



**STRATEGIC MANAGEMENT ADOPTION AND PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES  
IN STAREHE CONSTITUENCY - NAIROBI CITY COUNTY, KENYA**

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**ABSTRACT**

*This research project study sought to investigate the effect of strategic management adoption on the performance of SMEs in Starehe Constituency. This research project used descriptive survey design on the target population of 1,099 SMEs and sample sizes of 188 business proprietors were engaged. Data collection was done through administration of a questionnaire tool bearing well framed questions in a likert-scale model. The study employed stratified random and simple random sampling. The researcher used regression analysis model to establish the relationships between the dependent and independent variables. The primary data was collected by use of self-administered semi-structured questionnaire. The study used content and face data validation while data reliability was obtained by use of the Cronbach's Alpha ( $\alpha$ ) to measure the co-efficient of internal consistency. The research study used descriptive statistics which included mean, median and standard deviation to describe the basic features of the data under study to aid in drawing conclusion. The data was analyzed using SPSS and Microsoft Excel and the study findings presented using tables, charts, graphs and percentages. Regression results also showed a positive and statistically significant relationship between SME performance and customer focus, learning and growth, cost leadership, creativity and innovation were important in determining performance of SMEs in Nairobi City County, Kenya. The study concluded that SMEs in Nairobi City County, Kenya, had adopted strategic approaches in their business activities although at various levels. The results of the strategic management adoption has proven a strong determinant of performance of these SMEs. The study also concluded that there were challenges faced by SMEs in Nairobi City County in their quest to adopt strategic management practices such as limited access to finances and business coaching on entrepreneurship. It was recommended that the management of the SMEs should ensure that within their resource capacity should adopt management strategies which promote and improve their business performance*

**Key Words:** *SMEs Performance, Strategic management practices, Customer Focus, Cost Leadership and innovation*

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## INTRODUCTION

Globalization phenomenon has made the modern-day business environment to become highly dynamic at a fast pace. For instance unending technological changes and continuous creation of trading blocs which tilt the dynamics of previous trading partners has led to creation of new competition and new business models. Notwithstanding the prevailing business environment, every business organization has as a major concern its survival based on competitive performance. Business sustainability can only be guaranteed through superior performance and profitable over time. For this reasons alone, business organizations need to adapt to the changes within the operating environment that are both radical and chaotic in nature. The only opportunity is for the organizations to have competitive advantage by continuously able to renew its competitive advantage in the market (Kitua, 2014).

According to World Bank, (2013), SMEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP. The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. In Kenya these businesses play a central role in the economy and are a major source of entrepreneurial skills, innovation and employment. Therefore, this study seeks to establish the strategic management approaches used by SMEs in Nairobi City County and how they have influenced their performance.

Strategic management is a set of managerial decisions and actions that influence the performance of an organization in the long term (Capon, 2008). It entails aspect like environment scanning, formulation of organizational strategy, implementation of the strategy, its review and

control. Strategic management has evolved over the years as a concept and body of knowledge (Pearce and Robinson, 2002). Strategic management is futuristic and is a means through which organizations achieve their goals and objectives. Strategy is a roadmap that ensures organizational aims are attained through efficient and effective organizational delivery of its planned activities.

### Statement of the Problem

Strategic management is a set of managerial decisions and actions that influence the performance of an organization in the long term (Capon, 2008). It entails activities such as environment scanning, formulation of a firm's strategy, implementation of the strategy, its review and control. Strategic management is futuristic and through its practice, SMEs are able to achieve their goals and objectives. Strategy is a roadmap that ensures organizational aims are attained through efficient and effective delivery of its planned activities thus yielding a sustainable competitive advantage and performance to the business. Theoretical and empirical evidence supports the argument that adoption of superior strategies leads to improved organization performance. Coven & Slevin (1991) argued that there is a relationship between strategy and performance.

According to Johnson *et al.* (2008) adoption of strategic management is critical to firm's performance while Pearce & Robinson (2002) argues that strategic management requires efficient systems to counter unpredictable events, creation of systems that can sustain a company's operations and minimize the risks involved. According to Vickery, Droge & Markeland (1993) activities associated with high performing strategies put emphasis on use of technologies, discovery of new markets, excellent customer service and support, extensive advertising, use of external finance, emphasizing cost effectiveness and concern with employee productivity.

