

**ADOPTION OF FORMAL STRATEGIC MANAGEMENT
PRACTICES AMONG THE SMALL AND MEDIUM ENTERPRISES
WITHIN MOMBASA COUNTY IN KENYA**

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A Research Project Submitted in Partial Fulfillment of the Requirements for the Award of the
Degree of Master of Business Administration, School Of Business, University of Nairobi

November 2011

DECLARATION

I, the undersigned, declare that this is my original work and that it has not been submitted for a degree in this or any other University for examination.

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DEDICATION

This research project is dedicated to my loving husband Nephath Irungu and my lovely two sons Pious Kihara and Brian Ndung'u.

ACKNOWLEDGEMENT

First, my gratitude goes to the Almighty God for His continued guidance and sufficient grace that have seen me throughout the journey from the beginning of the course to the completion of the project.

Secondly, I wish to express my heartfelt gratitude to my dear husband Nephath Irungu for his immense support and encouragement throughout the course time. I appreciate the patience demonstrated by my lovely sons Pious Kihara and Brian Ndung'u during my absence in their lives as I burnt the midnight oil to beat the course deadlines.

Thirdly, my gratitude goes to my supervisor Dr. Jackson Maalu for his dedication, guidance and constructive critiquing of this research project that has made it a successful endeavour.

Last but not least, my gratitude goes to all the small and medium enterprises within Mombasa County who spared their otherwise busy schedule to participate in this research project. I also acknowledge the support given by the Kenya National Bureau of Statistics and specifically Mr. Konde for availing the sampling frame that enabled me to collect the necessary primary data with ease.

To all of you I say, 'May the Almighty God richly bless you and make your life prosperous'. Thank you very much.

LIST OF ABBREVIATIONS

GOK	-	Government of Kenya
KLGRP	-	Kenya Local Government Reform Programme
ILO	-	International Labour Organizations
KNBS	-	Kenya National Bureau of Statistics
NDP	-	National Development Programme
SME	-	Small and Medium Enterprises
UNDP	-	United Nations Development Programme
USA	-	United States of America

ABSTRACT

This study sought to achieve two objectives which were to determine the extent of adoption of formal strategic management practices by the SMEs in Mombasa County and to establish the challenges encountered in adopting and implementing formal strategic management practices. Target respondents were drawn from the four divisions constituting the Mombasa County namely Mvita which is located within the Island, Changanwe, Kisauni and Likoni. The respondents comprised the owners or top management staff of the organization. No differences were observed in the responses based on the geographical location of the organizations. In this report, the terms enterprises, firms, and organizations have been used interchangeably to mean small and medium enterprises.

The report consists of both primary and secondary data aimed at establishing the knowledge gap and achieving the above mentioned objectives. A semi structured questionnaire consisting of closed and open ended questions was used to collect primary data while an extensive literature review was done to compile the report on secondary data. The collected primary data was analyzed through the SPSS tool for quantitative variables while qualitative responses were analyzed through content analysis.

The study found out that 53% had documented their strategy process in form of written plans and objectives. However, the communication of the plans was not elaborate as 53% communicated by word of mouth indicating an informal communication system. The researcher thus concludes that the extent of adoption of formal strategic management practices among SMEs within Mombasa County is still less than 50%. Government legislation and regulations, resistance to change, resource inadequacy and organization culture ranked high in order of most challenging factors.

This study faced some challenges such as lack of responses or unwillingness by some respondents to provide full information. The targeted respondents who were the owners or the top management staff were not available in some instances or were too busy to fill

the questionnaire. The researcher also faced time constraints which limited the depth of the study.

The study proposes further research on relationship between formal strategic management and organization performance in small and medium enterprises. More research should be done on the adoption of formal strategic management practices to ascertain consistency in the adoption process. This study could also be replicated elsewhere aiming at establishing consistency with these finding and factors that have led to the increased adoption of strategic management practices.

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CHAPTER ONE: INTRODUCTION

1.1 Background

The Kenyan business environment has experienced many changes among them: globalization, increased competition, and accelerated implementation of economic reforms by the government, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets (Aosa, 1992). Technological changes, changes in consumer needs, increased operation costs and the ever escalating fuel prices in the international markets have also influenced the way of doing business in Kenya. Competition has become stiffer and industries are becoming more concentrated.

These environmental changes shape opportunities and challenges facing organizations. For organizations to survive, they need to adjust to these changes. Research studies have indicated that adoption of formal strategic management practices enables organizations to remain competitive and survive in the midst of turbulent environmental changes (Ansoff & McDonnell 1990; Bateman & Zeithmal, 1993).

1.1.1 Formal Strategic Management Practices

The formality of strategic management systems varies widely among companies (Pearce & Robinson, 2005). Formality refers to the degree to which participants, responsibilities, authority and discretion in decision making are specified. Greater formality is usually positively correlated with the cost, comprehensiveness, accuracy and success of planning. A number of forces determine how much formality is needed in strategic management. These forces include; the size of the organization, its predominant management styles, the complexity of its environment, its production process, its problems, and the purpose of its planning system.

In particular, formality is associated with the size of the firm and with its stage of development. Methods of evaluating strategic success also are linked to formality. Some firms, especially smaller ones, follow an entrepreneurial mode. They are basically under the control of a single individual and they produce a limited number of products or services. In such firms, strategic evaluation is informal, intuitive, and limited. Very large firms, on the other hand, make strategic evaluation part of a comprehensive, formal planning system, an approach that Mintzberg (1985) called the planning mode. Mintzberg also identified a third mode, the adaptive mode, which he associated with medium-sized firms in relatively stable environments. It is not unusual to find different modes within the same organization.

Research studies indicate that organizations using strategic management concepts are more profitable and successful than those that do not (Schwenk & Schrader, 1993, Miller & Cardinal 1994, Peel & Bridge, 1998). Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as, an enhanced awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships. Strategic management enhances the problem-prevention capabilities of organizations because it promotes interaction among managers at all divisional and functional levels. Bateman and Zeithmal (1993) are of the view that organizations that employ formal strategy development perform better both in market share and financial returns. This is because managers make well informed decisions. Organizations become more flexible and responsive as they develop a more external orientation. However, despite these many benefits of strategic management, some firms still do not engage in strategic management and some do strategic management but receive no support from managers and employees.

For a firm to be viewed as having adopted complete formal strategic management practices the following factors should be seen dominating in the organization: Documentation of the strategy; intensive development of integrated strategies at various levels within the organization; the ability to take a long term view appropriate to the

organization, possibly three to ten years and appropriate communication throughout the organization.

1.1.2 Small and Medium Enterprises Sector in Kenya

The definition of SMEs varies from country to country and the classification may be based on the firm's assets, number of employees or annual sales. The International Finance Corporation defines SMEs as firms with less than 300 employees and total assets less than US \$ 15 million. In smaller economies, SMEs are defined as firms with less than 20 employees (Mathenge, 2008). A national conference on social dimensions on development held in Nairobi in 1994 defined small-scale enterprises as those employing up to ten workers (GOK 3 1994). Kasende (2001) widely defines SMEs in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location and the market share. The country context plays a significant role in determining the nature of these characteristics, especially the size of the investment in capital accumulation and the number of employees. He argues that for developing countries, small scale generally means enterprises with less than 50 workers and medium sized enterprises mean those that have 50-99 workers. For the purpose of this research, this definition will be adopted.

In most African countries, and particularly in Kenya, SMEs account for a significant share of production and employment and are therefore directly connected to poverty alleviation. For the poor population, in the rural areas, SMEs are also very relevant for employment and as an income source. SMEs are accountable for above 50 percent of manufacturing gross domestic product. It is estimated that in Kenya small enterprises generate 12% to 14% of the national income (Daniel & Mead, 1998)

The decline in employment levels within the formal sector since year 2000 due to company closures and retrenchments attributed to low capacity utilization has resulted in SMEs sector assuming a greater prominence in providing a source of livelihood to many families. There is therefore need to support the growth of SMEs so as to enable the sector to contribute meaningfully to national economic development (World Bank, 2004).

The Economic Survey (2008) identifies that the major sources of growth for the year 2007 were transport and communication, taxes on products, wholesale and retail trade, manufacturing which contributed 23.3, 23.2, 15.7 and 8.8 per cent respectively. The SMEs made a significant contribution to this economic growth in 2007 and more gains will be made towards the government's strategy of Vision 2030.

The development of the SMEs varies greatly throughout Africa. According to an article which appeared in a UN based booklet 'handbook for local investors', SMEs are flourishing variedly well in various countries in Africa. In South Africa, Mauritius and North Africa, these enterprises are doing well. This could be attributed to fairly modern financial systems and clear government policies in favour of private enterprise.

In the journey towards revitalizing a well oiled SME sector, the Kenya Local Government Reform Programme (KLGRP) has been particularly relevant. This was spurred in 1999 with a deliberate policy priority focusing on reducing poverty and unemployment going hand in hand with accelerating economic growth. The KLGRP reforms brought about the introduction of the Single Business Permit as a response to business licensing problems faced by SMEs in the start up phase as they had to get multiple licences before opening shop draining the initial business inertia.

Despite the significant role played by the SMEs, the sector has continued to experience many binding constraints that have inhibited its full potential. According to Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction, several challenges facing the micro and small enterprises were highlighted. These challenges also extend to the medium enterprises and include unfavourable policies, inhibitive legal and regulatory framework, limited access to financial services and markets, inadequate access to skills and technology, insecurity of land tenure, poor access to infrastructure, inadequate business know-how and linkages with large enterprises, gender inequality, limited access to information, impact of HIV/AIDS pandemic, unsatisfactory occupational health and safety standards (ILO, 2008).

1.1.3 The Mombasa County

Located on the Indian Ocean coast of Kenya, Mombasa is a city of great economic potential. A deepwater port, it is the centre of Kenya's coastal tourism and has a multi-country hinterland containing over 50 million people. Mombasa County is situated in the South-Eastern part of Coast Province. It is the smallest of the seven districts in Coast Province, covering an area of 229.6 Km². Water mass accounts for 65 Km². It borders Kilifi to the North, Kwale to the South and West and the Indian Ocean to the East (Municipal Council, 2005). It is about 500 kilometers away from Nairobi the Capital City of Kenya. The Climate is Warm, humid to hot weather and temperature ranges from 23-31 degrees centigrade. It has a Population of 939,370 people. The city is mainly occupied by the Muslim Mijikenda/Swahili people. Over the centuries, there have been many immigrants and traders who settled in Mombasa, particularly from Iran, the Middle East, Somalia and the Indian sub-continent, who came mainly as traders and skilled craftsmen (<http://en.wikipedia.org/wiki/Mombasa>). Major economic activities include fishing, tourism, industrial, manufacturing and commercial activities (www.mombasamunicipal.org).

