, 2002). Priem & Butler (2001) assert that formal strategic planning and its underlying processes can constitute a source of competitive advantage as they are considered resources for Business.

Small businesses are noted to have unique characteristics, such as flexibility, yet they are also faced with such challenges as inadequate resources such as time, low management capacity and technical expertise. These special characteristics and circumstances make strategic planning crucial resources for SMEs and which can give the SMEs competitive advantages. This importance of this theory in the study was underscored based on the fact that resource-based view argues that enterprises that adopt strategic management have enhanced performance. Thus this theory was crucial in understanding the relationship between strategic management process and financial performance of professional service SMEs.

### **Porter's Theory of Competitive Advantage**

According to this theory, the objective of corporate strategy should be to manage the competitive forces in a way that improves the position of the organization. Porter described these five forces as 1) Bargaining power of customers 2) Bargaining power of suppliers 3) Intensity of existing competitive rivalry 4) Threat of new entrants and 5) Threat of substitute products. These frameworks can be regarded as the major analytical frameworks of the competitive positioning paradigm and remain at the heart of most business school strategy courses to this day. The five forces framework (Porter, 1980) allows a firm to assess both the attractiveness (potential profitability) of its industry and its competitive position within that industry through an evaluation of the strength of the threat of new entrants to the industry; the threat of substitute products; the

power of buyers or customers; the power of suppliers (to firms in the industry); and the degree and nature of rivalry among businesses in the industry (Porter, 2011).

According to Porter, the potential for a firm to be profitable is negatively associated with increased competition, lower barriers to entry, a large number of substitutes, and increased bargaining power of customers and suppliers. On the basis of analysis of these forces, Porter argues that an organization can develop a generic competitive strategy that can result in increased competitive advantage and performance (Porter, 1985).

Porter's theory also provides sufficient understanding of the role of environment scanning in the performance of firms. Environmental scanning is concerned with the competition analysis in the industry, the main thrust of the theory. Strategic planning in the current dynamic world is emergent and concerned with the evaluation of strategic options that affect the performance of firms. Porter's theory thus provides a framework to understand the strategic planning process in firms (Wang, 2014). In Porter's five forces model a competitive advantage is sustained when it provides above-average returns in the long run. This is important in the study as it helped the researcher understand the impact of strategic planning process on the financial performance of SMEs. As much as the theory has its critiques, the theory was central to understanding the relationship between strategic planning and financial performance of professional service SMEs.

## **EMPIRICAL LITERATURE**

Anyieni, Ndunda & Muia (2014) conducted a study through literature review with an aim of examining the impact of strategic planning on the performance of the small business in Kenya. The study established that the most successful businesses use strategic planning, and there is a high failure rate for those who do not. The study recommended that the owner or entrepreneurs of the SME be trained in the skills of strategic planning.

Amurle (2015) in her study sought to establish the relationship between strategic planning and performance of Information Communications and Technology (ICT) Small and Medium Enterprises (SMEs) in Kenya. The study used primary data gathered from management employees of 146 ICT SMEs. The results of the regression analysis revealed that strategic planning processes and actions are significant predictors of ICT SMEs business performance and explain 24.1% improvement in learning and growth, 17.1% increase in internal business processes performance, 17% performance improvement in firm competitive advantage. In addition, strategic planning was found to have a low but positive influence on financial profitability and explain 1% of its increase. This study concludes that effective strategic planning processes and actions have a significant influence on ICT SMEs performance, and is a learning tool and a strategic resource. The study recommended that ICT SMEs entrepreneurs' and managers should focus their efforts on building their capabilities to develop and implement effective strategic planning activities.

Similarly, Aldehayyat (2015) also conducted a study in Jordan whose aim was to analyze sources of information for environmental scanning and the relationship between environmental scanning and organizational characteristics (firm size and industry type), as well as organizational performance. The study targeted 190 Jordanian publicly quoted firms. The findings of this study showed that scanning focus was higher for the general environmental sectors than the task environmental sectors. The results also demonstrated that these firms rely more on internal sources

of information. Larger firms have more scanning activities, while smaller firms tend to focus on different sources of information. Additionally, some differences in the industry sector in terms of scanning behavior were identified. This study also supports the existence of a positive relationship between environment scanning and organizational performance. The study provided more information on the environmental scanning construct but was limited to understanding the fiction of environmental scanning as it focused only on environmental scanning sources.