Generally, SMEs struggle to operate, to manage and grow their businesses operations, to efficiently and effectively deliver quality products and services consistently and on time to their customers. This mode of business operation is due to many owner / managers having to overlook some necessary and critical business strategies as they perceive them as expensive and time consuming (Gure & Karugu, 2018).

World Bank (2015) argues that SMEs are responsible for driving innovation and competition in many economic sectors and about 600 million jobs are needed in the next 15 years to absorb a growing global workforce. In Kenya, SMEs businesses account for about 48 percent of all businesses; with a majority of these being managed or owned by the young people aged between 25 and 34 years (Njonjo, 2010). Three out of five of these businesses fail within the first three years of operation and the remaining firms have 80 percent of them fail before the fifth year attributed to poor performance and consistent losses (Abor & Quartey, 2014). Strategies which result in high performance are identified with activities that include emphasis on product quality, product and service innovations that meet changing customer needs are associated with market share increase arising from attracting new customers and retaining existing ones (Chell *et al*, 1991). Most firms especially SMEs in developing countries suffer from: lack of employee involvement and participation in quality improvement efforts; lack of management commitment and motivation; perception of quality as an optional extra; traditional belief that quality costs money; lack of cooperation between suppliers and dealers, management and trade unions; unorganized and indifferent customers; lack of political support; and lack of established standards (Lakhe & Mahanty, 1994; Djerdjour, 2000). Although these studies made a great contribution in the different contexts that they were conducted, they did not deal with the SME sector particularly in Kenyan context while

considering composite aspects thus leading to a limited literature in the area. This is the contextual research gap that this research aimed to tackle by studying SME's strategic management adoption and its relationship to their performance broadly in Nairobi City County.

## LITERATURE REVIEW

The research study was anchored on the following theories: Porter's Generic Competitive Strategies, resource- Based View Approach Theory, the Theory of the Learning Organization and The Balanced Scorecard.

## METHODOLOGY

This study used descriptive research design because it aimed at collecting data and describing the behaviour of the subjects under study without influencing it in any way. The target population of this study comprised 1,099 licensed SMEs operating stationery and printing businesses in Starehe Constituency, Nairobi City County, Kenya. A sample size of 188 respondents was chosen for this study from the target population . The study used stratified random and simple random sampling. From the target population, a random sample representing 17.1% of each stratum was selected . According to Mugenda and Mugenda (2003) 10-30% is justified to be a true representative of the population.

The study used Primary data collected using a questionnaire designed by making use of Likert-scale questions. According to Mugenda & Mugenda (2003) questionnaires have the advantage of time conservation, convenience, as well as anonymity. Data collection was done from business owners, founder-directors and managers of the SMEs thus the validity of the collected data and the expected results was enhanced. The content validity of the questionnaire was ascertained by the researcher working closely with the university supervisor in framing and wording of the

questions while face validity was confirmed at data collection, inspecting and cleansing stages. Validity is a measure of the degree to which data obtained from an instrument accurately, correctly and meaningfully represent the theoretical concept and the variables under study. Mugenda and Mugenda, (2003), where validity has been established, any inferences made from such data will be accurate and meaningful. To ensure the reliability of the study results, the study used Cronbach's alpha test to establish the reliability of the questionnaire. Under each of the variable under study, an average Cronbach Alpha value of 0.84 was produced. Alpha above the value of 0.7 is considered acceptable (George & Mallery, 2003).

The study made use of descriptive and inferential statistics assisted by Microsoft Excel and Statistical Package for Social Sciences (SPSS) version 22 applications Descriptive statistics which included percentages, mean, standard deviation and frequencies to describe the basic features of the quantitative data under study. This was done by tallying up responses, computing the percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions. Inferential statistics used regression analysis to establish the relationship between dependent and independent variables. Data and information presentation from the study findings used tables, bar-charts, pie-charts and prose-forms.

## **RESULTS AND DISCUSSION**

### **Strategic management adoption and Performance of SMEs**

The study was aimed at establishing the effect of strategic management adoption to the performance of SMEs within Nairobi City County, Kenya. To determine the position held by the respondent in the business, the researcher asked

the respondents to indicate their position. The findings established that majority of the respondents, 62% were Founder Directors (owners), 29% were supervisors and 9% were in-charge. These findings strongly gave validity to the information sought by this study since it was given by officers with authority in these SMEs.