Mombasa County has four constituencies namely: Changamwe, Likoni, Mvita and Kisauni. The SMEs operating within Mombasa County are distributed in all the constituencies and cut across all sectors of the economy including wholesale and retail, manufacturing, education, agriculture, hospitality, building and construction, clearing and forwarding among others. Majority of the SMEs are located in Mvita constituency which lies within Mombasa Island. It is also home to the City of Mombasa which is the second largest in the country. Mombasa Island is separated from the mainland by two creeks: Tudor Creek and Kilindini Harbour. The island is connected to the mainland to the north by the Nyali Bridge, to the south by the Likoni Ferry and to the west by the Makupa Causeway, alongside which runs the Kenya-Uganda Railway.

1.2 Research Problem

Organizations have to think strategically in order to survive (Pearce & Robinson, 2005). Various scholars have attributed adoption of formal strategic management practices with organizations performance (Miller & Cardinal, 1994; Peel and Bridge, 1998; Schwenk & Schrader, 1993). Previous studies of strategic planning in small enterprises have suggested that the entrepreneurs often concentrate on short-term targets and that their planning activities are often intuitive, less sophisticated and less formalized in comparison to large enterprises (Naffziger & Kuratko, 1991; Stonehouse & Pemberton, 2002). In real business life, small enterprises undoubtedly plan in a way that is different from the standard textbook approaches to strategic management (McCarthy, 2003), which in turn also makes standard large-enterprise-related approaches less applicable in the context of small enterprises.

Small and medium enterprises (SMEs) are increasingly seen as playing an important role in the economies of many countries. Thus, governments throughout the world focus on the development of the SME sector to promote economic growth (Kraus, et. al, 2009). In Kenya, however, despite the significance and contribution of the small and medium enterprises to the economy, they are faced by many challenges and constraints due to the volatile environment in which they operate (Mathenge, 2008). Like bigger companies, SMEs require a favorable institutional framework. Most are overlooked by policy-makers and legislators, who tend to target larger corporations. SMEs often miss out on tax incentives or business subsidies. They suffer more than big companies from the large burden and cost of bureaucracy, as few SMEs possess the necessary financial or human resources to deal with this. SMEs require greater access to financial services and investment capital. Large corporations have little difficulty securing sizeable bank loans and private investments. At the same time, microfinance, consisting of very small loans, tends to benefit individual entrepreneurs. SMEs fall in between and often struggle to obtain credit and loans as they are considered high-risk, as their managers are perceived as lacking managerial expertise. Although Mombasa County has very great economic potential, it has other challenges that the SMEs have to cope with. These challenges

include underdeveloped infrastructure, poor city planning and lack of adequate market as majority of the population live below poverty line. There is therefore need for the SMEs to adopt formal strategic management practices for survival and competitive advantage.

Having critically reviewed the existing local empirical literature, the researcher found very little emphasize on the small and medium sector. Njimu (2008) found planning to be the main attribute to success of SMEs followed by superior management techniques and involvement of the owners respectively. Mbugua (2009) notes that strategy is sensitive to the context in which it is practiced. Otachi (2009) recommends that for businesses to turn around and be successful there is need to develop plans for their businesses. Other studies focusing on SMEs include Mathenge (2008) and Wesonga, (2008) who studied SMEs in Nairobi. All these studies have recommended further research in this area and there is also need to focus on the SMEs in Mombasa County in regard to its unique business environment. This study therefore focused on adoption of formal strategic management practices among the small and medium enterprises within the Mombasa County and sought to establish the challenges they face in adopting the formal strategic management. In doing so the study addressed the following questions:

- i. What is the extent of adoption formal strategic management practices among the SMEs in Mombasa County?
- ii. What are the challenges faced by SMEs in the adoption and implementation of formal strategic management practices?

1.3 Research Objectives

To respond to the above questions, the objectives of the study were:

- i. To determine the extent of adoption of formal strategic management practices by the SMEs in Mombasa County
- ii. To establish the challenges encountered by the SMEs in Mombasa County in adopting and implementing formal strategic management practices

1.4 Value of the Study

The study will increase the current body of knowledge in formal strategic management practices both to the researcher and academicians especially in relation to small and medium enterprises. The study will also form a basis for further research in the future in the area of formal strategic management practices in the SMEs sector.

SMEs will benefit from the study in establishing the various strategic management practices they need to adopt. This study will also inform the SMEs owners on the importance of adopting and successfully implementing formal strategic management practices to cope with the turbulent environmental changes. The study will also inform the relevant policy makers on the challenges experienced by the SMEs in adopting formal strategic management practices and thus enable them to formulate relevant policies that will spur growth of the SMEs to become large enterprises.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature guided by the objective of the study with a view of highlighting the existing gaps. The review starts by outlining and discussing in detail the concept of strategic management in regard to theory. This is followed by a review of empirical literature relevant to strategic management among small and medium enterprises.

2.2 Strategic Management Concept

There has been no single universally accepted definition of strategic management. Many scholars have come up with different definitions. Pearce and Robinson (2005) define Strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives.

According to Pearce and Robinson (2005) there are nine critical tasks which indicate that strategic management involves the planning, directing, organizing and controlling of a company's strategy-related decisions and actions. These tasks include:- formulation of the company's mission, conducting an analysis that reflects the company's internal conditions and capabilities, assessing the company's external environment, analyzing the company's options by matching its resources with the external environment, identifying the most desirable options by evaluating each option in light of the company's mission, selecting a set of long-term objectives and grand strategies that will achieve the most desirable options, developing annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies, implementing the strategic choices by means of budgeted resource allocation and evaluating the success of the strategic process as an input of for future decision making.

Johnson and Scholes (1999) look at strategic management from the perspective of what it includes. According to them strategic management includes strategic analysis, strategic choice and strategy implementation. Strategic analysis is concerned with understanding the strategic position of the organization in terms of its external environment, internal resources and competences, and expectations and influence of stakeholders. Strategic choice on the other hand involves understanding the underlying basis guiding future strategy, generating strategic options for evaluation and selecting the best from among them. Strategic implementation is concerned with translation of strategy into organizational action through organizational structure and design, resource planning and management of strategic change (Pearce & Robinson, 1997). According to Ansoff and McDonnell (1990) strategic management is a systematic approach for managing strategic change which consists of three steps: Positioning the firm through strategy and capability planning, Real time strategic response through issue management and, systematic management of resistance during strategic implementation

Strategic management theories stem mainly from the systems perspective, contingency approach and information technology approach (David, 2005). Alimin, I. I., Haslinda, A., Jegak, U., and Raduan, C. R. (2009) identify common and applicable strategic management theories as being; the profit-maximizing and competition-based theory, the resource-based theory, the survival-based theory, the human resource based theory, the agency theory and the contingency theory. The profit-maximizing and competition-based theory was based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. The industrial-organization (I/O) perspective is the basis of this theory as it views the organization external market positioning as the critical factor for attaining and sustaining competitive advantage (Porter, 1981).

On the other hand, the resource-based theory stems from the principle that the source of firms competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. That is, rather than simply evaluating environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses (Barney, 1995).

The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance (Ainuddin, R.A., Beamish, P.W., Hulland, J.S., & Rouse, M.J. 2007). However, the survival-based theory centers on the concept that organization need to continuously adapt to its competitive environment in order to survive. This differs to the human resource-based theory, which emphasizes the importance of the human element in the strategy development of organizations. In addition, the agency theory stresses the underlying important relationship between the shareholders or owners and the agents or managers in ensuring the success of the organizations. Finally, the contingency theory draws the idea that there is no one or single best way or approach to manage organizations. Organizations should then develop managerial strategy based on the situation and condition they are experiencing. In short, during the process of strategy formulation, implementation and evaluation, these main strategic management theories will be applicable to management of organization as tools to assist them in making strategic and guided managerial decision (Alimin et al., 2009).

2.3 Development of Formal Strategic Management

Formal strategic management seems to have its beginning in the 1950s in the USA through writers like Drucker (1954), Chandler (1962), Ansoff (1965) and Andrews (1971). Studies conducted in the late 1960s and early 1970s indicated that corporate planning was practiced although the period was characterized by relatively stable external environments (Mutonyi, 2003)

In the mid 1970s , attitude towards strategic management started to change. Taylor (1986) attributed this to the increasingly turbulent business environment. In the face of rising turbulence, managers expressed disenchantment and dissatisfaction with strategic planning (Mugambi, 2003). Various writers criticized planning and made recommendations for its improvement. These included Mumford and Pettigrew (1975), Mintzberg and Waters (1985), Whittington (1993). Their recommendations included several features that characterized good strategic planning practices (Mugambi, 2003).

These features include: Should be flexible and adaptable, address implementation issues, be focused, be instrumental in developing competitive edge and enhance creativity and strategic thinking. These features are still the dominating concerns in strategic management today (Aosa, 1992).

Butcher and Mainelli (1990) document five forms of strategic management; minimal, budgetary, annual, developmental and complete. Companies with minimal strategic management often provide this through informal meetings or brainstorming sessions. Minimal strategic management relies upon individuals' ability to pursue long term goals and visions. The incorporation of a rudimentary budgetary procedure is the first sign that an organization truly understands where it is now (Mugambi, 2003). The introduction of an annual plan is often a step towards complete strategic management. The annual plan is more than the sum of the budgets. It is synergetic. Developmental strategic management comes about when the organization (typically due to outside pressures) finds itself making long term plans for projects that are designed to enhance its competitive position. Development requires an assessment of current position, identification of the long-term positioning and strong project management to turn plans into actions. Karemu (1993) points out that the characteristics of complete strategic management include: Documentation of the strategy; intensive development of integrated strategies at various levels within the organization; the ability to take a long term view appropriate to the organization, possibly three to ten years and appropriate communication throughout the organization.

2.4 Formal Strategic Management Practices

The formality of strategic management systems varies widely among companies. Formality refers to the degree to which participants, responsibilities, authority, and discretion in decision making are specified. (Pearce & Robinson, 2005). It is an important consideration in the study of strategic management, because greater formality is usually positively correlated with the cost, comprehensiveness, accuracy and success of planning.

