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KNOWLEDGE, TIME AND STRATEGIC PLANNING IN SMALL AND MEDIUM ENTERPRISES IN KENYA: THE MODERATING EFFECT OF FIRM SIZE

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ABSTRACT

Strategic planning is concerned with the setting of long-term organizational goals, the development and implementation of plans to achieve these goals and the allocation or diversion of resources necessary for realizing these goals. A review of extant empirical literature on SMEs suggest that, ceteris paribus, a key determinant of business success lies in the absence or presence of strategic planning. The purpose of this study was to establish determinants of strategic planning in a different environment context, that of developing transitional economy of Kenya. This context provided the novelty to the study as most prior studies had examined evidence from firms in mature economies. The findings were that majority of the enterprises had no business plans. Of those with plans, most were informal, long-term and were reviewed half yearly or yearly. Furthermore, majority of the enterprises had no vision and mission statements. However, most of the owner-managers had formulated strategic objectives and strategies for their enterprises. It was further established that time resources had a positive and significant influence on strategic planning in SMEs in Kenya while knowledge of strategic planning process and business size were insignificant, hence, their corresponding hypotheses were rejected. These findings have implications for strategic planners, those interested or involved in the overall development and growth of the small business sector, SMEs and academic institutions. Since some firms may not have enough experience in strategic management, they should invest in developing strategic planning systems to aid in formulating short and long-range plans.

Keywords: *Knowledge, Time, Size, Strategic Planning, Small and Medium Enterprises*

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INTRODUCTION

Strategic planning has remained a dynamic activity within the strategic management process and is most critical times of change and unfamiliar environments (Kargar & Parnell, 1996). For instance, a study by O'Regan and Ghobadian (2007) revealed that 81% of companies worldwide reported that they carried out strategic planning with 89% of the organizations in the United States practising it. It enhances both large and small enterprises' ability to cope with the challenges in the globalized, regionalised and liberalized world order and enables their long-term survival (Kargar & Parnell, 1996). While it is certainly true that SME performance success is driven by other factors apart from strategic planning alone, findings generally support the contention that there are, on balance, greater advantages of strategic planning than not planning at all. However, given all the evidence, it is recognized that strategic planning is either rare or non-existent in most SMEs. Furthermore, due to the accepted view that strategies limit an SME's scope of activity too much, thereby reducing its flexibility, many SMEs are still lacking written strategic plans (Kraus, Reiche, & Reschke, 2007). There are other reasons, however, that may explain why SMEs do not engage in formal strategic planning. These include insufficient knowledge, distrust, rejection of external assistance, tradition-based thinking, fear of radical change, high costs and lack of time or management overload (Mazzarol, 2003; Kraus, Reiche, & Reschke, 2007). In addition, as firms become larger they have greater available resources and increased internal differentiation, which lead to increased planning. Conversely, relatively smaller firms have resource gaps, which may include lack of staff and expertise or time (Robinson & Pearce, 1984; Matthews & Scott 1995). Hence, "the smaller the firm, the less effort it spends on strategic planning" (Risseeuw & Masurel, 1994). It is, therefore, of interest to test the applicability of this assertion in a transition economy context; it is not clear how knowledge of strategic planning process and time resources explain the presence or absence of a strategic plan in SMEs.

Theory and Hypothesis

Strategic planning is more prevalent in bigger enterprises, than in small firms, which employ a variety of strategic planning processes (Dutton & Duncan, 1987; Yusuf & Nyomori, 2002). Various reasons have been advanced for this situation; SMEs are frequently found not to participate in strategic planning due to limitations such as scarcity of time, cost, expertise, training, education and skills of owner-managers, resources and the likelihood to centralize the process of decision making (Robinson & Pearce, 1984; Mulford, Shrader, & Hansen, 1988; Crusoe, 2000; Balasundaram, 2009).