The study sought to determine the period of existence of the SMEs business in Nairobi City County ranging from less than a year, between 1-3 years, between 4-5 years and more than 5 years. The findings indicated that 43% of the SMEs had existed for between 1-3 years, 30% had existed for less than a year, 16% had existed for period between 4-5 years while 11% had existed for more than 5 years. A majority of the SMEs have existed for between one year and three years and the number decreases as number of years increased. These findings indicated SMEs were likely to wind up their business between 1 and 3 years at the rate of 73% and only 37% of the SMEs were able to continue operations beyond 3 years. This means that certain factors affected SMEs negatively not to exist beyond 3 years better still grow into large enterprises. The study finally sought to establish the number of employees the SMEs had employed in its businesses activities. It research established that 78% of the SME businesses have between 1- 9 employees and 22% had between 10 - 49 employees. These findings indicated SMEs had a lot of room to grow within this category of business of even large enterprise.

### **Customer Focus Strategy**

A Likert-Scale of 1- 5 was used whereby (5) strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree. The findings were as tabulated in table 1 below:



**Table 1: Adoption of Customer Focus Strategy**

Customer Focus Strategy / Statement	Strongly Disagree	Disagree	Neutral (Don't know)	Agree	Strongly Agree	Mean	Std. Deviation
increased Efficiency and Effectiveness	3%	8%	12%	60%	16%	3.77	0.940
Improved Customer Satisfaction	5%	2%	9%	63%	21%	3.93	0.909
Increased Market Share	4%	5%	15%	62%	15%	3.78	0.907
Increased Profitability	2%	5%	10%	63%	20%	3.94	0.829
<b>Average</b>						<b>3.85</b>	<b>0.896</b>

*Source: Researcher (2019)*

From the table 1 above, seventy six (76%) percent of the respondents agreed that there was an increased efficiency and effectiveness in business as a result of adoption of customer focus strategy. Eighty four (84%) percent of the respondents agreed that customer focus strategy adoption had led to improved customer satisfaction. Seventy six (76%) percent of the respondents agreed that the businesses had achieved an increased Market Share due to adoption of the customer focus strategy. Majority of the respondents eighty three (83%) percent of the respondents agreed that adoption of the customer focus strategy had led to

increased business profits. The overall mean was 3.85 with a standard deviation of 0.896. These findings strongly indicate that customer focus strategy adoption is important in determining the performance of SMES in Nairobi City County.

#### **Training and Learning Strategy**

A Likert-Scale of 1- 5 was used whereby (5) strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree. (5) Strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree was employed. The findings were as tabulated in table 2 below:

**Table 2: Adoption of Training and Learning Strategy**

Training & Learning strategy / Statement	Strongly Disagree	Disagree	Neutral (Don't know)	Agree	Strongly Agree	Mean	Std. Deviation
increased Efficiency and Effectiveness	4%	8%	11%	59%	18%	3.79	0.970
Improved Customer Satisfaction	2%	9%	10%	59%	20%	3.87	0.906
Increased Market Share	3%	5%	13%	68%	12%	3.82	0.819
Increased Profitability	3%	13%	3%	65%	16%	3.78	0.982
<b>Average</b>						<b>3.81</b>	<b>0.919</b>

*Source: Researcher (2019)*

From the table 2 above, seventy seven (77%) percent of the respondents agreed that there was an increased efficiency and effectiveness in business as a result of adoption of training and learning strategy. Seventy eight (78%) percent of the respondents agreed that training and learning strategy adoption had led to improved customer satisfaction. Eighty (80%) percent of the respondents agreed that the businesses had achieved an increased Market Share due to adoption of the training and learning strategy. Majority of the respondents Eighty one (81%) percent of the respondents agreed that adoption of the training and learning strategy had led to increased business profits. The overall mean was 3.81 with a standard deviation of 0.919. These findings strongly indicate that training and learning

strategy adoption is important in determination of the performance of SMES in Nairobi City County. Some of the respondents pointed out that training and learning requires financials resources, which is not available to them. Others also cited limited coaching and mentorship programs on entrepreneurship being not accessible to them since the available ones are expensive

