



Influence of deliberate mode of strategic management on performance of small and medium enterprises in machakos town, Kenya

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Abstract

The aim of the study was to investigate influence of deliberate mode of strategic management on performance (sales) of SMEs in Machakos Town, Machakos County. Descriptive research design was used to ensure a complete description of the situation of SMEs performance in Machakos town. The target population was 16,399 licensed SMEs in Machakos Town. Using stratified random sampling method, A sample of 390 respondents was selected from the target population. This SMEs were grouped into eight categories. Data was collected using questionnaires design to obtain accurate information from respondents. The data collected was analyzed using both qualitative and quantitative techniques. Under descriptive statistics, frequencies and percentages were used where applicable. Due to non-normality and non-homogeneity of the dependent variable, a non-parametric test (Mann-Whitney U test) was preferred instead of a parametric test (t-test). Under this test, the data was categorized into low users of each strategy and high users of each strategy. and the findings presented using tables, figures, pie charts and graphs. The test results indicated that there is sufficient evidence to show that SMEs which applies higher numbers of deliberate strategy practices tend to have higher performance ranking. Thus we conclude that deliberate strategy practices positively influence performance of SMEs in Machakos Town. From the research that was carried out, the study recommends the need to have owners/managers of the small and medium enterprises undertake basic business and management skills training. Training the senior managers will have an opportunity to learn strategic issue management skills which will be valuable in their daily operations.

Keywords: strategy, deliberate, mode, performance

1. Introduction

This study embarked on investigating influence of deliberate mode of strategic management on small and medium enterprises (SMEs) in Machakos Town. In Kenya, there are 1.56 million licensed Small and Medium enterprises (SMEs) and 5.85 unlicensed SMEs (Economic survey, 2017) ^[6]. This constitutes close to about 96 per cent of all business enterprises in the country (Economic Survey, 2009). SMEs represent the largest sector in the economy employing up to 75% Kenya's workforce and contributing up to 18.4% of the country's Gross Domestic Product (GDP) (Economic Survey, 2009) ^[6]. The SMEs in Kenya fall under the popular informal sector called Jua Kali the name that reflects the fact that they largely start in the open sun under no roof. It is indicative of the severe conditions under which micro-entrepreneurs and their employees labour (Kinyua, 2014) ^[11]. This sector comes into existence as result of the incapacity of formal and regulated industries to absorb new entrants. The SMEs encompasses small scale entrepreneurs and workers who lack access to enough credit, property rights, training, and good working conditions. Originally restricted to artisans, the term has come to include a number of professions, including auto mechanics and market vendors. The sector employed 83.1% of Kenyan workforce in 2016 and 89.7 percent of new job created in the same year were in SMES sector (Economic survey, 2017 report) ^[6].

SMEs which falls into informal sector are crucial for the economic prosperity, however, there are number of

challenges that these SMEs face in the process of operations and performance. It is generally recognized that Small and Medium Enterprises SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development to the economy. Despite the big role SMEs play in the economy past statistics indicate that three out of five businesses fail within the first few years of operation (Bunyasi *et al*, 2014) ^[4]. The total SME lending portfolio in December 2013 was estimated at KSh332 billion, representing 23.4% of the banks' total loan portfolios.

The importance of SMEs in contributing to job creation and output growth is now widely accepted in both developed and developing countries and then regarding SMEs as the backbone of the economy (Kenya Bureau of Statistics Report). The Growth of Small and Medium Enterprises (SMEs) is a major driver for economy in many countries in the world because SMEs they tend to contribute to employment growth at a higher rate than larger firms. In the EU economy about 99.8 per cent of the enterprises are SMEs employing 67 percent of the European workforce and developing 57 percent of the value added (European Statistical Data Support, 2008).

1.1 Statement of the Problem

There has been increasing consciousness since early 1970s that SMEs are important for economic growth and development, it is for this reason SMEs in Kenya were prioritized in vision 2030, as a key factor in development

through industrialization and alleviation of poverty. According to economic survey 2017, 14.9% Kenyans draw their livelihood direct and indirect from SMEs. SMEs in Kenya employing up to 75% Kenya's workforce and contributing up to 18.4% of the country's Gross Domestic Product (GDP) (Economic Survey, 2009) ^[7]. The survey reported pointed out that the sector employed 83.1% of Kenyan workforce in 2016 and 89.7 percent of new job created in 2016 was in SMEs sector.

Recently Kenyan government came up with a number of initiatives to improve the performance of the SMEs some of which are youth and women enterprise funds and 30 percent of government procurement to be awarded to youth who mostly run SMEs. Government of Kenya too encouraged banks through policies and regulations that banks to design credit products that suite SMEs needs and their ability to service. This has led to steady growth of SMEs in the region in terms of performance, up to 23.4% of the banks' total loan portfolios were taken by SMEs by the year 2013.

