

EFFECT OF ADOPTION OF STRATEGIC PLANNING ON PROFITABILITY OF SMALL AND MEDIUM SIZE ENTERPRISES IN NAKURU TOWN, KENYA

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Abstract: Adoption of strategic planning enables SMEs to perform better and enables them achieve high profits, increased customer referrals due to satisfaction, increased sales, well structured survival plans, high innovation levels, high quality products, improved products, enhanced processes, high technological levels, enhanced management practices as well as increased international growth rates all these benefits are not enjoyed by SMEs operating in Nakuru Town since most of them fails during the first few years of operations. The purpose of the study was to evaluate the effects of adoption of strategic planning on profitability of Small and Medium Size Enterprises. A descriptive and inferential survey research design was applied where data collection was done by use of self administered structured questionnaires. Stratified random sampling method was used to select 291 businesses from a total of 1064 SMEs operating in Nakuru. The study used both qualitative and quantitative data analysis. The study recommends that SMEs managers and owners should ensure that the key resources such as the manpower, money, machines, materials and proper working methods are availed in their enterprise since inadequate resources are likely to lead to incomplete adoption of strategic plans in the enterprise. The study recommends that SMEs should adopt leadership styles that will encourage staff participation in long term planning decisions. The study also recommends that the entrepreneurs should seek and employ highly trained and competent managers to oversee the operations of their enterprises. Highly trained and qualified managers are able to competently plan in the long term to ensure enhanced enterprise performance in organizations.

Keywords: Performance, Strategic Planning, Strategy, Small and Medium Enterprises.

1. INTRODUCTION

Strategic planning can be defined as the process of developing and maintaining consistency between the organization's objectives, resources and its changing environment (Robson, 1998). Strategic planning determines where an organization is going over the next three years or more, how it's going to get there and how it will know if it got there or not (McNamara, 2005). The term strategic planning originated in the early 1950s but gained popularity from the mid 1960 to 1970's. It was then widely believed to be the answer for all private and public organizational management problems. However it was cast aside during the 1980s as the various planning models did not yield higher returns. It was then again adopted later in the 1990s when different scholars appreciated it as a process with particular benefits in particular contexts (Mintzberg, 1994). The area of strategic planning has gained much attention in management literature since early 1960s.

Research studies have been done on the relationship between strategic planning and performance in the USA and the results have shown that strategic planning in small and medium high growth firms has positive influence on the firm's performance (Baker, 1999). The characteristics of strategic planning to include: goals and objectives set for at least three years into the future, its relationship with the environment, a formal strategic plan consisting of written plans, identifying future resource requirements, encompassing procedures for on-going monitoring and modification as well as

environmental scanning. Strategic planning is not a static product which once set stays as it is. It is rather a constantly evolving process trying to follow the continual changes in the environment implying that change and strategy are inseparable. A study by Gathenya, Bwisa and Kihoro, (2011) analyzed strategic planning in terms of entrepreneurial orientation, scanning orientation, scanning intensity, planning flexibility, planning scope and locus of planning. In many of the developing countries, little is known about the strategic management practices in SMEs as only a few studies have been done.

In regard to classification of the SMEs, different methods of clustering have been adopted and some countries such as India, Pakistan, Philippines and Taiwan cluster enterprises according to the invested capital and assets. Other countries such as Mexico and Portugal cluster the enterprises depending with the sales volumes. In Kenya, classification of small and medium enterprises is primarily by the number of employees engaged by the firms (Mandal, 2007). The firms that engage less than five employees are referred to as Small and Medium Enterprises, while those that employ 5-49 workers and 50-99 workers are classified as small and medium sized enterprises respectively.

According to Zacharakis, (2002) firms with more than one hundred employees are categorized as large scale enterprises. The small and medium sized sector is increasingly recognized as the prime vehicle for economic development in both the developed and the developing nations. SMEs are recognized as a major source of employment, revenue generation, innovation and technological advancement. In most of the countries in the world, the level of economic dependence on small and medium enterprises has increased in recent years.