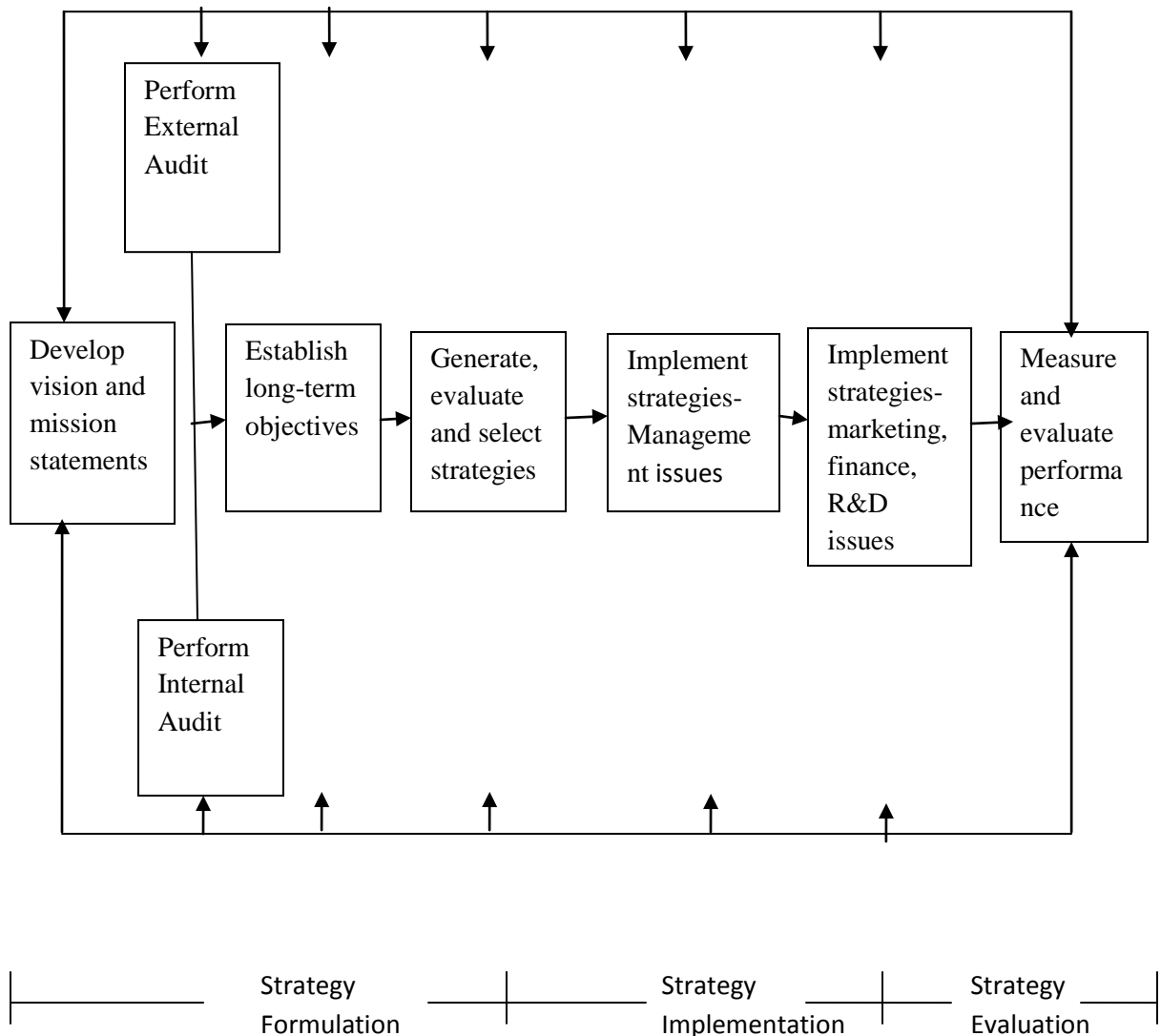
A number of forces determine how much formality is needed in strategic management. The size of the organization, its predominant management styles, the complexity of its environment, its production process, its problems, and the purpose of its planning systems all play a part in determining the appropriate degree of formality.

Mintzberg (1985) identified three modes that firms follow depending on their size and stage of development. The first is the entrepreneurial mode in which firms are basically under the control of a single individual, and they produce a limited number of products and services. In such firms, strategic evaluation is informal, intuitive and limited. Very large firms, on the other hand, make strategic evaluation part of a comprehensive, formal planning system; an approach Mintzberg called the planning mode. The third mode is the adaptive mode, which he associated with medium-sized firms in relatively stable environments

2.4.1 The Strategic-Management Model

Though the strategic-management model does not guarantee success, it does represent a clear and practical approach for formulating, implementing, and evaluating strategies (Fred, 2005).

Figure 2.4.1: A Comprehensive Strategic-Management Model



Source: Fred R. David(1988), “How Companies Define Their Mission,” Long Range Planning 22, no.3.

2.4.2 Benefits of Formal Strategic Management Practices

The principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical and rational approach to strategic choice. Research studies now indicate that the process, rather than the decision or document, is the more important contribution of strategic management (Lyles, Baird, Orris, and Kuratko 1993). Using the strategic management approach, managers at all levels of the firm interact in planning and implementing. As a result, the behavioral consequences of strategic management are similar to those of participative decision making.

Strategic management allows an organization to be more proactive than reactive in shaping its own future. It allows an organization to initiate and influence rather than just respond to activities and thus exert its own destiny. Research indicates that organizations using strategic management concepts are more profitable and successful than those that do not (Miller & Cardinal, 1994; Peel & Bridge, 1998; Schwenk & Schrader, 1993). Miller and Cardinal (1994) argue that strategic planning positively influences financial performance of an organization. They investigated how firm size, capital intensity and environmental turbulence influence performance in firms with different degrees of formal strategic planning.

Strategy formulation activities enhance the firm's ability to prevent problems (Pearce & Robinson, 2005). It enhances firms' awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity and provides an objective view of management problems. In addition, group-based strategic decisions are likely to be drawn from the best available alternatives. It allows more effective allocation of time and resources to identified opportunities. The involvement of employees in strategy formulation improves their understanding of the productivity-reward relationship in every strategic plan and thus heightens their motivation

Gaps and overlaps in activities among individuals and groups are reduced as participation in strategy formulation clarifies differences in roles. Strategic management represents a

framework for improved coordination and control of activities. Resistance to change is reduced. Greater awareness by the participants of the parameters that limit the available options makes them more likely to accept those decisions (Pearce & Robinson, 2005). Strategic management also provides a cooperative, integrated and enthusiastic approach to tackling problems and opportunities and creates a framework for internal communication among personnel.

2.5 Strategic Management in the Small and Medium Enterprise Sector

Management in small companies is simpler than in large companies. Generally small companies use simplified analyses and planning. According to Morrison (1996) a small business is financed by one individual or small group and is directly managed by its owner(s), in a personalized manner and not through the medium of a formalized management structure. Stephen (2007) says that the difference between small and large firm management is that the preparation of ongoing business plans and the marketing function in small and middle enterprises is seen as a peripheral to the management task of running the business.

Numerous studies concerning strategic planning in small firms in developed countries have been published since the extensive review of the literature by Robinson and Pearce (1984). Prior to that date, research found planning levels in small firms to be “anemic” (Sexton & Van Auken, 1982), a situation Curtis (1983) attributed to barriers such as time pressures, lack of knowledge about the true nature of the business and the environment, and insecurity and low self-confidence on the part of the owner. Robinson and Pearce (1984) identified similar reasons for the lack of strategic planning within these firms: time scarcity, lack of knowledge, lack of expertise, and lack of trust and openness.

Several researchers have demonstrated the prevalence of planning in small firms. For example, Lyles, Baird, Orris, and Kuratko (1993) found that 71 out of 188 small firm owners had planning processes that included a written plan for at least three years into the future. In their study, Naffziger and Kuratko (1991) found that 96 out of 115 small

business owners formally set aside time to plan and, as part of the planning process, these owners set goals in areas such as sales and sales growth, profit, and internal operating efficiency. Results of several studies, for example, Lyles et al. (1993), Robinson and Pearce (1984), Orpen (1985) strongly suggest that simply engaging in a formal planning process seems to be beneficial as it leads to a better understanding of the business. Lyles et al. found strategic planning led to the development of a wider range of strategic alternatives that they hypothesized would lead to better firm performance. They concluded that small businesses which adopt a more formal planning process will place greater emphasis on improving the quality of the strategic decision making process. Although environmental scanning may be done adequately without reliance on a formal planning process, the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning (Lyles et al. 1993). In addition, the small business owner develops a more complete knowledge of the strategic management issues facing the firm. The process of writing down the strategy encourages production of a synopsis of multiple planning areas, and the entrepreneurs are thus potentially able to see things that they would not have if they merely considered strategic planning as a private thinking process (Matthews & Scott, 1995).

Unlike in developed countries where studies have demonstrated presence of formal strategic planning in small firms, in developing and less developed countries, strategic planning in small enterprises is often done only informally and not on a regular basis (Kohtamaki et al., 2008b). This is not surprising as formal planning can be time-consuming and, in small enterprises, the time might be spent more productively on the actual daily operations of the enterprise (Stone & Brush, 1996). According to United Nations Development Programme (UNDP, 2006), many local entrepreneurs prefer to run their businesses in an informal state, which hampers their potential for growth, expansion and innovation. This has led to the absence of, a robust and dynamic SME sector in many developing countries, particularly in the least developed countries (LDCs). The enterprise sector in many LDCs shows a distinct dual structure. At one extreme there exist a few

large modern capital- intensive, resource-based, import-dependent and assembly-oriented enterprises, while at the other extreme there are small and informal sector (micro) enterprises that use very simple and traditional technologies and serve a limited local market. This structural imbalance in many developing countries has arisen despite their implementation of SME promotion programmes for many years. The industrialization policies pursued by developing countries in the past are identified as having contributed to a bias in favour of larger scale enterprises by encouraging premature movements of resources into large capital- intensive businesses rather than promoting the gradual and organic growth of enterprises. This bias persists in many developing countries, rendering their SME promotion strategies largely ineffective. Furthermore, efforts focusing on SME development are often frustrated by the absence of a favourable macroeconomic framework. In addition, repressive legal and regulatory regimes can impose disproportionately high costs on SMEs, which often results in a polarization of business size and the phenomenon of the “missing middle”.