Knowledge of the Planning Process

While earlier studies do help to highlight the reasons for the lack of involvement of SMEs in strategic planning, the focuses of these studies are mainly on the characteristics of the firm itself. Emphasising on the firm may lead to ignoring the crucial consideration of the single most important party influencing the strategic process itself, the owner-manager (Marn, Hin, & Bohari, 2016). The owner-managers are generally poorly trained in running a business. They usually undergo trade or craft training, and rarely any management education. In addition, more often than not, they acquire management knowledge through apprenticeship wherein they observe others undertaking managerial responsibilities (Yusuf & Nyomori, 2002). It is argued that through management training, small businesses can overcome the lack of human resources to undertake planning (Gibson & Cassar, 2002). For example, an Australian report specifically addressing small business employment and skills explicitly propounds a focus on the linkages between performance, strategic planning, business advice and training (Gibson & Cassar, 2002). The view that better trained or educated entrepreneurs are more likely to think and act strategically is also well-established. In their study of Australian SMEs, Gibson & Cassar (2002) discovered that enterprise leaders with university degrees plan more frequently than others. In addition, the study revealed that founders with economic degrees are more likely to develop a business plan than founders with other university degrees. The level of strategic awareness of owner-managers appears to be strongly influenced by the personal competence of the owner-managers and the type, uncertainty and complexity of the business. Thus, small business managers typically are generalistic, and they often lack certain specialized expertise that often become necessary in planning (Robinson & Pearce, 1984). Hence, we hypothesise:

Hypothesis 1: *Knowledge of strategic planning process significantly influences strategic planning in SMEs in Kenya*

Time Resources

Strategic planning is largely associated with large corporations and most theories associated with the subject have been developed for large firms (Mazzarol, 2003). Small firms are generally owned and led by owner-managers who are strategically myopic; they make strategic decisions based more on pragmatic intuition than academic principles. While this may seem a harsh comment, it reflects their lack of long-term vision as to where their business firm is headed, and their stronger orientation toward operational rather than strategic issues (Ennis, 1998). Such strategic myopia may be attributed to the managerial environment in which many small business owners find themselves; too often they are busy dealing with the daily challenges associated with running their firm to find sufficient time to consider their future strategic directions. However, the ability to think and act strategically is probably the most important attribute an owner-manager can have, and one that is critical to sustained business development (Ennis, 1998). Past research has demonstrated the relationship between time and strategic planning in SMEs. For example, Robinson & Pearce (1984), in their study, found out that most small firms did not plan due to lack of time, expertise, trust and openness. This assertion is confirmed by Risseeuw & Masurel (1994). They establsihed that small entrepreneurs were too involved with day-to-day operations to be able to spend time on the endeavor of strategic planning. Given the role of strategic instruments in large companies and the notion that rational decision-making should prevail in enterprises regardless of size, practitioners and academics alike have recently called for an increased use of strategic planning in SMEs (Kraus, Reiche, & Reschke, 2007). Hence, it is hypothesised that:

Hypothesis 2: *Time resources significantly influence strategic planning in SMEs in Kenya*

Firm Size

Firm size has long been considered as having an important influence on a firm's strategic processes, such processes would include planning (Gibson & Cassar, 2002). According to Mintzberg (1994), smaller firms tend to abandon strategic planning process because they operate in less complex environments and their internal operations are manageable by a single manager or a small group of managers without the need to engage in the formal strategic planning process. Therefore, small businesses would do well to focus on intuition and the emergence rather than engaging in a formal strategic planning process, particularly in turbulent environments (Bhide, 1994). However, formal strategic planning needs to blend with team development and effective management teamwork to create the concept of strategy in use. In order to develop a team, a minimum number of employees is needed, which is not always provided for in the case of small firms Aram & Cowen (1990). The greater available resources (staff, expertise, and time) and increased internal differentiation lead to increased planning (Debarliev & Trpkova, 2011). Previous studies (for example, Robinson & Pearce, 1984; Risseeuw & Masurel, 1994; Mathews & Scott, 1995; Falshaw, Glaister, & Tatoglu, 2006) have managed to confirm the positive association between business size and business planning. As firms become larger they have greater available resources and increased internal differentiation, which lead to increased planning (Mathews & Scott, 1995). Conversely, relatively smaller firms have resource gaps, which may include lack of staff and expertise or time (Robinson & Pearce, 1984). Risseeuw & Masurel (1994) observed that the smaller the firm, the less effort it spends on planning. They further confirmed the relationship when, after analysing results of a survey of 1,211 real estate agents in the Netherlands, they concluded that large firms plan more intensively than small firms. Thus, we hypothesize that:

Hypothesis 3: *Firm size moderates the relationship between knowledge of the planning process, time resources and strategic planning*

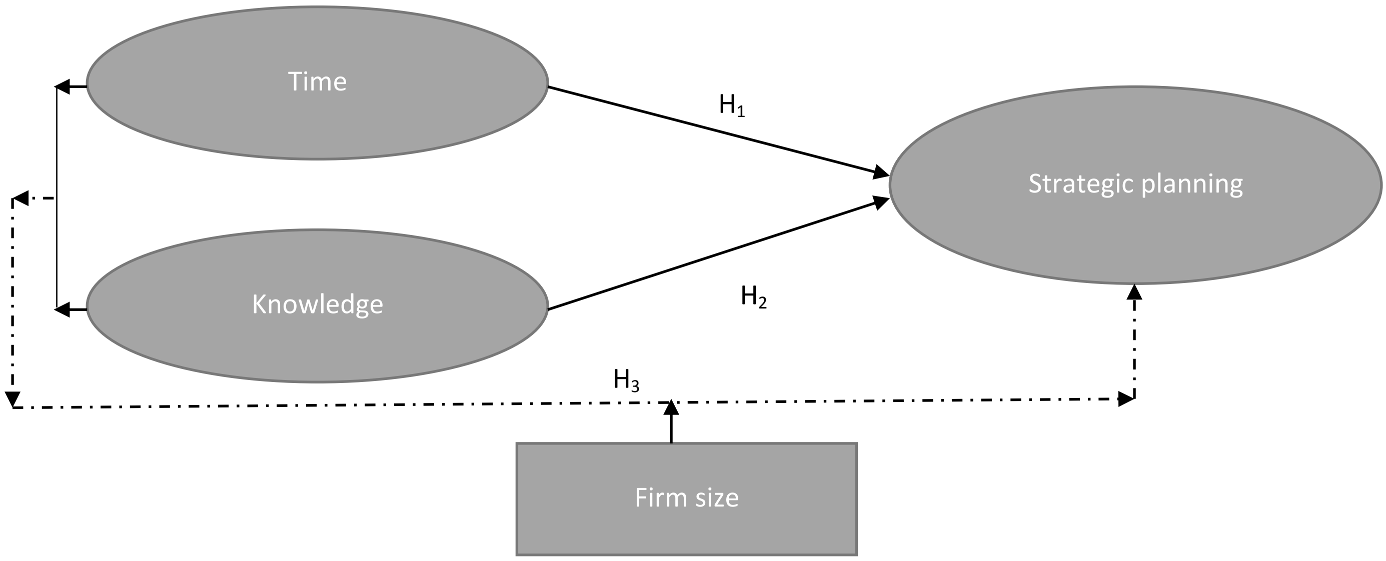

Figure 1: Hypothesised Model: Relationship between Time, Knowledge, Firm Size, and Strategic Planning

METHODOLOGY

The study used descriptive survey design with mixed methods. The major emphasis of exploratory research studies is on the discovery of ideas and insights (Kothari, 2004). The population for the study were Small and Medium Enterprises in Kenya, using members of Kamukunji Jua Kali Association as the target population. Kamukunji Jua Kali was started by the former detainees of the British government during the mau-mau rebellion. The target population was sufficiently representative of SMEs in Kenya and it was the most developed with comprehensive official statistics and a regularly updated list of membership aptly maintained by the association's officials (Kimemia, Gakure & Gichuhi, 2014). The estimated registered members of the association are 1800 enterprises (Kamukunji Jua Kali Association, 2015).