### Cost Leadership Strategy

A Likert-Scale of 1- 5 was used whereby (5) strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree. (5) strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree was used. The findings were as tabulated in table 3 below:

**Table 3: Adoption of Cost Leadership Strategy**

Cost Leadership Strategy / Statement	Strongly Disagree	Disagree	Neutral (Don't know)	Agree	Strongly Agree	Mean	Std. Deviation
increased Efficiency and Effectiveness	4%	7%	12%	58%	19%	3.80	0.966
Improved Customer Satisfaction	2%	8%	13%	57%	21%	3.87	0.906
Increased Market Share	7%	10%	5%	57%	21%	3.76	1.108
Increased Profitability	1%	3%	9%	69%	17%	3.97	0.731
<b>Average</b>						<b>3.85</b>	<b>0.928</b>

**Source: Researcher (2019)**

From the table 3 above, seventy seven (77%) percent of the respondents agreed that there was an increased efficiency and effectiveness in business as a result of adoption of cost leadership strategy. Seventy eight (78%) percent of the respondents agreed that cost leadership strategy adoption had led to improved customer satisfaction. Seventy eight (78%) percent of the respondents agreed that the businesses had achieved an increased Market Share due to adoption of the cost leadership strategy. Majority of the respondents, that is, eighty six (86%)

percent of the respondents agreed that adoption of the cost leadership strategy had led to increased business profits. The overall mean was 3.85 with a standard deviation of 0.928. These findings strongly indicate that cost leadership strategy adoption is important in determining the performance of SMES in Nairobi City County. Some of the respondents indicated that to be a cost leader, they needed use technology more in their business operations. However, they observed that it requires finances to do so and they have

financial constraints to adopt technology necessary to make them cost leaders.

**Creativity and Innovation Strategy**

A Likert-Scale of 1- 5 was used whereby (5) strongly Agree, (4) Agree, (3) Neutral (Don't know),

(2) Disagree, (1) Strongly Disagree. (5) strongly Agree, (4) Agree, (3) Neutral (Don't know), (2) Disagree, (1) Strongly Disagree. The findings were as tabulated in table 4 below:

**Table 4: Adoption of Creativity and Innovation Strategy**

<b>Creativity &amp; Innovation Strategy / Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral (Don't know)</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>Std. Deviation</b>
increased Efficiency and Effectiveness	6%	4%	14%	59%	17%	3.76	0.994
Improved Customer Satisfaction	4%	6%	12%	58%	20%	3.85	0.952
Increased Market Share	8%	9%	10%	56%	17%	3.66	1.107
Increased Profitability	3%	5%	13%	63%	16%	3.84	0.861
<b>Average</b>						<b>3.78</b>	<b>0.978</b>

*Source: Researcher (2019)*

From the table 4 above, seventy six (76%) percent of the respondents agreed that there was an increased efficiency and effectiveness in business as a result of adoption of creativity and innovation strategy. Seventy eight (78%) percent of the respondents agreed that creativity and innovation strategy adoption had led to improved customer satisfaction. Seventy three (73%) percent of the respondents agreed that the businesses had achieved an increased Market Share due to adoption of the creativity and innovation strategy. Majority of the respondents seventy nine (79%) percent of the respondents agreed that adoption of the creativity and innovation strategy had led to

increased business profits. The overall mean was 3.78 with a standard deviation of 0.978. These findings strongly indicate that creativity and innovation strategy adoption is important in determining the performance of SMES in Nairobi City County.

**Regression Analysis**

The researcher conducted multiple regression analysis to establish the influence of adopting strategic management practices on business performance of SMEs and the findings are indicated in subsequent sections;

**Table 5: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
<b>Coefficient</b>	0.898	0.851	0.811	0.596

*Source: Researcher (2019)*

Table 5 above shows the fitness of the regression model in explaining the variables under study. The results indicate that the independent variables i.e. Customer focus, training and learning, cost leadership, creativity and innovation were satisfactory in explaining performance of SMEs in

Nairobi City County. An R square of 0.851 means that 85.1% of all the changes in organizational performance of SMEs in Nairobi City County are explained by the independent variables of the study.