2.6 Challenges of Strategic Management

Reed and Buckley (1988) discuss problems associated with strategic management practices identifying four key areas for discussion. They acknowledged the challenge and the need for a clear fit between strategy and structure and claim the debate about which comes first is irrelevant providing there is congruence in the context of the operating environment. They warn that, although budgeting systems are a powerful tool for communication, they have limited use in the implementation of strategies as they are dominated by monetary based measures and due to their size and the game playing associated with budget setting “it is possible for the planning intent of any resource redistribution to be ignored”(Reed & Buckley, 1988, p. 68). Another problem is when management style is not appropriate for the strategy being implemented, they cite the example of the “entrepreneurial risk taker may be an ideal candidate for a strategy involving growth, but may be wholly inappropriate for retrenchment” (Reed & Buckley, 1988)

Al Ghamdi (1998) replicated the work of Alexander (1985) in the UK and found for 92 percent of firms implementation took more time than originally expected, that major problems surfaced in 88 percent of companies, again showing planning weaknesses. He found the effectiveness of coordination of activities as a problem in 75 percent and distractions from competing activities in 83 percent cases. In addition key tasks were not defined in enough detail and information systems were inadequate in 71 percent of respondents. AL Ghamdi states, “the drama still continues” (Al Ghamdi, 1998, p. 322)

Corboy and O’Corrbui (1999) identify a lack of understanding of how the strategy should be implemented as a major challenge to strategic management practices. This includes customers and staff not fully appreciating the strategy; unclear individual responsibilities in the change process; difficulties and obstacles not acknowledged, recognized or acted upon; and ignoring the day to day business imperatives.

Overall though, it is increasingly acknowledged that the traditionally recognized problems of inappropriate organization structure and lack of top management backing are not the main inhibiting factors to effective strategic management practices (Aaltonen & Ikavalko, 2002). Rather, the major challenges to be overcome appear to be more cultural and behavioural in nature, including the impact of poor communication and diminished feelings of ownership and commitment (Aaltonen & Ikavalko, 2002)

Hewlett (1999) suggests that most strategic plans are hurdled by the financial constraints during the time of their implementation. It is important, particularly at the business level, to integrate non-financial measures such as market share or market growth in the budget, so that one can better assess the extent to which improved competitive strength is being achieved as well as the extent to which deviations are due to changes in the business attractiveness.

Porter (1985) points out that by only looking at the financial costs and benefits without taking a strategic risk-assessment into account one might easily pursue the less favourable project or fail to search for less risky alternatives. To assess risk in this strategic context three steps of analysis must be carried out: a specific assessment of which budgetary factors might significantly affect the strategic plan’s success; an assessment of the degree of predictability of each factor; and an assessment of one’s own

potential for responding to a particular environment development to ameliorate adverse effects or to take advantage of favourable developments (Kuria, 2010).

Incompetent management and leadership is another challenge. Strategic decisions create a wave of sub-decisions that must be successfully implemented (Mintzberg, 1976). Typically, the manager-leader (middle managers and supervisors) is held accountable for the implementation of these sub-decisions. Sub-decision implementation is defined as a sequence of tasks carefully executed so that a favourable business outcome can be achieved in the medium to short-term (Kuria, 2010). Kenny (1999) emphasizes that those who implement decisions to the best of their ability are usually those who have made them.

Poor monitoring and evaluation of strategic plan can easily bring down a strategic plan where it is at the threshold or the completion stage. Milestones and targets are important to keep track of progress. Achievements should be measured against strategic plan goals. Monitoring and feedback include the exchange of information between the strategic plan team members and analysis of user feedback (Holland, Light, & Gibson, 1999).

Political factors also pose a challenge to effective strategic management processes. The government, as an important institution, provides public goods and services and designs the rules and regulations of the society that allow markets to flourish. It also puts in place the necessary policies that will facilitate the efficient distribution and allocation of resources to enhance the welfare of the people. The government also provides important institutional infrastructure, such as laws that protect property rights, as well as maintaining public order, without which long term investment and sustainable socio-development are impossible.

The issue of whether resources are channeled into productive or non-productive forms of government consumption has important policy implications because the economic development of a country partly depends on how the scarce resources are allocated and utilized among different economic sectors. Some scholars argue that non-productive government expenditures drain the meager resources of African countries and thereby hamper economic development (Landau, 1986).

From the literature review, it is evident that formal strategic management practices are positively related to positive business performance. The review also indicates that small and medium enterprises plan and apply strategic planning practices though the level of strategic planning tends to vary depending on the context. This study will establish if small and medium enterprises within Mombasa County apply strategic management practices that agree with the documented approaches used elsewhere and in theory.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures that the researcher used in collection and analysis of data. The population, sample and sampling techniques are also discussed.

According to Kothari (2004) research methodology gives details regarding procedures used in conducting the study. It includes all techniques, methods and procedures adopted in the research.

3.2 Research Design

The research design adopted was a descriptive survey to assist the researcher to identify the formal strategic management practices adopted by the SMEs. Descriptive research according to Kothari (2004) is a powerful form of quantitative analysis.

This design was preferred because it enables the researcher describe the area of research and explain the collected data in order to investigate the differences and similarities with our frame of reference within a given period of time (time of research). In addition the method permits gathering of data from the respondents in natural settings resulting in a description of the data, whether in words, pictures, charts or tables. It also produces a comprehensive basis of analysis of data using descriptive statistics.

3.3 Population

The population under this study included all the small and medium enterprises operating in Mombasa County. The target population was all the small and medium enterprises documented by the Kenya National Bureau of Statistics (KNBS). KNBS maintains a master file which is a register of establishments derived from Establishment Based

Surveys that are conducted every year (KNBS, 2010). According to KNBS Master File, there are 2,069 establishments that meet the definition of small and medium enterprises.

In the Master File, the enterprises are classified according to their geographical location. Mombasa Island has the majority number of enterprises with an estimated population of 1,315 while Likoni Division has the least with 152 enterprises. Other areas are Changamwe and Kisauni Divisions with 233 and 369 enterprises respectively. For the purpose of this project, the enterprises in each Division formed the elements of each stratum.

3.4 Sampling Techniques

The sampling technique used is the stratified sampling. Stratification is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should be mutually exclusive: every element in the population must be assigned to only one stratum.

The strata should also be collectively exhaustive: no population element can be excluded. Then random or systematic sampling is applied within each stratum. The Divisions within Mombasa County formed the strata.

3.5 Sample Size

Based on the purpose of the project and the cost involved, the researcher used a sample size of 150 organizations which was found to be satisfactory. A list of the organizations randomly selected is provided in appendix 2.

3.6 Data Collection

The main source of data was primary data. The collection instruments were structured questionnaires with both open and close ended questions developed by the researcher.

The questionnaire had two parts formulated and designed to meet the researcher's objectives. Part 1 of the questionnaire sought to get the general information about the target organization and the operating environment. Part 2 addressed issues on formal strategic management practices.

The structured questionnaire was administered through drop and pick method as most of the targeted respondents were not available or were too busy to sit for an interview. The respondents also confirmed having understood the questions after perusing through the questionnaire and thus indicated that an interview was not necessary. Only very few respondents were interviewed.

3.7 Data Analysis

After data had been collected, the questionnaires were edited for completeness and consistency before processing. Responses in the questionnaire were tabulated, coded and processed by use of Statistical Package for Social Sciences (SPSS) and EXCEL spread sheets. Frequency tables, charts, percentages and the mode were mainly used to analyze the data. These tools were selected for their clarity, preciseness, ease of understanding and interpretation.

Data from open-ended questions was analyzed using content analysis. Cooper and Schindler (2005) state that content analysis may be used to analyze written data from experiments, observations, surveys and secondary sources.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

The study utilized a combination of both quantitative and qualitative techniques in the collection of data. The study covered all small and medium enterprises within Mombasa County which is home to the second largest city in Kenya and the largest sea port in Eastern Africa. The target respondents were the owners of the enterprises or the top management staff who the researcher viewed as responsible for shaping the strategic direction of the enterprises.

A letter of introduction (appendix 2) accompanied a structured questionnaire (appendix 1) which was designed by the researcher to meet the study objectives. Out of 150 questionnaires given out, 102 were responded to giving a 68% response rate. This high response rate could be attributed to the personal efforts of the researcher who made a follow up of every questionnaire dropped.

Data was analyzed by employing percentages, frequency tables, charts, and the mode. In particular, the mode was found to be the most suitable measure of central tendency to employ in ordered questions which were to be responded to in a five point likert scale. SPSS and EXCEL spread sheets were used to aid in analysis and were preferred because of their ability to cover a wide range of the common statistical and graphical analysis in a systematic way. The information is presented and discussed as per the objectives and research questions of the study.

4.2 Profile of Respondents

4.2.1 Response Rate

The respondents were asked to indicate the position held in the firm. Most of the respondents were management staff of the enterprises although the researcher noted

instances of junior staff for example accountants. The junior staff were appointed to be the respondents by their supervisors thus the researcher believed that they were also in a position to give objective responses regarding the enterprises. Table 4.2.1 presents a summary of the response rate.

Table 4.2.1 Response Rate

Category	Frequency	Percentage
Response	102	68
Non Response	48	32
Total	150	100

Source: Author (2011)

A total of 150 questionnaires were administered. Out of this, 102 questionnaires were responded to representing a 68% response rate. The researcher found this a significantly good response.

4.2.2 Years since Joining the Firm

Respondents were asked to indicate the number of years they had worked in the firm. This was important as the longer the employee had been in the firm, the more conversant they were likely to be with the firm's strategic management practices and the challenges the firm faced. A summary is presented in table 4.2.2 below.

Table 4.2.2 Years since Joining the Firm

Category	Frequency	Percentage
0-2yrs	30	29
3-5yrs	24	24
5-10yrs	36	35
Over 10yrs	12	12
Total	102	100

Source: Author (2011)

Of the 102 respondents who participated in the study, 30 had been in the organization for less than 2 years which represents 29% of the respondents as compared to 24 who had been in the organization for 3 to 5 years representing 24%. 36 had been in the organization for 5 to 10 years representing 35% and only 12 had been in the organization for more than 10years representing only 12%. This indicates that a majority of the respondents have been with the firm for more than 2 years representing 71% of the respondents. This implies that the respondents were well conversant with the firms business operations and thus understood the formal strategic management practices that existed in their firms if any.

4.2.3 Firm's Type of Ownership

Respondents were asked to indicate the type of firm ownership. Sole proprietorship are mostly managed by one individual and their management style is expected to be simple and informal. On the other hand, partnerships or group owned enterprises are expected to have elaborate management styles which hold the firm together. Such firms are expected to be large in size with more than one department and thus formal strategic management practices would apply. Table 4.2.3 summarizes the finding of this study on firm's type of ownership.

Table 4.2.3 Firm's Type of Ownership

Category	Frequency	Percentage
Sole proprietorship	36	35
Partnership	48	47
Others	18	18
total	102	100

Source: Author (2011)

A majority of the respondents happened to be in partnership represented by 48 of the 102 respondents which makes 47% while 36 respondents were sole proprietorship representing 35%. 18 respondents which represent 17% were in other forms of ownership.