However, SMEs face many challenges in the process of operations and performance, which affect their growth and profitability and hence diminish their ability to contribute effectively to sustainable development of an economy.

Despite the big role SMEs play in the economy past statistics indicate that three out of five businesses fail within the first few months of operation and barely live to grow to become fully established firms (Bunyasi *et al*, 2014) ^[4]. The reasons for the failure include limited market access, limited access to information, finances, technology, unfavorable policy from government, poor infrastructure, insecurity and high cost of energy, (Sakwa, 2010) ^[25].

Thus despite the high rate of stagnation and failure of SMEs in the country no comprehensive study has probed the strategic management challenges faced by these SMEs and explored the response strategies that have been adopted by the SMEs to counter the challenges in the ever changing and turbulent business environment with a view of improving performance. Previous studies have indicated that there are still many entrepreneurs of SMEs still not informed of strategic management concept and does not show much interest to use since they think it can only be of gain for large enterprises. They persist on the old operational modes instead of doing strategic management for they have no idea what the bright future has in store for them (Mintzberg 1987). On the other hand the business owners limit employees participation into the process of strategy making /structuring thus impede their creativity being used allowing only the top executive to set up strategic mission. Moreover the Small and Medium Enterprise are more flexible than larger firms but the limitations right from limited capital resources, lack of technological knowledge and lack of a formal strategic management as a result of which they lack patience and passion to find the most suitable way to support itself hence impede their economic growth. (Njoroge 2013) ^[6].

However these past studies most of them being case studies are limited in their generalization and more and more comprehensive study is needed. Therefore this research sought to find out the influence of the strategic management modes adopted by SMEs and determine the correlation between the adopted strategy and performance of SMEs in Machakos town.

2. Theoretical Review

2.1 Profit Maximizing Theory

According to Becker (2007), Profit maximization theory is the short-run or long-run process by which a firm determines the price and output level that returns the greatest profit. The approaches used in this process are the total revenue – total cost perspective which relies on the fact that profit equals revenue minus cost with its main focus being in maximizing the difference. The other perspective is the marginal revenue – marginal cost perspective in which profit reaches its maximum point where marginal revenue equals marginal cost. Costs incurred by a firm may either be fixed costs or variable costs. The fixed costs are costs that a firm must incur at any level of output including zero output. The variable costs change with the level of output as more output is generated. When a business combines fixed costs and variable costs it gives them the total cost (Friedman, 1970) ^[8].

Application of this theory in SME businesses was pretty straight forward, the objective of turning around a business is to change the business situation from bad to good if not better in terms of performance. And the only option is to enhance the SME's profitability. This means that the main objective and perhaps the only objective available for the turning around of SME is making profits. Hence this theory is directly related to the field of SME turnaround and should be considered in the implementation of strategic management modes in SMES so as to succeed in enhancing performance of SMEs thereby increasing their survival and competitive advantage (Donaldson, 2014) ^[5].

3. Empirical Review

Terziovski (2010) ^[27] investigated innovation practice and its performance implications in small SMEs in the manufacturing sector using survey design, systematic random sampling procedure with sample of 600 manufacturing SMEs. The study found that it is possible that high SMEs performance could be driving the successful implementation of product and process innovation practices and SMEs performance is likely to improve as they increase the degree which they mirror large manufacturing firms with respect to formal strategy and structure. Mokter (2015) ^[15] examined the current research on open innovation in SMEs and found that studies are mostly performed based on panel data and only a few included sophisticated statistical analysis. Birger (2012) ^[3] investigated asset specificity and foreign market entry mode choice of SMEs by introducing knowledge safeguards like international experience, host-country networks, and imitation and also institutional safeguards whereby found knowledge safeguards and institutional safeguards weaken the effect of asset specificity on the choice of equity foreign market entry modes. Obadia (2006) ^[21] examined the phenomenon of opportunism as a key factor behind international market-entry failure of SMEs using integrated modes of entry. Using exploratory research design principles collected and analyzed field data and found out that the SME's insufficient monitoring of its foreign venture leads to the information asymmetry between the parent SMEs and its overseas affiliate.

Kinyua (2014) ^[11] investigated the factors affecting the performance of SMEs in the *Jua Kali* Sector in Nakuru Town, specifically the extent to which SMEs access finance; management skills; macro-environment factors and infrastructure using survey research design and descriptive

statistics to analysis and presented using figures, tables and percentages. The study found that access to finance, management skills and macro environment factors positively affect performance of SMEs while infrastructure did not significantly affect performance of SMEs in the study area. Bunyasi (2014) ^[4] sought to assess the effect of access to business information on the growth of SMEs in Kenya using mixed research design where both qualitative and quantitative methods were employed and found that access to business information had a significant effect on the growth of SMEs.