Mahoro (2017) also conducted a study whose purpose was to establish the effects of strategic planning in the management of Small and Medium Enterprises (SMEs) in Nairobi. Through the use of descriptive study design targeted at 30 SMEs, the study showed that a company's mission and vision are crucial elements of strategic management in the organization, and business vision and growth are reinforced by strategic focus on market growth and profits. The study revealed that strategic planning has helped owners/ managers establish benchmarks or milestones that show them whether or not they are meeting their goals and objectives, and SME owners/ managers include employees in the decision-making plan of their business.

Wijethunge and Pushpakumari (2014) did a study to empirically investigate the performance differences and business strategy orientation of small and Medium-sized Enterprises (SMEs) in two Asian economies focusing on the SMEs in the manufacturing sector in Japan and Sri Lanka. Results indicated that the performance of SMEs varies with the choice of strategy orientation that owner-managers adopt. Further, the results indicated a significant relationship between business strategy and change in annual sales in Japan and Sri Lanka at a 5% level. This study is significant in so far as it will help provide understanding and potential explanation on the relationship between strategic management planning and performance of SMEs. Nevertheless, the study has a limitation in providing understanding for the SME sector as a whole as it focused on the manufacturing sector only.

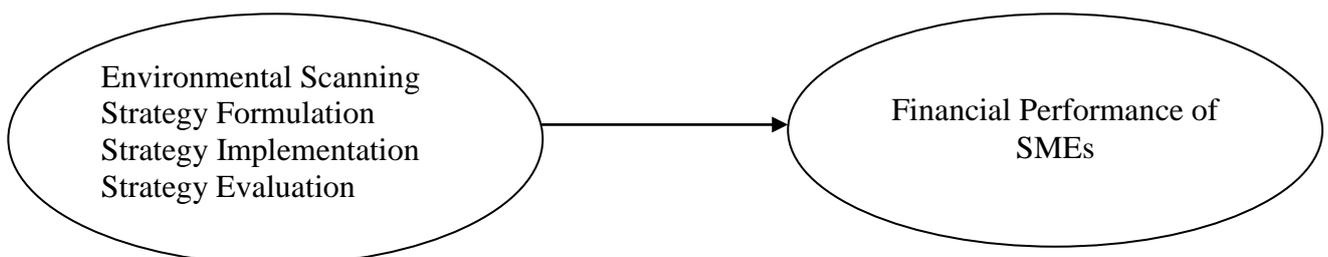
According to a study by Wafula (2015) that sought to establish the nature of strategic planning practices and how do they influence the growth of SMEs within the micro-finance sector in Nairobi County? The study used an exploratory research design where the units of analysis comprised of small and medium enterprises within the micro-finance sector within the Nairobi County. Findings revealed that growth among MFI SMEs in Nairobi County has a significant joint relationship with Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting which is significant at 5 percent level of significance. Although this study contributes to the body of knowledge on strategic planning and performance in SMEs the study was limited to on focusing on strategy formulation, strategy implementation, and evaluation while excluding environmental scanning.

Sandada (2015) did a study whose purpose was to evaluate the strategic dimensions of SMEs and how each dimension is rated by owners and managers of SMEs. The other objective of the study was to ascertain if differences in strategic planning practices existed with respect to demographic variables namely gender, age, and position in the organization. It was found that the main dimensions of strategic planning are mission and vision, environmental scanning, employee participation in the strategic planning process, time horizon of strategic planning, implementation

incentives, evaluation and control, formality of strategic planning and source of information about the environment. It was also found that mission and vision, formality of strategic planning and evaluation and control were the most valued factors. No significant statistical difference existed among owners and managers of different age, gender, and positions in strategic planning practices. The study is of value to the study in broadening the knowledge of strategic management practices in SMEs. However, the study fell short of delving into the relationship between strategic management dimensions and performance of SMEs.