4.2.4 The Period Firm has been in Operation

Respondents were asked to indicate the number of years the firm had been in operation. The longer the firm was in operation the more experience it had in implementing various strategic management practices in response to environmental changes and the more objective the responses were expected to be. Firms that had been in operation between 0-2 years were not expected to have had considerable experience with the business environment and the focus was expected to be mainly to put the business on its feet. However, as the business grows it is expected to adopt formal management styles as the focus changes to sustainability. Table 4.2.4 gives a summary of the duration in operation.

Table 4.2.4 The Period the Firm has been in Operation

Category	Frequency	Percentage
0-2yrs	6	6
3-5yrs	12	12
5-10yrs	18	17
Over 10yrs	66	65
Total	102	100

Source: Author (2011)

An analysis of how long the firm had been in operation revealed that 6 had been in operation for less than 2 years thus representing 6%, 12 had been in operation for 3 to 5 years which is 12% and 18 had been in operation for 5-10 years which represents 17%. 66 firms had been in existence for more than 10 years representing 65% of all the respondents. This implies that small and medium enterprises within Mombasa County have been in existence for a considerable long time indicating a high experience with the business environment.

4.2.5 Number of Employees that the Firm Had

The researcher related the number of employees to the size of the firm in that the higher the number of employees, the bigger the size of the firm. The size of the firm would indicate the complexity of the firm's practices with bigger firms expected to have adopted formal strategic management practices as opposed to small ones. A summary is presented on table 4.2.5

Table 4.2.5 Number of Employees that the Firm Had

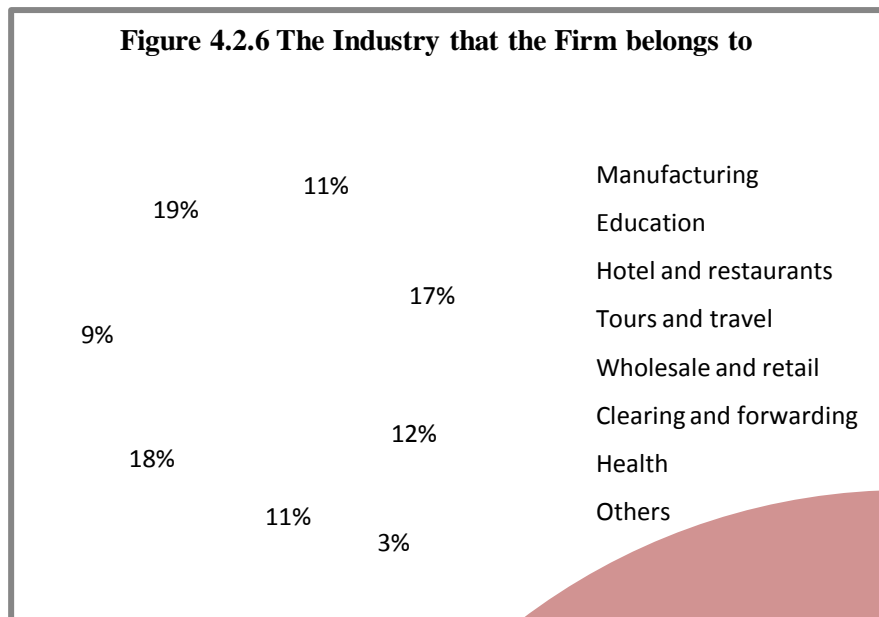
Category	Frequency	Percentage
10-20 employees	54	53
21- 50 employees	24	23
51- 100 employees	24	24
Over 100 employees	0	0
Total	102	100

Source: Author (2011)

A majority of the firms had 10-20 employees reported by 54 of the respondents which represent 53% of all the respondents. 24 of the respondents had 21-50 employees representing 23%. 24 respondents reported having between 51-100 employees representing 24%. This implies that majority of the enterprises in Mombasa County are small considering the definition of small and medium enterprises adopted for the purpose of this study. Only 24% of the firms are medium level which implies that despite the fact that the firms have been in existence for over 10 years, many of them still remain small. This gives a consistent finding of most of the studies on small and medium firms in developing countries indicating a missing middle.

4.2.6 The Industry the Firm belongs to

Service sector industries which are more quality oriented are more highly expected to adopt formal management styles as they attempt to offer quality services to their customers. The industry the firm belongs to also determine the kind of environment the firm is facing as the nature of competition differs from industry to industry. The responses were as follows:



Source: Author (2011)

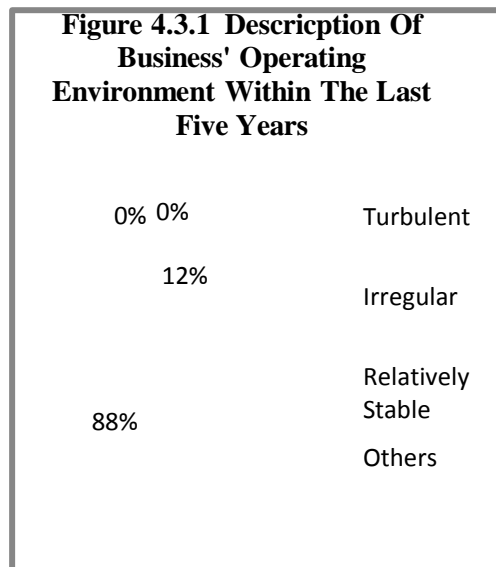
A large portion of the respondents were in other categories which included finance, information and technology, real estate and professional firms like insurance companies and law firms. In this category the respondents were 20 representing 19%. Tours and Travel companies had the least respondents which was only 3 representing 3%. Others were education, clearing and forwarding, hotel and restaurants, manufacturing, wholesale and retail and health categories, which represented 18%, 17%, 12%, 11%, 11% and 9% respectively. This indicates that small and medium enterprises within Mombasa County are generally distributed across all sectors with the service sector having the majority of the enterprises.

4.3: Adoption of Strategic Management Practices

The first objective of the study was to determine the extent of adoption of formal strategic management practices by the SMEs within Mombasa County. Questions which were aimed at establishing the firms' practices in formulation, implementation and evaluation of strategies were asked and responses are as follows:

4.3.1 Business' Operating Environment within the Last Five Years

Understanding the environment the business is operating into is viewed as an important aspect of strategic management. The environment turbulence necessitates an equal need for rapid recognition of strengths, opportunities to be exploited, threats to be countered and weaknesses to be dealt with. A business cannot develop effective strategies without the understanding of the business environment. Respondents were asked to indicate how they viewed their business environment. The figure below gives a summary of the responses.



Source: Author (2011)

Out of the 102 respondents 90 described their operating environment as relatively stable, this represented 88%. Only 12 respondents representing 12% viewed their business environment as irregular. None of the respondents believed the business environment to be turbulent or gave any other response. This implies that small and medium organizations within Mombasa County viewed their business environment to be relatively stable a factor that could be attributed to low level of competition as compared to other cities like Nairobi which is the capital city of Kenya.

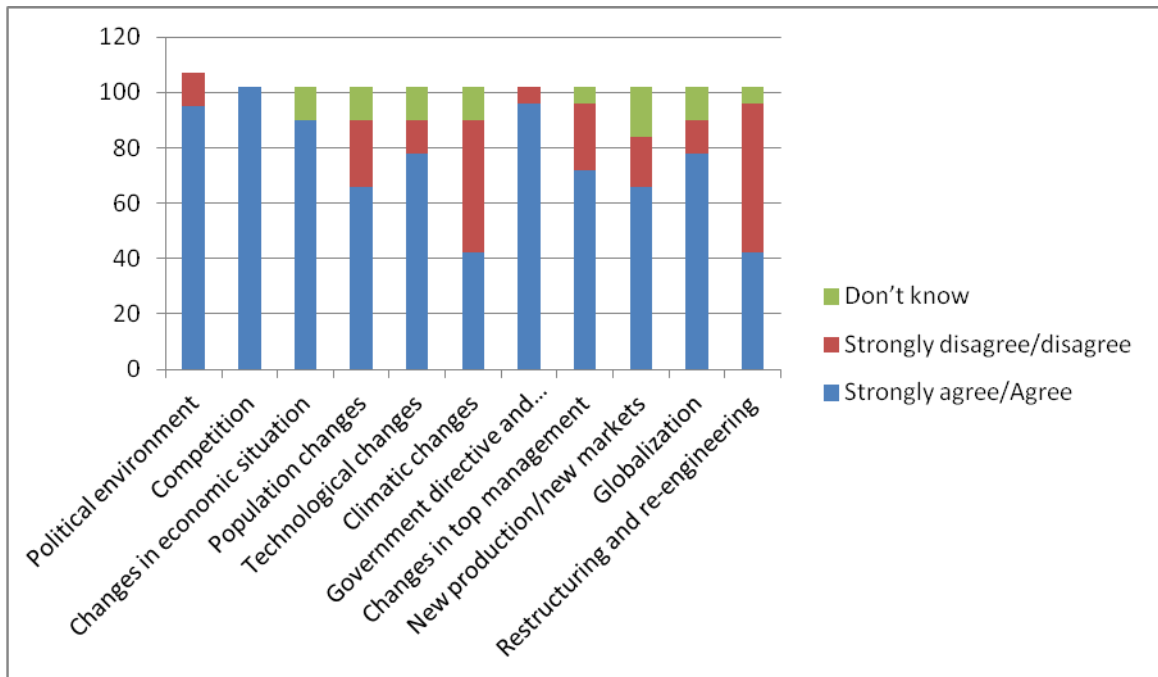
4.3.2 How Various Factors have an Impact on the Way the Business Operates

Respondents were asked to indicate by ticking appropriately against listed factors on a five point likert scale whether they agreed if specific factors had an impact on the way the business operates. The scales were as follows: strongly agree -1, Agree -2, Disagree -3, Strongly disagree -4, Don't know -5.

The researcher sought to determine the extent to which the listed factors were considered in strategic management practices. Environmental forces can be divided into two broad categories; internal and external categories. External categories can further be divided into political and legal forces, economic forces, socio-cultural forces, technological forces, ecological forces and competition. Internal forces include factors that emanate from within the organization for example change in top management, organization culture, organization resources and capabilities. These forces shape the strengths, opportunities, threats and weakness that affect the organization and determine success of its strategic management practices.

Figure 4.3.2 gives a summary of how the organizations in this study viewed the factors as having an impact in their businesses.