The sampling technique that was used in the study was simple random sampling and the sample size was 317 enterprises. The data collection instrument for the study was a two-part self-completion questionnaire.

Quantitative data was analyzed using descriptive and inferential statistics. The statistics were computed using SPSS version 23. In order to conduct inferential statistics analysis, the study employed moderated multiple linear regression (*MODLR*) model.

RESULTS

Business Planning, Formality and Review of Business Plans Practices

From the results shown in Table 1, we discuss business planning, formality and review of business plans in SMEs in Kenya.

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Table 1: Business Planning, Formality and Review of Business Plans

		Frequency	Percentage
Presence of a business plan	Having a business plan	89	28.7
	Not having a business plan	221	71.3
Formality of the business plan	Formal (i.e. written)	27	30.3
	Informal (i.e. unwritten/'in my head')	63	69.7
Timeframe of the business plan	Short-term	25	28.09
	Long-term	64	71.91
Review of the business plan	Half yearly or yearly	61	68.54
	Less than once every two years	28	31.46

Business planning refers to whether owner-managers' had a business plan for their businesses. As shown in Table 1 majority of the businesses had no business plans (71.3%). Formality of business plans refers to whether business plans were formal (that is, written) or informal (that is, unwritten, 'in my head' only). Of those with business plans, most were informal (69.7%). Timeframe refers to the planning period covered by business plans. In the study, two planning periods were compared: short-term only (for plans that covered periods 12 months or less) and long-term only (for plans that covered periods more than 12 months). From the results, majority of the plans were long-term plans (71.91%). The final investigation of strategic planning activity explored the frequency of owner-managers' review of business plans. Of those with plans, most reviewed their plans on a timely basis - half yearly or yearly (68.54%). From the findings, the study concludes that majority of the owner-managers had no business plan for their businesses. Of those with plans, most were informal, long-term and reviewed half yearly or yearly. Our findings were in agreement with the finding of Kang'ethe, Bwisa, Muturi, and Kihoro (2017) who, in their study, found that the adoption of strategic planning in SMEs in the manufacturing sector in Kenya to be low compared to large firms and public institutions. However, these findings are in contrast with past findings. For example, Elbanna (2010) found out that 82.3% of small organizations sampled had moved beyond daily managing and were planning for the future. In their study, Wang, Walker, and Redmond (2007) established that 67% of all business operators had a business plan while 33% had none. Of those with business plans, 50% were formal (i.e., written) and 50% were informal (i.e., unwritten/'in my head'). Additionally, 31% had plans that were short-term only, 16% had plans that were long-term only while 53% had plans that were both short-term and long-term. Of those with plans, 83% reviewed their plans on a timely basis (i.e., half yearly or yearly) while 17% did not (longer than every two years). In SMEs that claim to plan, plans are frequently *ad hoc* and intuitive rather than formally written, and provide a little basis upon which business performance can be measured or analyzed (Kelmar & Noy, 1990). Baker, Adams, and Davis (1993) studied the practice of strategic planning in US small high growth firms. The study found that most of these companies perform strategic planning; 95% of the companies which perform strategic planning have a written plan. This finding contradicts the current research findings. The research findings, thus, clearly showed that strategic planning among SMEs in Kenya was low.

Outcome of the Process of Strategic Planning Practices

On the basis of the results shown in Table 2, we discuss the outcomes of the process of strategic planning.

Table 2: Outcome of the Process of Strategic Planning Practices

	Percent				
	1	2	3	4	5
My business has a vision statement	16.8	57.1	2.9	16.8	6.5
My business has a mission statement	38.1	29.7	6.8	22.6	2.9
My business has set strategic objectives	1.0	31.3	2.3	30.0	35.5
My business has formulated strategies which it uses to achieve its strategic objectives	5.2	22.9	1.3	30.6	40.0

n=310;
1=Strongly Disagree, **2**=Disagree, **3**=Neither Agree nor Disagree, **4**=Agree, **5**=Strongly Disagree