Langat and Auka (2016) carried out a study with an aim to examine the effects of strategic planning on the performance of medium-sized firms in Kenya. It examined the relationship between the specific steps that make up strategic planning and firm performance. The study targeted 47 medium-sized enterprises as its sample size. The results indicated that strategic planning significantly influences organizational performance. The findings reinforce the relationship between strategic planning and SMEs performance. Moreover, the study only used medium-sized enterprises and as such cannot be generalized to all SMEs hence the need for more studies.

Emmanuel, Babatunde, and Grace (2015) did a study that examined the relationship between the use of strategic planning and performance in SME sector in Nigeria. The study focused on various categories of SMEs making it suitable for generalization. The study revealed that there is a significant relationship between the use of strategic planning and SME performance. As much as the study is of help in gaining a general understanding on the relationship between strategy planning and SMEs performance, the study cannot provide a complete generalization since it only focused on SMEs with formal strategic plans leaving SMEs with informal strategic plans, a common practice among SMEs.



**Figure 1: Conceptual Framework**

## **METHODOLOGY**

The study used a cross-sectional research design which entails selecting a subset of the population from which data is collected at a particular point in time and eventually data is generalized for the whole population. Stratified sampling was used to categorize the various SME businesses while random sampling was used to select individuals to participate from each SME. Primary data was collected from selected SMEs operating in Nairobi CBD while secondary data used to complement the primary data was obtained from journal and reports filed with Kenya National Bureau of Statistics.

### Data analysis

Descriptive and inferential statistics were used for analysis. Pearson correlation moment and multiple regression analysis were performed. Pearson correlation moment was used to test the strength of the independent variable where else multiple regression was used to show how much of the dependent variable is explained by the independent variables.

### Model

The model of the study was:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where

$Y$  = Performance

$\beta_0$  = Constant

$\beta_1, \beta_4$  = Regression coefficients

$X_1$  = Environmental Scanning

$X_2$  = Strategy Formulation

$X_3$  = Strategy Implementation

$X_4$  = Strategy Control

$\varepsilon$  = Error term

## RESULTS AND DISCUSSION

### Multicollinearity

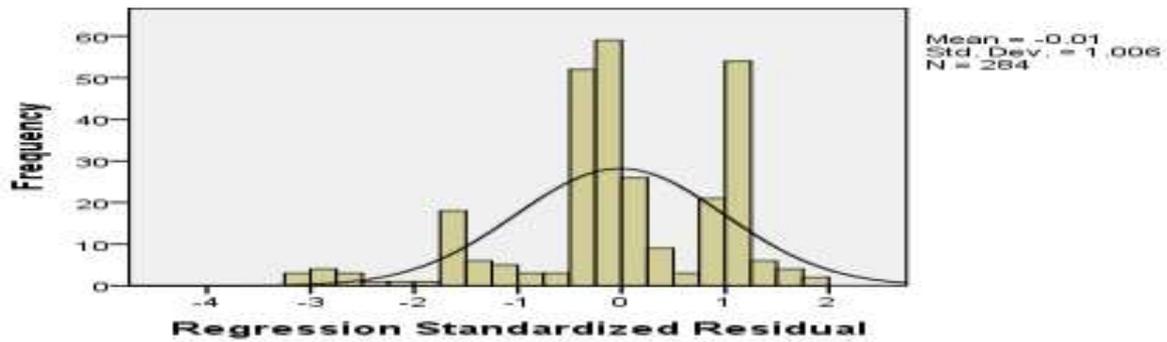
The multicollinearity assumption was tested with the correlation matrix and with 'Tolerance' and 'Variance Inflation Factor' (VIF). To meet the assumptions of multicollinearity, the VIF factor of all the independent variables must be 0.4 and above. This was achieved in the study as shown in the table below.