In Kenya there are many SMEs spread across the different products and services that provide employment to both low and middle level income sectors of the economy and this number has been rising every year. In this country, various studies have highlighted the role of strategic planning as critical to the survival of small and medium business enterprises. Recent scientific developments have indicated that attention towards individual actions in strategic processes has increased in the recent past even though lack of strategic planning in SMEs is often reported (Wang, 2005). Kenya has experienced turbulent times in regard to the organizational practices in the last two decades and this has resulted in generally low profits across the economy (Namusonge, 2012) and this picture is fairly well articulated in the survival of small and medium enterprises in the country.

Strategic planning has received high rates of adoption by small and medium sized firms in many countries of the developed world. Comprehensive studies of the small and medium businesses literature show that, *ceteris paribus*, strategic planning is more common in better performing SMEs (Song, Bij, & Song, 2011).

Strategic planning is more common in better performing SMEs which as a result enables them achieve high profits, high employee retention and satisfaction, increased sales, high ROA, high innovation levels, high quality products, improved-patented products, enhanced processes, high technological levels, enhanced management practices as well as increased international growth rates (Gibbons & O'Connor, 2005). Pearce and Robinson (2011) found that from a resource-based view, strategic planning can result in strategic change which may increase strategy-environment fit, hence can become a source of sustained competitive advantage especially when it improves flow of products and services between manufacturers and the end users.

1.1 Statement of the Problem

The small and medium sized enterprises play an important role in the Kenyan economy. Small and medium sized enterprises are recognized to have an enormous potential for generating employment and creating wealth in any economy. In order for Kenya to achieve Vision 2030 initiative, the growth of small and medium sized enterprises is very important for moving the country forward. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Garikai, 2011). Lack of strategic planning has been posited as the main causes of failure of many small and medium enterprises.

In spite of the vital role played by strategic planning, there is evidence that strategic planning is rare in most SMEs and that they tend to orientate towards short term operations rather than long term strategic issues, and that decision making in these firms tends to be reactive rather than proactive (Wang, 2017). Strategic planning is rare in small and medium sized enterprises operating in Nakuru Town in that the SMEs lack vision and mission statement which serves as a guide on their day to day operations of the enterprise and those that have, have not aligned their operations with their vision and mission, they do not do environmental scanning, setting of enterprise objectives is rare, generating strategic options for the

enterprises is unavailable, evaluating and deciding on the strategic methods to monitor progress of the enterprise does not exist. Thus they are plagued by high failure rates and high levels of poor performance. This study therefore sought to determine the effect of selected strategic planning practices on performance of small and medium sized enterprises in Nakuru Town.

2. EXTENT OF STRATEGIC PLANNING ADOPTION BY SMES

Various studies have highlighted the adoption of strategic planning as critical in the survival of SMEs in different countries. Recent scientific developments show that attention towards individual actions in regard to strategic planning has increased in these enterprises even though lack of strategic planning in the operations of SMEs is regularly reported (Wang, 2007). According to this study, there exists informal strategic planning in the SMEs with individuals and small groups in regard to their long term objectives but broad and long term planning encompassing the entire firms lacks in many organizations.

While strategic planning in large organizations has been researched extensively, resulting in many prescriptions, models and concepts, the use and application of the strategic planning practices in SMEs is still the subject of an on-going debate (Jennings & Beaver, 2000). Pushpakumari and Wijewickrama (2008) argue that SMEs often do not have the means to ensure continuous successful adoption and implementation of strategic planning as they maintain lower levels of key resources, have limited access to human, financial and customer base as well as a less developed management capacity and administrative systems.

According to Bryson (2011), who carried out studies on strategic planning and found that strategic planning is widely adopted by large organizations in the private sector and more recently in the public sector. However, from his research findings, strategic planning practices do not appear to have found much popularity in the SMEs. Several scholars have over the years carried out studies in regard to adoption of strategic planning and their research findings consistently showed that most SMEs do not engage in strategic planning (Robinson & Pearce, 1984; Sexton & Van Auken, 1985; Beaver, 2003).