Of the respondents, majority disagreed that the business had a vision statement (57.1%) and a mission statement (38.1%). However, most agreed that the enterprise had formulated strategic objectives (35.5%) and strategies (40%). This finding was in line with previous studies. Kang'ethe, Bwisa, Muturi, and Kihoro (2017) found out that SMEs in the manaufacturing sector had set objectives and had startegies through which the mission and obectives will be achieved. From his study, Berry (1998) studied the practice of strategic planning in small 'high tech' UK companies. The study found that most of these companies believed that strategic planning was either very important or essential. In terms of strategy, 80.67% had a long-term strategy developed in relation to products and markets. 38% indicated that these strategies were formal/explicit while 42% indicated that these strategies were informal/implicit. However, this research finding contrasted Kang'ethe, Bwisa, Muturi, and Kihoro (2017) findings. From their study 80.1% of the surveyed small and medium-sized firms had vision statements while 59.4% had mission statements.

Influence of Knowledge, Time and Size on Strategic Planning

In order to analyse the effect of the moderating variable on the relationship between independent variables and dependent variable, moderated multiple linear regression (*MODLR*) was used. The equation for *MODLR* is:

$$SP = \beta_0+\beta_1(KNO)_{i1}+\beta_2(TIM)_{i2}+\beta_1(KNO)(SIZ)_{i1}+\beta_2(TIM)(SIZ)_{i2}+\varepsilon$$

i = 1, 2, 3,……317
j = 1, 2,……3
KNO = Knowledge
TIM = Time
SIZ = Firm size
where X_{ij} is the value of the i^{th} case for the j^{th} predictor.

The results of the moderated multiple linear regression analysis were presented in Table 3.

Table 3: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
M_1	0.642^a	0.413	0.409	0.167
M_2	0.644^b	0.414	0.409	0.167

a. Predictors: (Constant), knowledge of the planning process, time resources,
b. Predictors: (Constant), knowledge of the planning process, time resources, firm size

From the results, the R^2 for Model M_1 was 0.413. This meant that predictor variables explained 41.3% of the variance in the independent variable (strategic planning) while 58.3% of the variation was explained by other factors outside the model. In addition, the R^2 for Model M_2 was 0.414, implying that the independent variables and the moderator variable explained 41.4% of the variation in the dependent variable. Table 4 showed the results of the ANOVA test.

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Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
M_1	Regression	5.994	2	2.997	107.837	0.000[b]
	Residual	8.533	307	0.028		
	Total	14.527	309			
M_2	Regression	6.018	3	2.006	72.143	0.000[c]
	Residual	8.509	306	0.028		
	Total	14.527	309			

a. Dependent Variable: strategic planning
b. Predictors: (Constant), knowledge of the planning process, time resources
c. Predictors: (Constant), knowledge of the planning process, time resources, firm size

From the results, the *p* value for the F statistic was <.05. In addition, Model M_1 showed the relationship between predictor variables and dependent variable was significant (F = 107.837, Sig. = 0.000, p=<0.05). Similarly, Model M_2 showed that the relationship between predictor variables and moderator variables was significant (F = 72.143, Sig. = 0.000, p=<0.05). These results implied that a significant proportion of the variances were explained by one or more predictor variables and the moderator variable. Furthermore, the Mean Square column showed that very much of the variation were explained by the Regression line than by the Residuals (2.997 compared to 0.028 and 2.006 compared to 0.028). This reinforced the conclusion that the models were good. The coefficient and collinearity results were shown in Table 5.

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
M_1	(Constant)	-1.588	0.204		-7.772	0.000		
	Time	-0.840	0.098	-0.064	-0.861	0.390	0.344	2.904
	Knowledge	0.876	0.094	0.693	9.300	0.000	0.344	2.904
M_2	(Constant)	-1.604	0.205		-7.821	0.000		
	Time	-0.088	0.098	-0.067	-0.902	0.368	0.344	2.910
	Knowledge	0.881	0.094	0.697	9.335	0.000	0.343	2.914
	Size	0.022	0.023	0.041	0.925	0.356	0.997	1.003