Huka (2015) sought to find out the influence of entrepreneurial skills, credit access, government policy and market access on the growth of youth owned small and medium enterprises in Nairobi County. The study adopted a descriptive research design and stratified random sampling method to select a sample size from the target population..

Kamunge (2014) ^[10] sought to establish the influence of access to business information access to availability of managerial experience, access to infrastructure on performance of SMEs at Limuru town market of Kiambu County. The study employed a descriptive research design. The study found that access to finance and availability of management experience are the key socio-economic factors affecting the performance of businesses in Limuru Town Market. Other key factors that were found to affect businesses in Limuru Town Market positively are access to business information, access to infrastructure and government policy and regulation. Nyakundi (2014) ^[18] examined the effect of internal control systems on financial performance of small and medium scale business enterprises in Kisumu City, Kenya and observed that there has been controversy as to why there is a declining business survival trend among Small and Medium scale Enterprises despite government's commitment to availability of funds. There was concern that 90% of the business start-ups do not operate beyond their third anniversary. Using cross-sectional survey research design, stratified and simple random sampling techniques the study revealed that a significant change in financial performance is linked to changes in internal controls systems (ICS) where majority of SMEs do not have financial procedure manuals, especially one on internal control systems. The study found that there is a significant relationship between the level of knowledge on ICS and growth rate in revenue and profitability.

Gathenya (2013) ^[9] explored the degree to which women led SMEs embrace the entrepreneurial strategic planning practices (ESPP) dimensions of Entrepreneurial Orientation (EO), Scanning Intensity (SI), Planning Flexibility (PF), Planning Horizon (PH) and Locus of Planning (LP) to enhanced firm performance. The study revealed that the attitudes towards entrepreneurial orientation by both the top management and the employees had a positive relationship and played a major role on the average sales growth. The entrepreneurs' age and education were important factors to consider when deciding the depth in focus of planning and had a significant impact on return on assets. Ngugi (2013) examined the influence of Intellectual Capital (IC) and growth of SMEs where the study sought to explain the extent in which managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital influence the growth of SMEs in Kenya. The study found that intellectual capital components (managerial skills,

entrepreneurial skills, innovativeness, structural capital, and customer capital) have a great positive influence on the growth of SMEs. Oppong (2014) ^[24] studied SMEs development in Ghana. The study revealed that there has been a growth in the number of SMEs but the SMEs growth in Ghana has been prevented by structural and environmental changes and they have performed dismally compared to other countries.

Sifunjo (2014) ^[26] sought to investigate the effects of micro-credit, micro-savings and training on the growth of small and medium enterprises in Machakos County. The study used survey research design and, multiple regression analysis to determine the relationships between micro-credit, micro-savings, training and growth of SMEs. The study found out that micro-credit, micro-savings and training jointly contribute positively to SMEs growth. However impact of training is not statistically significant. This was attributed to training that is not based on the true needs of SMEs. The study concluded that the growth in SMEs is due to changes in micro-credit and micro savings.

Okeyo (2014) ^[23] aimed at establishing how market access, procurement services and infrastructure facilities affect performance of small and medium manufacturing enterprises in Kenya. The study adopted a cross sectional survey design and employed inferential statistics to interrogate relationships between independent variables and performance while descriptive statistics were used to determine distribution, central tendency and dispersion to establish conformity to linear regression requirements. The results for market access did not show any relationship but procurement services and infrastructure facilities each had a positive and significant influence on performance of the enterprises. The study concluded that since procurement services and infrastructure facilities showed a positive influence on performance of small and medium manufacturing enterprises in Kenya. Ochanda (2014) ^[22] using descriptive and exploratory design and stratified sampling technique found that access to credit has become easier since 2009 for SMEs in Nairobi due to increased number of financial institutions leading to more competition and improved financial products and processes, financial innovations have a great positive influence the growth of SMEs, the study indicates that financial sector regulation influences the growth of SMEs.

Auka (2016) ^[1] examined the effects of strategic planning on performance of SMEs in Nakuru. The study used correlational study survey design. The data was collected using structured questionnaire, data collected was both quantitative and qualitative The effects of environmental analysis, organizational direction and strategy formulation on firm performance were tested using pearson correlation analysis while multiple regression analysis was used to test the combined effect of environmental analysis, organizational directional strategy formulation on performance of medium enterprises in Nakuru Town. The study indicated that strategic planning significantly influences organizational performance.