**Table 1: Multi-Collinearity Tests**

Independent Variable	F-Statistic	Significant
	Tolerance	VIF
Environmental Scanning	0.455	2.199
Evaluation	0.7	1.429
Implementation	0.575	1.738
Formula	0.63	1.588

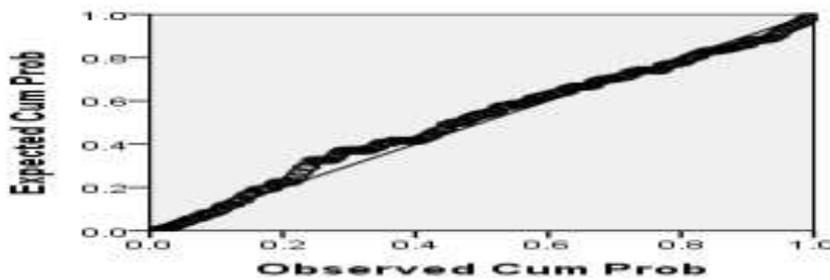
### Normality, Linearity, and Homoscedasticity

In order to examine the normality, linearity and homoscedasticity assumptions, a histogram, a plot of standardized residuals against predicted values of the dependent variable and a scatterplot are provided in Figure 1.



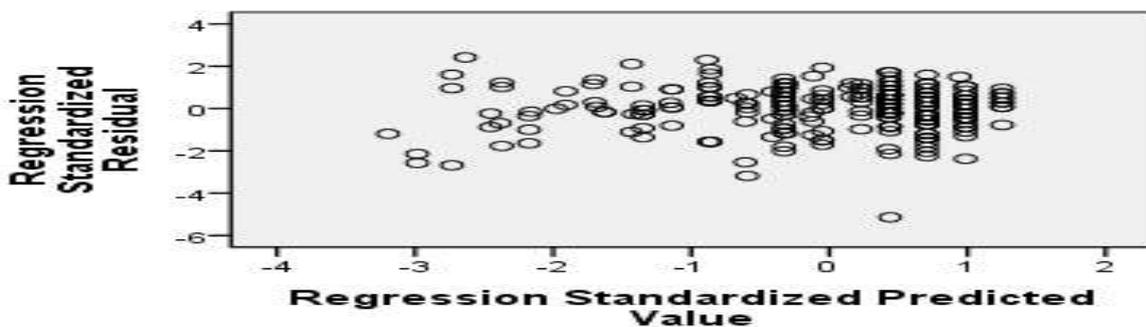
**Figure 2: Histogram**

Figure 2 indicates that the shape of the distribution with the bell-shaped histogram approximates to the normal distribution with no much kurtosis and thus the study shows that the data meet the assumption of normality.



**Figure 3: Normality Plot**

Points clustered around a straight line in a probability plot support the normality assumption of residuals, as shown in Figure 3. All the points in the normal P-P plots were roughly in a straight diagonal line from bottom left to top right. These results verify a normal distribution of errors in testing the model.



**Figure 4: Scatter Plot**

The scatterplot of standardized residuals in Figure 4 exhibits that most of the scores are concentrated in the centre along the 0 point (Pallant, 2001). If the residuals are randomly and evenly dispersed throughout the scatterplot, assumptions of linearity are met (Hair et al., 1998).

Therefore, the assumptions of normality, linearity, and homoscedasticity have not been violated in this statistical analysis.

Homoscedasticity is related to the assumption of normality because when the assumption of multivariate normality is met, the relationships between variables are homoscedastic and thus from figure 1, 2 and 3 it can be concluded that the assumption of homoscedasticity was met in the study.

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.522a	0.2725	0.1817	0.8126

- a. Predictors: (Constant), STRATEGY FORMULATION, STRATEGY EVALUATION, STRATEGY IMPLEMENTATION, ENVIRONMENTAL SCANNING
- b. Dependent Variable: Profits of SMEs.

In table 2, the model summary shows the predictive ability of the study model. In the study, R-value of 0.522 has been established indicating that there is a small correlation between the predictor variables, all lumped together into one model. From the model, it can be concluded that 27.25% of the changes in financial practices of professional service SMEs can be attributed to the adoption of strategic planning process.

**Table 3: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.757	4	2.689	4.861	.001b
	Residual	159.895	289	0.553		
	Total	170.652	293			

- a. Dependent Variable: Profits

b. Predictors: (Constant), STRATEGY FORMULATION, STRATEGY EVALUATION, STRATEGY IMPLEMENTATION, ENVIRONMENTAL SCANNING

The output obtained from the SPSS analysis also gave an F-ratio of 4.861 which is significantly greater than 1 thus showing that the model is appropriate in explaining their relationship between the predictor variables and outcome variables. This was also supported by p-values of 0.001 that shows that the model is significant and therefore the null hypothesis that the model is not suitable for explaining the relationship between dependent and independent variables was rejected.