a. Dependent Variable: strategic planning

As earlier indicated, the *t* of each coefficient *β* needs to be >2 or <-2 and the significant level <0.05. From the results, the *β* coefficient for size was not significant (*β* = 0.022, *t* = 0.925, Sig. = 0.356) implying that size was not significant when moderating the relationship between predictor variables and dependent variable. Multicollinearity is another assumption of the regression and it means existence of a "perfect" or exact, linear relationships among some or all explanatory variables of a regression model (Frisch, 1991). Collinearity statistics was used to determine existence of multicollinearity. Tolerance is the percentage of the variance in a given predictor that cannot be explained by the other predictors. Thus, the high tolerances showed that small percent of the variance in a given predictor can be explained by other predictors. When the tolerances were close to 0, there is high multicollinearity and the standard error of the regression coefficient would be inflated (Debarliev & Trpkova, 2011). In this study, most tolerances were close to 1. A variance inflation factor (VIF) greater than 3 was usually considered problematic, and the highest VIF in this study was 2.914. The collinearity diagnostic confirms that there was no problem of multicollinearity. The results of the hypotheses were outlined in Table 6.

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Table 6: Hypothesis Result

Hypotheses		Result
H_1	*Time resources significantly influences strategic planning in SMEs in Kenya*	Not supported
H_2	*Knowledge of strategic planning process significantly influences strategic planning in SMEs in Kenya*	Supported
H_3	*Firm size moderates the relationship between knowledge of the planning process, time resources and strategic planning*	Partially supported

CONCLUSION AND IMPLICATIONS

Consistent with the findings of Kang'ethe, Bwisa, Muturi, and Kihoro (2017), this study showed that majority of the SMEs in Kenya had no business plan. Our findings, however, did not support Elbanna (2010);, Wang, Walker and Redmond (2007); and Baker, Adams and Davis (1993) findings that small organizations were planning for the future and had business plans. Hence, this study lent support to the argument of Stonehouse and Pemberton (2002) that a lack of awareness of strategic planning, especially its tools and process, may be a fundamental reason for not planning. This showed that there was clearly a need for SMEs to undergo training on strategic planning, and in particular preparing business plans. Our regression results showed that there is a statistically significant relationship between knowledge of strategic planning process and strategic planning in SMEs in Kenya. However, time resources had no significant relationship. The regression results also confirmed that firm size was partially significant when moderating the relationship between time resources, knowledge of strategic planning process and strategic planning in SMEs in Kenya. The findings on the regression analysis seem to both concurred and contradicted previous studies. For instance, our results did support Debarliev and Trpkova (2011) findings that established a positive and statistically significant relationship between firm size and strategic planning. From their findings, they concluded that larger firms have more resources and internal differentiation that resulted in increased planning. In a study of 214 German industrial enterprises it was found that instruments of strategic planning are mostly frequently applied in the legal form of a limited (GmbH) and incorporated (AG) company. Additionally, the results showed a positive correlation between a company's workforce size and strategic planning (Kraus, Reiche, & Reschke, 2007). On the other hand, our findings contradict Dincer, Tatoglu, Glaister, Mehmet, and Selim (2008) findings. In their study of Turkish firms, firm size had a negative and indirect effect on strategic planning. Hence, they concluded that large firms using more flexible strategic planning process achieved relatively higher performance than those using more informal strategic planning process. Overall, our study's findings represented an important contribution to understanding of strategic planning activities of SMEs in Kenya and how time, knowledge and size affects it. Beyond simply re-confirming findings from previous studies, the present findings had implications for strategic planners, those interested or involved in the overall growth and development of the small business sector, organizations and academic institutions. For example, since some firms may not have enough experience of strategic issues and processes, they would do well to make substantial investment in developing structured strategic planning systems to aid in formulating short and long-range plans. This investment includes training owner-managers in strategic planning theory and practice, hiring qualified staff for strategic planning, and designing strategic planning procedures and processes. Given that strategic planning is a vital part of business success, assistance (training on how to develop a business plan) should be afforded to small business operators. Finally, academic institutions need to consider the above finding when designing their courses, especially strategic management courses.

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