**Table 6: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Significance
Regression	638.03	6	560.400	676.016	0.0000
Residual	281.41	341	0.950		
<b>Total</b>	<b>919.44</b>	<b>347</b>			

**Source: Researcher (2019)**

The ANOVA statistics presented in the table 6 above indicates that the overall model was statistically significant as supported by a probability (p) value of 0.000. The reported p value is less than the conventional probability of 0.05

significance level hence significant in the study. These results indicate that the independent variables are good predictors of the performance of SMEs in Nairobi City County.

**Table 7: Regression Coefficients**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std Error	Beta		
constant	7.48	0.675		8.013	0.000
Customer Focus	0.656	0.022	0.811	14.15	0.000
Training and Learning	0.876	0.033	0.121	11.04	0.000
Cost Leadership	0.945	0.029	0.128	1.150	0.000
Creativity and Innovation	0.859	0.031	0.038	4.420	0.000

**Source: Researcher (2019)**

Regression of coefficients results as presented in Table 7 above shows that there is a positive relationship between SME performance and Customer Focus, Training and Learning, Cost Leadership and Creativity and Innovation whose beta coefficients are 0.656, 0.876, 0.945 and 0.859 respectively.

Therefore, the resultant regression becomes;

$$Y = 7.480 + 0.656X_1 + 0.876X_2 + 0.945X_3 + 0.859X_4$$

Where Y is the SMEs performance of in Nairobi City County, Kenya;  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  are the regression coefficients and X1, X2, X3 and X4 represent Customer Focus, Training and Learning, Cost Leadership and finally Creativity and Innovation strategies respectively. This implies that when all the variables of the study are held constant, performance of SMEs in Kenya will be at the intercept which is 7.480. In addition, a unit improvement in Customer Focus strategy while all other factors held constant results in 0.656

increase in performance of the SMEs, a unit increase in Training and Learning strategy with other factors held constant leads to 0.876 increase in performance of the SMEs. Correspondingly, a unit increase in Cost Leadership strategy with other factor not varying, translates into an increase of 0.945 in performance of SMEs in Kenya while a unit increase in adoption of Creativity and Innovation strategy with other factors held constant leads to a 0.859 increase in performance of SMEs in Kenya.

### **SMEs Performance**

On customer focus as a factor affecting performance of SMEs, the study established that customer focus strategy is widely adopted by most SMEs in Nairobi City County and that it had resulted in improved business performance. The respondents indicated that profitability increased at a mean of 3.94, improved customer satisfaction was represented by a mean of 3.93, increased

market share stood at a mean of 3.78 of the respondents while a mean of 3.77 in response indicated that efficiency and effectiveness increased in their business operations.

On learning and growth as a factor affecting performance of SMEs, the study found out that learning and growth strategy is adopted by majority, a high mean of 3.81, of the SMEs in Nairobi City County and that as a result business performance improved.

On cost leadership as a factor affecting performance of SMEs, the study discovered that the most, a high mean of 3.85, of the SMEs in Nairobi City County have employed the low cost leadership strategy to a significant level through reduction of operational costs. This indicates that the SMEs have adopted low cost leadership strategy to a great extent and gained from their improved business performances.

On creativity and innovation as a factor affecting performance of SMEs, the study established that creativity and innovation strategy adoption was widely practiced by SMEs, a high mean of 3.78, in Nairobi City County and that it had resulted in better business performance. This strategy enhanced the way in which SMEs were being operated in terms of coming up with new ways of doing business efficiently and effectively as well as exploring possible revenue generating products and services.

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## CONCLUSIONS

The study concluded that strategic management adoption practices which includes customer focus, learning and growth, cost leadership, creativity and innovation have significant influence to the performance of SMEs in Nairobi City County, Kenya. Customer focus and cost leadership strategies adoption was largely practiced by the SMEs to enhance their performances followed by training and learning strategy and finally creativity and innovation strategy.

## RECOMMENDATIONS

There is need for SMEs to adopt strategic management practices in their operations. Strategic management adoption has been identified to determine the performance of SMEs financially, increase in customer satisfaction levels, improvement in efficiency and effectiveness and market share. The management of these enterprises should ensure that short, medium and long term business goals are well aligned to the strategic management practices adopted. The study also highly recommended adoption of the balance scorecard by the SMEs as a good tool for taking care of the various stakeholders needs and enhance their performance. However, the management of these enterprises need to carefully evaluate the strategies to pursue based on their capacity in order to guarantee the expected performance outcomes.

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