**Table 4: Correlation Coefficients**

Mode I		Unstandardized		Standardized		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	2.032	0.318			9.033	0
	Environmental Scanning	0.093	0.083	0.197		2.176	0.03
	Strategy Evaluation	0.113	0.07	0.144		2.049	0.041
	Strategy Implementation	0.167	0.062	0.147		2.012	0.045
	Strategy Formulation	0.102	0.083	0.176		2.254	0.025

a. Dependent Variable: PERFORMANCE

An interpretation of the coefficients in Table 4 shows that environmental scanning had a significant coefficient (p-value = 0.03, r= 0.093). Strategy formulation had a significant coefficient with p-value = 0.025 and r-value of 0.102. Strategy Implementation had a significant value of 0.045 and r-value of 0.167. Strategy evaluation also had a significant relationship with SME performance as shown by a p-value of 0.041 and r-value of 0.113. The study, therefore, fails to accept the null hypothesis:  $H_{01}$ ,  $H_{02}$ ,  $H_{03}$ , and  $H_{04}$ .

From the estimated regression equation;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where  $\beta_0$  is the constant = 2.032,  $\beta_1 = 0.093$ ,  $\beta_2 = 0.113$ ,  $\beta_3 = 0.167$  and  $\beta_4 = 0.102$ . The fitted regression equation of the model becomes;

$$Y = 2.032 + 0.093X_1 + 0.113X_2 + 0.167X_3 + 0.102X_4 + \varepsilon$$

## DISCUSSION

The regression coefficient of environmental scanning was positive and significant in predicting the financial performance of small and medium firms. This could be influenced by the reason that environmental scanning is a strategic planning tool that businesses may use to cushion themselves from dynamic changes in business environments. Strategy is important in that it allows the firm to focus its efforts in a manner which will ensure maximum likelihood of success given environmental conditions. Scanning plays an important role in fulfilling this function through playing the following role: tracks general environmental events to ensure that the firm is maintaining the proper strategic stance, remaining ever vigilant of the requirement to change strategic orientation; b) monitors sectors of the environment requiring special attention due to firm strategy. Thus, in a dynamic environment environmental scanning enhance the survival of the firm. These findings are consistent with the findings of Parida (2010) who found that network platforms impact positively on business performance of SMEs.

The regression coefficient of strategy formulation was positive and significant in predicting the performance of small and medium enterprise firms. This result could be attributed to what Hislop (2005) argues that strategy formulation lays the foundation for setting organization and through organizational goal firms can set up performance metrics to measure the achievement of such goals. These results are similar to the findings of Taiwo and Idunnu (2010) examined the impact of strategic formulation on organizational performance and survival of SMEs. The study evaluated the

planning-performance relationship in the organization and the extent to which strategic planning affected the performance of SMEs in Nigeria. The findings indicated that strategy formulation planning enhances better organizational performance, which in the long term impacts its survival. The regression coefficient of strategy implementation and performance of small and medium firms was significant in the study. The job of strategy implementation is to translate plans into actions and the intended results. The test of successful strategy implementation is whether actual organization performance matches or exceeds the targets spelled out in the strategic plan. Shortfalls in performance signify weak strategy, weak implementation or both. The effectiveness with which a particular strategy is implemented should strongly affect performance on dimensions on which the strategy is expected to affect. These findings are consistent with the findings of Gică & Negrusa (2011) and Dauda, Akingbade, & Akinlabi, (2010).

The regression coefficient of strategy evaluation and performance of small and medium firms was significant in the study. According to Hunger & Wheelen (2010), strategy evaluation allows the associated objectives to be evaluated sensibly as the objectives been set based on the criteria used for evaluation and with the evaluation providing answers as to whether strategy execution meet the organization objectives (Ivancic, 2013). Through these results, further corrective action can be taken in ensuring that strategy planning meets the organizational goals and by extension enhance business performance. These results align with the results of Kee-Luen, Thiam-Yong, & Seng-Fook (2013) who established a positive correlation between strategy evaluation and business performance of SMEs in Malaysia.