Amongst those SMEs that employ strategic planning tool, Perry (2001) argues that they are less likely to fail in their operations. Bowen, Morara and Mureithi (2009) in their scholarly studies observed that like many other developing countries, there are few studies carried out about adoption of strategic planning in the small and medium sector in Kenya. These findings support suggestions that not as much is known about strategic planning in the developing countries and in particular its uptake by the SMEs (Aldehayyat & Twaissi, 2011).

Okpara and Wynn (2007) carried out an exploratory study to examine the reasons for business failure in Nigeria and the study revealed that SMEs face major obstacles such as insufficient financial resources, lack of training, inadequate book-keeping and failure to adopt strategic management practices. The argument going by the research findings is that SMEs use fewer planning tools, strategic analysis methods, evaluation practices and control systems. From the research findings of Torres (2004) and Wang, (2007), managers in most SMEs mostly act on vague visions and intuition for decision making as opposed to use of strategic plans.

3. RESEARCH DESIGN

This study utilized descriptive survey research design. A descriptive study is concerned with determination of the frequency of occurrence of a phenomena or the association between variables (Cooper and Hindler, 2003). Descriptive research design was used since it allowed the researcher to gather information, summarize, present and interpret it for purpose of clarification.

The study was undertaken in Nakuru Town where the respondents were all SMEs who were operating within the town centre. Nakuru Town is a stable and fast-growing county in Kenya. It comprises of Nakuru East, Nakuru West, Bahati and Njoro constituencies. Business is the backbone and livelihood of the people of Nakuru Town.

The target population for the study was all the registered SMEs within the main municipality of Nakuru Town. There were 1264 registered SMEs in Nakuru town according to the records from the Nakuru County Revenue Office.

For this study, the sample was the owners, managers and senior employees of SMEs. Owners of SMEs were purposely selected and managers or senior employees working in the SMEs who were randomly selected. The data collection instrument that was used in this study was a self-administered structured questionnaire.

4. FINDINGS

Majority of the respondents were SMEs owners who were 92 (36%) while the senior employees were 83 (33%). A larger percentage of the respondents were males 139 (55%) and females were 116 (45%), this shows that both genders were engaged in running or operation SME in Nakuru Town. Majority of the respondents 90 (35.3%) were between ages 31 to 40 years and those who were between 21 to 30 years were 85 (33.3%), this means that SMEs in Nakuru town are run by entrepreneurs who are aged between 21 and 40 years and most of them were diploma holders 100 (39.2%), others certificate holders 91 (35.7%) and few were degree holders 33 (12.9%). Most of the SMEs operating in Nakuru Town had between 1 to 5 full time employees 95 (37.3%) and others had between 6 to 10 full time employees 80 (31.4%).

4.1 Adoption of Strategic Plan

Respondents were asked if their enterprises had adopted strategic plan and the response were as per figure 1.

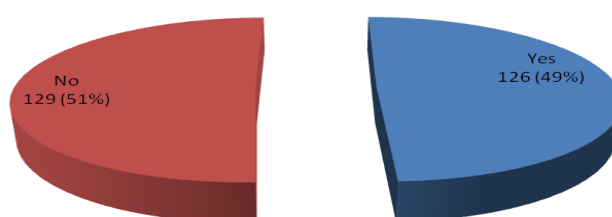


Figure 1: Adoption of Strategic Plan

Source: Research Data (2019)

Figure 1 shows that majority of the enterprises operating in Nakuru Town who were 129 (51%) had not adopted strategic plan while those who had adopted strategic plan were 126 (49%). This thus implied that a good percentage of the respondents were not aware of the benefits that they were bound to realize upon adoption of the long term planning tool. The respondents who had not adopted strategic plan said that whole process of developing and implementing strategic plan is time consuming and costly and they opt to use the fund which could otherwise be used in developing and implementing strategic plan to increase their stock and do branding of their enterprises.