Figure 4.3.2 How various factors have an impact on the way the business operates



Source: Author (2011)

The analysis above indicates that competition was the highest factor considered as having an impact in the way the business operates. All the 102 respondents either strongly agreed or agreed. On the other hand, climatic changes and restructuring and re-engineering were viewed as having the least impact in the way the business operates. Both had 42 respondents respectively either strongly agreeing or disagreeing. This may be explained by the fact that many small and medium enterprises have not restructured the way they do business since inception and climatic conditions in the county are predictable.

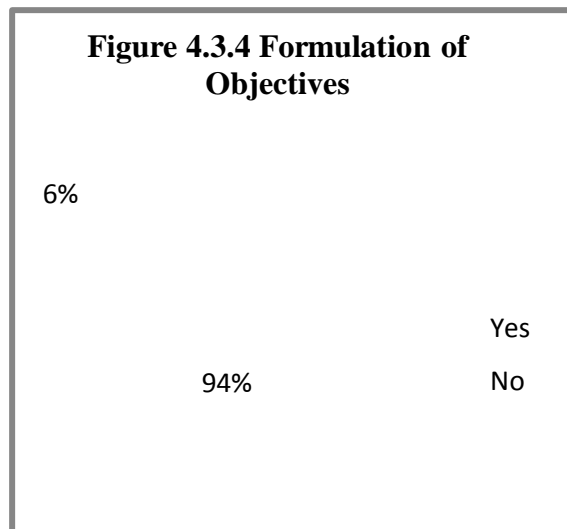
4.3.3 Formulation of Vision and Mission Statements

Vision gives direction of the firm and without it, very little would be achieved in terms of strategic management. The responses indicate that 90 out of 102 respondents had formulated vision and mission statements while only 12 indicated that they had not. This implies that majority of the small and medium enterprises within Mombasa County understood the need of having a future outlook of their business which would then guide how they operated their businesses. However, the researcher noted that very few and in

particular only the bigger SMEs had conspicuously displayed their vision and mission statements in strategic positions within the business premises.

4.3.4 Formulation of Objectives

Objectives break down the businesses future goals into achievable milestones that can be measured within shorter period of time. For the objectives to be achieved, they must be specific, measurable, achievable, realistic and time bound. Objectives enable the firm to know if it is headed in the right direction towards the firm's vision. Respondents were asked to indicate whether they had set objectives and responses are summarized below.



Source: Author (2011)

A majority of the respondents at 94% represented by 96 of all the respondents had set objectives whereas only 6% did not have any set of defined objectives. Further probing indicated that out of the 96 who had objectives, 67 had them in written form while 29 had not documented the objectives. Failure to document objectives implied that they existed only in the minds of the proprietors and other staff were unaware of them.

4.3.5 Formulation of a strategic plan

Documentation of strategic management practices in form of a strategic plan is one of the factors that indicate that the organization had adopted formal strategic management practices. The table below gives a summary of the responses to question on whether the organization had a strategic plan.

Table 4.3.5 Formulation of a strategic plan

Category	Frequency	Percentage
Yes	55	53
No	47	47
Total	102	100

Source: Author (2011)

Asked whether the organization had a strategic plan, 55 respondents representing 53% said they had while 47 representing 47% did not have. This indicates that a simple majority of small and medium enterprises within Mombasa County have adopted formal strategic management practices a factor that contradicts most of existing research finding on planning in small firms. However the findings are consistent with the findings of Mutiga (2008) who did research on strategic planning among service small and medium enterprises in Nairobi and found that majority had plans in place.

4.3.6 How the Organization has formulated the Strategic Plan

The approach to formulation of strategic plan can either be top-down or bottom-up. In the top-down approach, the process is driven by the top management and communicated down to the lower management and staff. On the other hand, a bottom-up approach starts with the lower level employees who are given the freedom to suggest effective strategies based on their day to day experiences. Majority of the SMEs have adopted a top-down approach as indicated in the summary below.

Table 4.3.6 How the Organization has formulated the Strategic Plan

Category	Frequency	Percentage
Formal meetings	8	15
Informal meetings	6	11
By the top management	38	69
Outsourcing	3	5
Total	55	100

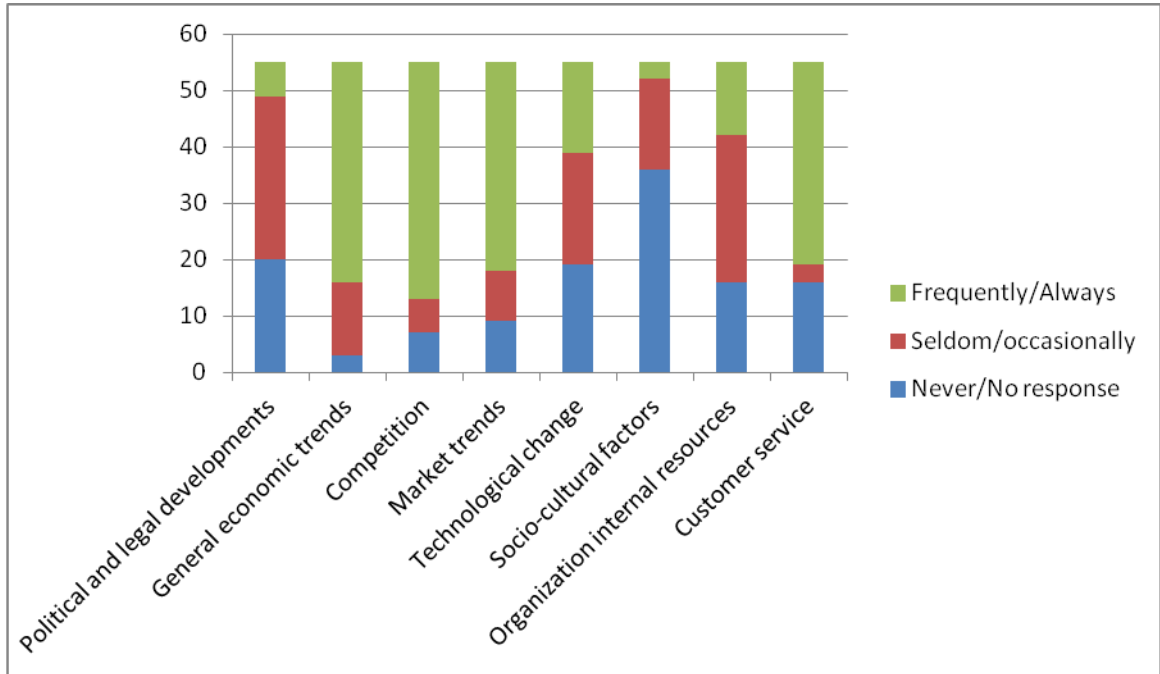
Source: Author (2011)

69% of the respondents revealed that their strategic plan had been formulated by top management, 15% through formal meetings, 11% through informal meetings and 5% formulated their strategic plan through outsourcing. This also indicates a high level of formality in formulation of strategic plans.

4.3.7 Extent to which several factors are considered in Formulation of Strategies

Information derived from environmental scanning should be used to drive strategic planning processes of the SMEs. Scanning in itself is insufficient to assure performance. Scanning must be aligned with strategy and necessary information must be effectively utilized in strategic planning processes. Figure 4.3.7 indicates the extent to which the SMEs considered the listed factors in formulation of strategies. Responses were to be given on a five point Likert scale; never-1, seldom-2, occasionally-3, frequently-4, and always-5.

Figure 4.3.7: Extent to Which Several Factors Are Considered In Formulation of Strategies



Source: Author (2011)

From the analysis above, it is evident that competition, general economic trends, market trends and customer service were the most considered factors in formulation of strategies. On the other hand, socio-cultural factors were the least considered factor by the 55 respondents who confirmed having formulated a strategic plan.

4.3.8 Communication of the Strategic Plan to Staff

Plans must be understood and supported by all staff in the organization if positive results are to be realized from their implementation. This calls for effective methods of communication of the plan to the staff. Findings of the study indicate that out of 55 respondents who had strategic plans in place 29 (53%) of them communicated the plans through word of mouth while 26 (47%) communicated by use of circulars.

4.3.9 Preparation of Annual Work Plans

Work plans are key in assisting in the implementation of the strategic plan. Broad strategies are broken down into workable action plans that are distributed to relevant departments within the organization. The work plans also assist in budgetary allocation. Without work plans the strategies may not be effectively implemented. Table 4.3.9 gives a summary of responses on whether the respondents prepared annual work plans

Table 4.3.9 Preparation of annual work plans

Category	Frequency	Percentage
Yes	66	65
No	30	29
No response	6	6
Total	102	100

Source: Author (2011)

65% of the respondents attested to preparing annual work plans whereas 29% did not prepare them. 6% of all the respondents did not respond to this question. This indicates that some small and medium enterprises prepared annual work plans but did not have strategic plans in place. Further probing by the researcher revealed that some enterprises did not consider long term plans as being feasible because of unpredictable circumstances making them to review their goals. 61% believed the work plans were based on the

documented objectives. The non-response rate for this question was high at 33% which may indicate that the SMEs did not understand what the work plans were or did not have them.

4.3.10 Review of the Work Plans

Respondents were asked to indicate how often they reviewed their work plans. The researcher sought to determine whether the respondents monitored the implementation of the strategic plans by frequently reviewing the progress made. Review is the only ways that challenges can be identified and addressed. The review period was reported as follows: Weekly 12%; Monthly 52%; Quarterly 12%; Never 24%.

It was observed that the review of the work plans was generally based on the nature of the business with those in the education sector reporting reviewing their work plans on a quarterly basis while majority of those who did not review were either in wholesale and retail or manufacturing industries.

4.3.11 Review of Organization Structure to cater for New Strategies

To respond to environmental changes, an organization needs to review their strategies to ensure that they are able to cope with the new environmental challenges. Organization capabilities must match the new strategies and this may call for changes in organization structure to ensure structure-strategy fit. A summary of responses on whether the organization had changed its structure over the last five years is given in the table below.

Table 4.3.11 Review of Organization Structure to Cater for New Strategies

Category	Frequency	Percentage
Yes	42	41
No	48	47
No response	12	12
Total	102	100

Source: Author (2011)

41% of the respondents provided the information that organization structure changed to cater for new strategies whereas 47% indicated that the structure had not changed. 12% did not respond to this question. Some of the ways the organization had changed included additional of more departments, regional expansion creating new positions of branch managers, merging of departments and employment of more staff.

4.3.12 Organization Performance Appraisal for its Employees

To ensure maximum participation of staff in implementation of the strategic plan and thus its success, staff ought to be motivated in order to pursue the achievement of the set objectives. Motivation can be in form of performance based rewards. Performance appraisal is one tool that organizations employ to determine employees performance and hence reward expected. Table 4.3.12 gives a summary of responses on employees performance appraisal.