## **CONCLUSION AND RECOMMENDATION**

This study examined strategic management and SME performance in Kenya. It was established that strategic management variables have a positive and significant effect on SME performance. This means that if the small and medium enterprises adopt the use of strategic planning, the performance level will improve. The use of strategic planning should be considered as a very useful aspect to ensure improved performance and thereby improve the GDP of the nation. The results indicate that the major strategic planning factors are strategy formulation, strategy evaluation, environmental scanning and strategy implementation. The study also confirmed that all these factors make a significant contribution to strategic planning. Therefore, it is important for SMEs to prioritize these factors when they develop strategic management in order to enhance their performance. Based on the study findings, strategy implementation was established to have significant influence on the financial performance of professional service SMEs. Thus the study recommends that professional service SMEs firms should put more emphasis on develop providing more resources, enhancing leadership skills among the managers and in developing build organizational culture. This can result in significant effect on the SME performance.

## **Future Research**

Further research should be done in the specific component of strategic planning process and their relationship with financial performance of SMEs. Further research should include moderating and mediating variables as control factors to test their effect the relationship between strategic planning process and performance of SMEs.

Although the results of this research provide empirical evidence about the nature of the relationship between strategic planning and SME performance in a non- developed countries context, it is

important to clarify some of its limitations: because this research was limited to professional service small and medium enterprises, the results may not be generalizable to other industry settings. This research focused on what and how questions and did not explore why, via face to face interview or focus groups. Control the contingency factors such as firm size, industry and environmental are considered as important in strategy research, studying of these factors were out of scope of this research.

## REFEFENCES

- Aldehayyat, J. S. (2015). Environmental scanning in business organizations: Empirical evidence from a Middle Eastern country context. *Management Research Review*, 38(5), 459-481.
- Aldehayyat, J., & Twaissi, N. (2011). Strategic planning and corporate performance relationship in small business firms: Evidence from a Middle East country context. *International Journal of Business and Management*, 6(8), 255.
- Amurle, G. S. (2015). The Role of Strategic Planning on the Performance of Small and Medium Enterprises Information Communication and Technology (ICT) Sector in Nairobi, Kenya.
- Analoui, F., & Karami, A. (2003). *Strategic management in small and medium enterprises*. Cengage Learning EMEA.
- Anyieni, A. G., Ndunda, E. N., & Muia, V. K. (2014). Impact of Strategic Planning in the Small Businesses in Kenya. *The International Journal of Business & Management*, 2(7), 253.
- Auka, D. O., & Langat, J. C. (2016). Effects of strategic planning on the performance of medium-sized enterprises in Nakuru town. *International Review of Management and Business Research*, 5(1), 188.
- Barney, J. B. (1986). Strategic factor markets: Expectations, luck, and business strategy. *Management Science*, 32(10), 1231-1241.
- Chen, M., & Bowen, L. (2012). Strategic Management in Chinese Manufacturing SMEs
- Dauda, Y. A., Akingbade, W. A., & Akinlabi, H. B. (2010). Strategic management practice and corporate performance of selected small business enterprises in Lagos metropolis. *International Journal of Business and Management*, 5(11), 97.
- De Wit, B., & Meyer, R. (2010). *Strategy Synthesis: Resolving strategy paradoxes to create competitive advantage*. Cengage Learning EMEA.
- Gică, O. A., & Negrușă, A. L. (2011). The Impact of Strategic Planning Activities on Transylvanian SMEs-An Empirical Research. *Procedia-Social and Behavioral Sciences*, 24, 643-648.