4.2 Extent of achievement of strategic objective

Respondents were asked to rate the extent to which achievement of objectives set out in the strategic plan achieved in their enterprise and the response are as per figure 2.

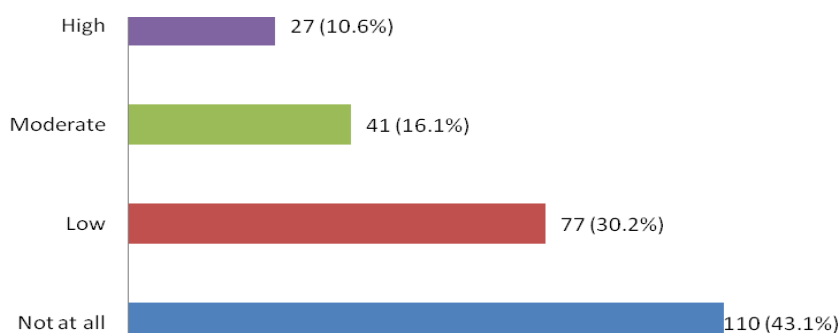


Figure 2: Extent of Adoption of Strategic Plan

Source: Research Data (2019)

Figure 2 reveals that majority of the respondents who were 110 (43.1%) said that they have not adopted strategic plan at all, respondents who had adopted strategic plan to a low extent were 77 (30.2%), those who had adopted strategic plan to a moderate extent were 41 (16.1%) while those who had adopted strategic plan to a high extent were 27 (10.6%).

This implies that most of the SMEs operating in Nakuru Town had not implemented strategic plan thus could not enjoy the benefits of adopting strategic plan and are prone to fail within the five years of operation (Kenya National Bureau of Statistics, 2018). The findings are similar to those of Wang, (2007), who noted that attention towards individual actions in regard to strategic planning has increased in enterprises even though lack of strategic planning in the operations of SMEs is regularly reported. According to Bryson (2011), who carried out studies on strategic planning found that strategic planning is widely adopted by large organizations in the private sector and more recently in the public sector. However, from his research findings, strategic planning practices do not appear to have found much popularity in the SMEs which is the case with the findings of this study.

5. CONCLUSION AND RECOMMENDATIONS

There is need for SMEs to adopt strategic plan which will enable them have plans on how to make their business profitable by ensuring that they have enough cash to meet its obligations and have a long term financial planning which entails sourcing for fund to run the business. They need to ensure that their customers are satisfied with their products by engaging skilled and competent employees; this will enable them see increases in sales volumes over the years due to the quality of their products and high employees' productivity. They need not develop a scorecard to report on financial data and track financial performance against monthly targets through financial assessment of historical records which help in future projection planning.

The study recommends that the management in the small and medium enterprises give key focus to training on strategic planning to the managers and owners since good percentage of the respondents were found not to have received the relevant training. The study also recommends that SMEs managers and owners should ensure that the key resources such as the manpower, money, machines, materials and proper working methods are availed in their enterprise since inadequate resources are likely to lead to incomplete adoption of strategic plans in the enterprise. The study recommends that SMEs should adopt leadership styles that will encourage staff participation in long term planning decisions. The organizational culture in SMES should also be adopted, modified and developed in such a way that it is aligned to the strategic plan in the enterprise as the culture in any enterprise to a great extent determines the degree of success of any adopted management tool or practice. The study also recommends that the entrepreneurs should seek and employ highly trained and competent managers to oversee the operations of their enterprises. Highly trained and qualified managers are able to competently plan in the long term to ensure enhanced enterprise performance in organizations.

Future research studies can compare the performance before adoption and after adoption, compare the performance of the firms that have adopted and not adopted strategic planning and also establish the factors that determine adoption of the long term planning tool in SMEs.

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