4. Research methodology

4.1 Study Design

This research design adopted by this study is descriptive design. Descriptive research design is a scientific method, which entails observing and describing the behavior of a subject without influencing it in any way.

4.2 Target Population

The population of this study were the managers of 16,399 SMEs in Machakos Town. Each of these SMES had one manager, therefore the target population was 16,399 SME managers in Machakos town.

4.3 Research Instruments

The research instrument in this study was questionnaire. A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. Since this study covers a large area, questionnaires were the appropriate instruments for the study.

4.4 Data analysis

The responses were then analyzed using descriptive statistical methods, where data was subjected to further statistical analysis procedures within the statistical package for social scientists (SPSS). The responses were also analyzed using descriptive statistical methods, such as frequencies and percentages where data was subjected to further statistical analysis procedures within the statistical package for social scientists (SPSS). The findings were presented using tables, figures, pie charts, graphs and prose form for easier interpretation which showed the correlation between the deliberate strategic management mode on performance of small and medium enterprises in Machakos town.

5. Results and discussion

5.1 Deliberate Mode Strategy and Firm Performance

Test for Hypothesis 1

H_0 : the mean performance of low and high application of deliberate strategy mode are equal

$H_0: \alpha_1 = \alpha_2$

H_a : the mean performance of low and high application of deliberate strategy mode are not equal

$H_a: \alpha_1 \neq \alpha_2$

Table 4.6 shows that performance mean ranking for low users of determinant strategy mode is nearly half (89.97) of high users of determinant strategy mode (190.35). Meaning that the more SMEs apply deliberate strategy mode, the more likely the performance of the firm will be enhanced.

Table 4.6 Ranks

	Ranks			
	DSM	N	Mean Rank	Sum of Ranks
Average Change in Sales	1.00	118	89.97	10617.00
	2.00	183	190.35	34834.00
	Total	301		

Hypothesis testing

P value was used in hypothesis testing to help support or reject the null hypothesis. At 95% level of confidence, an alpha level of 0.05 was set as the critical p-value for hypothesis testing. Therefore, p-values ≤ 0.05 were considered too small for the results to be random (i.e. happened by chance). That is, less than 5% probability that

the results could be completely random and not due to anything else. However, large p-values (> 0.05) meant the results have high ($>5\%$) probability of being completely random. Hence, for small p-value (≤ 0.05), we reject the null hypothesis. Meaning there is strong evidence that the null hypothesis is invalid. On the other side, a large p-value (> 0.05) meant that the alternative hypothesis is weak, so we fail to reject the null hypothesis.

From Table 4.7, the p-value for Mann-Whitney tests statistics is < 0.05 . Thus, we reject the null hypothesis (H_0) that the mean performance of low and high application of deliberate strategy mode are equal. We then conclude that there is sufficient evidence that mean performance difference between the low and high application of deliberate strategy mode is statistically significant. We thus conclude that higher use of determinant strategy mode practices results in statistically significant positive influence on SME performance ($p < 0.05$).

Table 4.7: Test statistics

Test Statistics ^a	
	Average Change in Sales
Mann-Whitney U	3596.000
Wilcoxon W	10617.000
Z	-9.972
Asymp. Sig. (2-tailed)	.000
Exact Sig. (2-tailed)	.000
Exact Sig. (1-tailed)	.000
Point Probability	.000

a. Grouping Variable: DM

The data analysis showed that deliberate strategy whenever used had a significant positive influence on performance (sales) $p < 0.05$ (table 4.6). A greater percentage 98% of the respondents showed a positive influence from this strategy. The study results indicated that deliberate strategies had a positive contribution to the performance. It was noted that they were aware that deliberate strategic management was very vital to them as the SMEs which employed the strategy registered higher returns. However they had challenges in implementing, hence only few medium enterprises embracing. The result in this study concur with the findings of Mintzberg and Waters (1985)^[14] and Auka (2016)^[11]

Conclusion

The study sought to determine the influence of deliberate mode of strategic management on performance of SMEs in Machakos town. The result indicated that there is a positive relationship between the application of deliberate strategy and financial performance. The study found that the SMEs that embraced deliberate mode of management recorded increased profits. The study also noted that most of SMEs were not using any formal strategic management as they viewed it as having extra expenses which they could wish to avoid.

Recommendations

From the research that was carried out, the study recommends that SME managers embrace deliberate mode of management as it has proven to fetch high sales, the study also recommends the need to have owners/managers of the small and medium enterprises undertake basic business and management skills training. Training the senior managers will give them an opportunity to learn strategic

issue in management.

There should also be deliberate attempt for SME entrepreneurs /managers to engage business experts to draw business plans, vision statement for their prospective businesses.

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