- Ivančić, V. (2013). The biggest failures in managing strategy implementation.
- Karami, A. (2016). *Strategy formulation in entrepreneurial firms*. Routledge.
- Kee-Luen, W., Thiam-Yong, K., & Seng-Fook, O. (2013, February). Strategic planning and business performance: A study of SMEs in Malaysia. In *Proceedings of 3rd Asia-Pacific Business Research Conference, Kuala Lumpur, Malaysia* (Vol. 25).
- Mahoney, J. T., & Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic management journal*, 13(5), 363-380.
- Mahoro, S. F. (2017). *The Effects of Strategic Planning On the Performance of Small and Medium Sized Enterprises in Nairobi* (Doctoral dissertation, United States International University-Africa).
- Makinde, O. G. Akinlabi, B., and Ajike, E. O. (2015). Strategic Planning: Effect on Performance of Small and Medium Enterprises in Lagos, Nigeria. *International Journal of Manage.Studies., Statistics & App.Economics (IJMSAE)*, 5(1),77-94
- Maroa, J. G., & Muturi, W. (2015). Influence of strategic management practices on performance of floriculture firms in Kenya a survey of Kiambu County, Kenya. *International Journal of Economics, Commerce, and Management*, 3(7).
- Najib, A. N. B. A. M. and Baroto M. B. B. (2016). The Relationship between Strategic Planning and Malaysian SMEs Business Performance: The Effect of Employee Participation, Implementation Incentive and Strategy Evaluation and Control. *The International Journal of Business & Management*, 4(3), 353-368
- Parida, V., & Örtqvist, D. (2015). Interactive effects of network capability, ICT capability, and financial slack on technology-based small firm innovation performance. *Journal of Small Business Management*, 53, 278-298.
- Peteraf, M. A., & Bergen, M. E. (2003). Scanning dynamic competitive landscapes: a market-based and resource-based framework. *Strategic management journal*, 24(10), 1027-1041.
- Porter, M. E. (2011). *Competitive advantage of nations: creating and sustaining superior performance* (Vol. 2). Simon and Schuster.
- Porter, M. E., & Millar, V. E. (1985). How information gives you competitive advantage.
- Priem, R. L., & Butler, J. E. (2001). Is the resource-based “view” a useful perspective for strategic management research?. *Academy of management review*, 26(1), 22-40.

- Pushpakumari, M. D., & Watanabe, T. (2009). Do strategies improve SME performance? An empirical analysis of Japan and Sri Lanka. *Meijo Asian Research Journal*, 1(1), 61-75.
- Robbins, S. P., & Coulter, M. (2005). Management. *Eight Edition. Person Education. England. Terjemahan PT Indeks.*
- Rumelt, R. P., & Lamb, R. (1984). Competitive strategic management. *Toward a Strategic Theory of the Firm*, 556-570.
- Sandada, M. (2015). Strategic planning dimensions in small and medium enterprises (SMEs) in South Africa: their relative importance and variations in selected demographic variables. *Ecoforum Journal*, 4(1), 8.
- Sandada, M., Pooe, D., & Dhurup, M. (2014). Strategic planning and its relationship with business performance among small and medium enterprises in South Africa. *The International Business & Economics Research Journal (Online)*, 13(3), 659.
- Smith, A. D., & Rupp, W. T. (2002). Communication and loyalty among knowledge workers: a resource of the firm theory view. *Journal of knowledge management*, 6(3), 250-261.
- Taiwo, A.S. & Idunnu, F.O. (2010), "Impact of Strategic Planning on Organisational Performance and Survival". *Research Journal of business management*, 4 (1), pp. 73 – 77.
- Wafula, B. (2015). *Strategic Management Practices adopted by the Architectural Association of Kenya* (Doctoral dissertation)
- Wairimu, N., & Theuri, F. (2014). Factors That Influence the Level of Staff Involvement in the Strategic Planning Process in Public Institutions. *Journal of Business and Management (IOSR-JBM)*, 16(4), 21-27.
- Wang, H. L. (2014). Theories for competitive advantage
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic management journal*, 5(2), 171-180.
- Wernerfelt, B. (1995). The resource-based view of the firm: Ten years after. *Strategic Management Journal*, 16(3), 171-174.
- Wheelan, T., & Hunger, J. (2006). Cases: Strategic management and business policy.
- Wijethunge, W. A. D. S., & Pushpakumari, M. D. (2014). The relationship between strategic planning and business performance: an empirical study of manufacturing SMEs in Western province in Sri Lanka.