Table 4.3.12 Organization Performance Appraisal for its Employees

Category	Frequency	Percentage
Yes	84	82
No	12	12
No response	6	6
Total	102	100

Source: Author (2011)

Most of the small and medium enterprises within Mombasa County had performance appraisal done for their employees. 82% responded that they had performance appraisal while 12% did not have. 6% did not respond to this question.

This question was followed by how the employees were motivated of which 65% indicated giving them bonuses, 12% indicated training, 7% indicated team building activities like parties whereas 16% did not motivate them or gave no response.

4.4. Challenges is Strategic Management Practices

Documented literature has indicated that organizations face various challenges in the formulation and implementation of strategic management practices. These challenges sometimes make formulated strategies not to be fully implemented making the whole process ineffective. Organizations need to identify and understand the challenges they face in-order to counter them upfront to ensure success of their strategic management practices.

Respondents were asked to identify and rate the challenges they face in implementing strategic management practices on a five point Likert scale as follows:- Not challenging-1; Least challenging-2; Fairly challenging-3; Challenging-4; Very challenging-5.

Table 4.4.1 gives a summary of how various challenges were rated.

Table 4.4.1: How Various Challenges Are Rated In Strategic Management Practices As Experienced By the Organizations:

Factors	1		2		3		4		5		No response	
	F	%	F	%	F	%	F	%	F	%	F	%
Resource inadequacy	5	5	7	7	33	32	27	26	18	18	12	12
Resistance to change	8	8	6	6	15	15	28	27	33	32	12	12
Organizational culture	15	15	23	23	32	31	13	13	7	7	12	12
Organizational politics	20	20	33	32	11	11	14	14	6	6	18	18
Communication barriers	30	29	6	6	24		12		12	12	18	18
Organizational barriers	30	29	6	6	24	24	24	24	6	6	18	18
Lack of top management support	33	32	15	15	18	18	6	6	12	12	18	18
Lack of employees support	48	47	10	10	4	4	5	5	17	17	18	18
Lack of stakeholders support	36	35	17	17	12	12	6	6	13	13	18	18
Government legislation and regulation	12	12	19	19	9	9	29	28	15	15	18	18

Source: Author (2011)

4.4.2 Distribution of responses across categories

Factors	Mode	Category
Resource inadequacy	33	Fairly challenging
Resistance to change	33	Very challenging
Organizational culture	32	Fairly challenging
Organizational politics	33	Least challenging
Communication barriers	30	Not challenging
Organizational barriers	30	Not challenging
Lack of top management support	33	Not challenging
Lack of employees support	48	Not challenging
Lack of stakeholders support	36	Not challenging
Government legislation and regulation	29	Challenging

Source: Author (2011)

From the analysis above, resistance to change and government legislation and regulation were considered as the most challenging in strategic management practices. This was followed by resource inadequacy and organizational culture. Other factors like organization barriers, lack of top management support and lack of stakeholders support as listed above were considered as not challenging in strategic management practices.

The respondents gave varying responses regarding the impact of these challenges to the organizations formal strategic management practices. The responses included; they created a negative impact on sales and general performance, low business, average performance, less revenue and the hinder organizational growth. This indicates the challenges lead to reduced business performance

4.5: Discussion of Findings

The study sought to achieve two objectives namely: i) To determine the extent of adoption of formal strategic management practices by the SMEs in Mombasa County; ii) To establish the challenges encountered by the SMEs in Mombasa County in adopting and implementing formal strategic management practices

To qualify as having adopted formal strategic management practices in complete form, the enterprises needed to show evidence of documentation of the strategy, intensive development of integrated strategies at various levels within the organization, the ability to take a long term view appropriate to the organization, possibly three to ten years and appropriate communication throughout the organization. In particular, the enterprises needed to have a Vision and Mission statements, Objectives in written form, evidence of documentation of the process which included a strategic plan and a formal communication system. In addition the enterprise had to have followed the identified procedures of strategic management which include: formulation of the company's mission, conducting an analysis that reflects the company's internal conditions and capabilities, assessing the company's external environment, analyzing the company's options by matching its resources with the external environment, identifying the most desirable options by evaluating each option in light of the company's mission, selecting a set of long-term objectives and grand strategies that will achieve the most desirable options, developing annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies, implementing the strategic choices by means of budgeted resource allocation and evaluating the success of the strategic process as an input of for future decision making.

Although there was evidence of external and internal analysis based on the responses to the questions on environmental analysis, the fact that most of the SMEs believed that they were operating in a relatively stable environment indicates a lack of knowledge of the changes that are happening in the environment. According to Johnson and Scholes (1999) organizations need to carry out strategic analysis in order to understand the

strategic position of the organization in terms of its external environment, internal resources and competences, and expectations and influence of stakeholders.

This study found out that more than 50% of Small and Medium enterprises had adopted formal strategic management practices although the completeness of the process differed across enterprises. The adoption tended to increase with the size of the organization with all the enterprises with more than 50 employees having adopted formal strategic management practices in complete form with the evidence of a strategic plan in place. All those who responded as having not documented the objectives or did not have a strategic plan were in the 10-20 employees bracket. These findings are consistent with the documented literature as scholars like Kohtamaki et al. (2008) had also indicated that planning in small enterprises is often done only informally and not on a regular basis.

On the second objective which sought to identify the challenges faced by SMEs in adopting formal strategic management practices, the study found out that government legislation and regulations, resistance to change, resource inadequacy and organization politics ranked high in order of most challenging factors. Less than 50% of the respondents indicated having changed the structure to cater for new strategies despite many of them having existed for more than 10 years. Reed and Buckley (1988) in their discussion on problems associated with strategic management practices acknowledged the challenge and the need for a clear fit between strategy and structure.

Corboy and O'Corrbui (1999) identify a lack of understanding of how the strategy should be implemented as a major challenge to strategic management practices. Improper communication systems results to a lack of understanding and hence customers and staff not fully appreciating the strategy. This may explain the prevalence of the challenge of resistance to change among the respondents.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The formality of strategic management systems varies widely among companies (Pearce & Robinson, 2005). Formality refers to the degree to which participants, responsibilities, authority and discretion in decision making are specified. Greater formality is usually positively correlated with the cost, comprehensiveness, accuracy and success of planning. A number of forces determine how much formality is needed in strategic management. These forces include; the size of the organization, its predominant management styles, the complexity of its environment, its production process, its problems, and the purpose of its planning system.

The environment turbulence necessitates an equal need for rapid recognition of appropriate strengths, opportunities, threats and weaknesses. Adoption of formal strategic management practices enables an organization to be aware of them and develop appropriate strategies that spur the growth of their businesses.

5.2 Summary of Findings

It was found out that most small and medium enterprises had vision and mission statements in place. The SMEs that took part in the study also had objectives set for the organizations. However, in relation to the ones that had objectives in written form there was a difference of about 30% indicating that the 30% had their objectives on an informal basis. The number of those that had strategic plan reduced even further to 55% although 66% had prepared annual work plans. A large proportion at 69% indicated that strategic plans were by the top management and communication to staff done by word of mouth. This indicates a prevalence of informal strategic management system where planning is done by the owners of the organizations and communicated informally to the other staff. There was evidence of external and internal analysis based on the responses to the

questions on environmental analysis. However, 88% of the respondents believed to be operating in a relatively stable environment raising the question on the extent of the environment analysis and understanding of issues.

In comparison to literature review which had indicated that small and medium enterprises have not adopted formal strategic management practices, this study found out Small and Medium enterprises had adopted formal strategic management practices although the extent of adoption was less than 50% of all the SMEs included in the study and completeness of the process differed across enterprises. The adoption tended to increase with the size of the organization with all the enterprises with more than 50 employees having adopted formal strategic management practices in complete form. All those who responded as having not adopted the formal strategic management practices were in the 10-20 employees bracket. Less than 50% of the respondents indicated having changed the structure to cater for new strategies.

On the second objective which sought to identify the challenges faced by SMEs in adopting formal strategic management practices, the study found out that government legislation and regulations, resistance to change, resource inadequacy and organization culture ranked high in order of most challenging factors. Lack of top management, employees and stakeholders support as well as organization politics and communication barriers were viewed as not challenging.

5.3 Conclusion

This study aimed at assessing the adoption of formal strategic management practices among the small and medium enterprises within Mombasa County. Specifically, the study sought to achieve two objectives namely: i) To determine the extent of adoption of formal strategic management practices by the SMEs in Mombasa County; ii) To establish the challenges encountered by the SMEs in Mombasa County in adopting and implementing formal strategic management practices. The study was able to achieve its objectives in determining the extent of adoption of formal strategic management practices

among the SMEs within Mombasa County and the challenges faced in implementing these practices.

The study utilized a combination of both quantitative and qualitative techniques in the collection of data. The study covered all small and medium enterprises within Mombasa County which is home to the second largest city in Kenya and the largest sea port in Eastern Africa. The target respondents were the owners of the enterprises or the top management staff who the researcher viewed as responsible for shaping the strategic direction of the enterprises.

The study found out that 53% had documented their strategy process in form of written plans and objectives. However, the communication of the plans was not elaborate as 53% communicated by word of mouth indicating an informal communication system. The researcher thus concludes that the adoption of formal strategic management practices among SMEs within Mombasa County is still less than 50%. Government legislation and regulations, resistance to change, resource inadequacy and organization culture ranked high in order of most challenging factors.

5.4 Recommendation for Policy and Practice

Based on the findings of the study, it is expected that the small and medium enterprises will gain a better understanding of the formal strategic management practices and challenges that they may encounter in implementing these practices. Well developed planning and implementation of strategic management practices are formidable weapons for the small and medium enterprises in acquiring and sustaining a competitive edge.

In addition, undertaking impact analysis of environmental changes to the organization could help practitioners in the field ensure that they develop rational strategies to effectively respond. The following measures are highly recommended:-

Environmental scanning on a continuous basis:- SMEs should not assume that they are operating in a relatively stable environment without the knowledge and understanding of

what is actually happening in the environment. Internal and external environment scanning is key if formal strategic management practices are to be successful.

SMEs need to adopt the practice of documenting strategic management practices for example having a strategic plan to ensure continuity of the organizations even in the absence of the entrepreneurs who own the organizations. This would enable the growth the SMEs especially from small size to medium size and thus eliminate the existing problem of the missing middle in developing and less developed countries.

There is need for sensitization of SMEs on various government policies and legislations so that they can know how they affect them in a positive way and not just view them as a challenge. There is also need to carry out intensive training on strategic management practices as inconsistencies were found where formality is adopted for some practices and informality maintained for others.

5.5 Limitation of the Study

One of the limitation of the study was that not all the enterprises targeted responded to the questionnaires. Some also did not complete the questionnaire leaving some questions with no response. It was not possible to establish what non response meant as further investigation did not yield any responses.

The other limitation was that in some enterprises, the top management or the owners who were the initial targeted respondents were not available or were too busy to fill the questionnaires. The filling of the questionnaires was delegated to junior staff but the researcher believed that the junior staff were also well conversant with the organizations management practices and thus gave objective responses. However, some questions were viewed as seeking rather confidential information and the junior staff in some cases declined to provide information. There was also a time constraint limiting the depth of the study.

5.6 Suggestion for further Research

This study aimed at establishing the adoption of strategic management practices among the SMEs within Mombasa County. The finding of this study, it is hoped will contribute to the existing body of knowledge and form a basis for future research. Future studies could focus on particular strategies employed by SMEs. This will shed light on whether the strategies are effective and if they are fully implemented. Further research could also be done on the impact of formal strategic management practices on the SMEs performance. Similar studies could be replicated to confirm the findings.

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APPENDICES
Appendix 1

Questionnaire

PART I: GENERAL INFORMATION AND THE OPERATING ENVIRONMENT

(1) Job

Title.....

(2) Number of years since joining the firm (Tick one)

0-2 3-5 5-10 Over 10 yrs

(3) Firm ownership (Tick one)

Sole Proprietor Partner ship Others (Please specify)

(4) For how long has the firm been in operation? (Tick one)

0-2 3-5 5-10 Over 10 yrs

(5) How many employees does the firm have? (Tick one)

10-20 21-50 51-100 Over 100

(6) What Industry does your firm belong? (Tick one)

Manufacturing	<input type="checkbox"/>	Wholesale and Retail	<input type="checkbox"/>
Education	<input type="checkbox"/>	Clearing and Forwarding	<input type="checkbox"/>
Hotel and Restaurants	<input type="checkbox"/>	Health	<input type="checkbox"/>
Tours and Travel	<input type="checkbox"/>		

Others (please specify)

.....

The Environment

(7) How would you describe your business operating environment within the last five years? (Tick one)

- | | | | |
|-------------|--------------------------|---------------------------|--------------------------|
| a)Turbulent | <input type="checkbox"/> | b)Relatively stable | <input type="checkbox"/> |
| c)Irregular | <input type="checkbox"/> | d)Others (Please specify) | <input type="checkbox"/> |

(8) Do you consider the following as having an impact in the way your business operates: Indicate whether; **strongly agree-1, Agree-2, Strongly disagree-3, disagree-4, don't know-5.**

- | | | | |
|---------------------------------|--------------------------|---|--------------------------|
| a) Political environment | <input type="checkbox"/> | g)Government directives and legislature | <input type="checkbox"/> |
| b)Competition | <input type="checkbox"/> | h)Change in top management | <input type="checkbox"/> |
| c)Changes in economic situation | <input type="checkbox"/> | i)New products/new markets | <input type="checkbox"/> |
| d)Population changes | <input type="checkbox"/> | j)Globalization | <input type="checkbox"/> |
| e)Technological Changes | <input type="checkbox"/> | k)Restructuring and re-engineering | <input type="checkbox"/> |
| f)Climatic changes | <input type="checkbox"/> | | |

Others (please specify)

.....

PART II: FORMAL STRATEGIC MANAGEMENT PRACTICES AND CHALLENGES

(9) Do you have a Mission and Vision statements for your organization?

- Yes No

(10) Do you have objectives set for your organization?

- Yes No

(11) Are the objectives in written form?

- Yes No

(12) Do you have a strategic plan? Yes No

(13) If yes, how is the strategic plan formulated in your organization?

a) Formal meetings Yes No

b) Informal meetings Yes No

c) By the top management Yes No

d) Outsourcing Yes No

Others (please specify)

.....

(14) Indicate the extent to which the following factors are considered in formulation of strategies: Use the following 5-point scale.: **Never -1; Seldom -2; Occasionally -3; Frequently -4; Always -5**

a) Political and legal developments

e) Technological change

b) General economic trends

f) Social cultural factors

c) Competition

g) Organization internal resources

d) Market trends

h) Customer service

(15) How is the strategic plan communicated to the staff

a) Word of mouth

b) Posters

c) Circulars

Others (Please specify)

.....

(16) Do you prepare annual work plans? Yes No

(17) In your opinion, are the work plans based on the documented objectives?

Yes No

(18)How often do you review the work plans?

Weekly Monthly Quarterly Never

Other (Please specify).....

(19)Is your organization structure changed to cater for new strategies?

Yes No

(20)If yes, how has the structure changed in the last five years? Give details.....

.....
.....

(21)Do you have performance appraisal for your employees? Yes No

(22)How are the employees motivated in your organization? Please give details

.....

(23)Using the criteria below, how would you rate the following challenges in strategic management practices as experienced in your organization?

Not challenging -1; least challenging -2; fairly challenging -3; Challenging -4; Very challenging -5.

- | | | | |
|---------------------------|--------------------------|---|--------------------------|
| a)Resource inadequacy | <input type="checkbox"/> | f)Organizational structure | <input type="checkbox"/> |
| b)Resistance to change | <input type="checkbox"/> | g)Lack of top management support | <input type="checkbox"/> |
| c)Organizational culture | <input type="checkbox"/> | h)Lack of employees support | <input type="checkbox"/> |
| d)Organizational politics | <input type="checkbox"/> | i)Lack of stakeholders support | <input type="checkbox"/> |
| e)Communication barriers | <input type="checkbox"/> | j)Government legislation and regulation | <input type="checkbox"/> |

Any other (please specify)

(24)Briefly explain the impact of these challenges to your organizations formal strategic management practices

Thank you for filling the questionnaire

Appendix 2

Letter of Introduction

Date:

To the Respondent

Dear Sir/Madam

REF: REQUEST FOR YOUR PARTICIPATION IN MY ACADEMIC RESEARCH WORK

I am a Post Graduate student undertaking a Master Degree in Business Administration (MBA) at the School of Business, University of Nairobi.

In order to fulfill the degree requirements, I am currently conducting a management research project on Adoption of Formal Strategic Management Practices by Small and Medium Enterprises within Mombasa County. Your Organization has been chosen to participate in this research and I would highly appreciate if you would kindly spare some of your precious time to complete the attached questionnaire for me.

The information sought from you will be treated with utmost confidentiality and the results of this study will be used for academic purposes only. Your name and that of the organization will not be mentioned in the report.

Thank you in advance

Yours faithfully

IRENE K. IRUNGU

D61/P/8507/2005

Appendix 3

List of Small and Medium Enterprises

- | | |
|--|---|
| 1. KIEMBENI HOSPITAL | 37. MUNGA REGISTRARS |
| 2. MAKADARA CHEMIST | 38. KANKAM EXPORTERS LIMITED |
| 3. QUEES COLLECTION BOUTIQUE AND LAUNDRY | 39. A I HAYANGA & ASSOCIATES |
| 4. AURIC JEWELLERS | 40. DR. E. A. AWIMBO MEDICAL CLINIC |
| 5. BIAPROCADE TOURS & SAFARIS LIMITED | 41. GENUINE FREIGHT SERVICES |
| 6. SHANZU BOYS PROBATION HOSTEL | 42. TRIBERTO (K) LIMITED |
| 7. KWA HOLA PHARMACY | 43. ACTIVE FORWARDERS |
| 8. ROY HAULIERS | 44. HAKIMI STATIONERS |
| 9. ST GEORGE ACADEMY | 45. ML AL WENY & CO ADVOCATES |
| 10. ST. LWANGA PRIMARY SCHOOL | 46. KILINDINI BAR |
| 11. QUALITY TRUCKS & EQUIPMENT LTD | 47. CHILDREN OF AFRICA ORGANIZATION |
| 12. MACROMEDIA LTD | 48. DATOO KITHIHIKI LTD |
| 13. ST. VALERIA MEDICAL CLINIC | 49. TECH BIZ LTD |
| 14. MAGONGO MEDICAL STORES | 50. INTERSAT AFRICA LTD |
| 15. NYABOKE NURSERY & PRIMARY SCHOOL | 51. COAST METAL TRADERS |
| 16. ZEIN ENGINEERING WORK | 52. NEXT COMPUTERS |
| 17. PORT REITZ SCHOOL | 53. FAIR FIELD ACADEMY |
| 18. SEASIDE GIRLS ACADEMY | 54. PENGUIN FOREX BUREAU |
| 19. RMK LUXURY COACH | 55. JIM GARMENTS |
| 20. SAIFEE FOUNDATION MEDICAL CENTRE | 56. CITY BOOKSHOP LIMITED |
| 21. TRICOM | 57. ETHIOPIAN LIMITED |
| 22. ARUSHA GUEST | 58. CHARITIES LOGISTICS LIMITED |
| 23. KONGOA GENERAL LTD | 59. CHEVRON EXPRESS SERVICES |
| 24. GREEN ISLAND SHIP HANDLERS (K) LTD | 60. STAR OF THE SEA HIGH SCHOOL |
| 25. AUTOSELECTION (K) LIMITED | 61. FURNITURE RAMA LTD |
| 26. MANKEN GEO-HYDRO TECH CONSULTANTS | 62. RAKAL LTD |
| 27. KUMAR AUTOWORKS | 63. HATIMI SERVICE STATION |
| 28. OCEN DISTRIBUTORS LTD | 64. WESTON LOGISTICS LTD |
| 29. ROMAGECO K LTD MOMBASA | 65. FINTBURY TRADING LTD |
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73. MINAZINI ENTERPRISES LTD
74. DAP LOGISTICS LIMITED
75. VALUE CARGO LIMITED
76. MARKETING SOCIETY OF KENYA
77. APITAL REALTIME LIMITED
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80. MOHAMMED TRADING
81. BUROOJ AUTO SPARES LTD
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105. HARDSTUFF TRADERS COMPANY LTD
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107. STUDIO CLUB
108. TML TAMARIND
109. KISIMANI BUTCHERY/HOTEL
110. AL-HABIB HARDWARE
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114. GENSAT COSMETIC SHOP
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130. NAJMI GLASS AND ALUMINIUM ENTERPRISES
131. GEOMEDIA ENTERPRISES
132. MARERENI ENTERPRISES
133. FLATS PHARMACEUTICALS
134. WHITE HOLISE PUB
135. MAKUTI PLACE
136. WAQASH LIMITED
137. MWADORI ENTERPRISES
138. SAXAR ENTERPRISES
139. IBRAHIM ABDULLA BARKADLE ENTERPRISES
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