

**STRATEGIC PLANNING PRACTICES AND GROWTH OF SMALL
AND MEDIUM ENTERPRISES (SMEs) WITHIN THE MICRO
FINANCE SECTOR IN NAIROBI COUNTY, KENYA**

BY

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DECLARATION

This research study is my original work and has not been presented for a degree in any other university.

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This research study has been approved for examination with my approval as the university supervisor.

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DEDICATION

I wish to dedicate this project to my Daughter, Keyshia Naliaka, my beloved Wife Caroline Ntinyari, my Mum Rabeccah Nngutuku, my late Father Mr. Patrick Nngutuku and Friends, for their support that has enabled me to complete this research study. Above all our creator for the protection and strength to progress daily

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TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	ivv
LIST OF TABLES	viii
LIST OF FIGURES	viii
ABSTRACT	xii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Concept of strategy.....	1
1.1.2 Strategic planning process.....	3
1.1.3Organizational growth.....	5
1.1.4Microfinance sector.....	6
1.1.5 Microfinance sector SMEs in Nairobi County.....	8
1.2 Research problem.....	10
1.3 Objectives of the Study.....	12
1.4 Value of the Study.....	12
CHAPTER TWO	14
LITERATURE REVIEW	14
2.1 Introduction`.....	14
2.2 Theoretical Foundation.....	14
2.2.1 Game theory.....	14
2.2.2 Resource based theory Perspective.....	16
2.3 Strategic planning practices and growth of SMEs.....	18
2.3.1 Basic Elements of Strategic Planning Process.....	18
2.3.2 Forecasting as a basis of strategic planning.....	19
2.3.3 Strategic innovation systems and growth of SMEs.....	20
2.3.4 Formality of strategic plans and growth of SMEs.....	22

2.4 Conceptual framework.....	24
2.7.1 Operationalization of the conceptual framework.....	25
CHAPTER THREE	26
METHODOLOGY.....	26
3.1 Introduction	26
3.2 Research Design.....	26
3.3 Population of the Study	26
3.4 Data Collection.....	27
3.5 Data Analysis	27
CHAPTER FOUR.....	29
DATA ANALYSIS AND PRESENTATION	29
4.1 Introduction	29
4.2 Response Rate	29
4.3 Demographic information	30
4.3.1 Response by gender	31
4.3.2 Length of service.....	31
4.3.3 Highest education levels	32
4.4 SME Growth	33
4.5 Mission, Vision, Strategies and Action Plans.....	36
4.6 Forecasting	38
4.7 Strategic Innovation Systems.....	41
4.8 Formality of Strategic Plans.....	43
4.9 Pearson Correlation Analysis	45
4.10 Regression Analysis.....	47
4.10.1 Model goodness of fit	48
4.10.2 Analysis of Variance (ANOVA).....	49
4.10.3 Regression coefficients of determination	50

CHAPTER FIVE.....	52
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS	52
5.1 Introduction	52
5.2 Summary of Findings	52
5.3 Conclusion.....	55
5.4 Recommendations.....	56
5.5 Suggestions for further studies.....	57
REFERENCES	58
APPENDICES	62
APPENDIX I: COVER LETTER	62
APPENDIX II: QUESTIONNAIRE.....	63
APPENDIX III: Licensed DTM Institutions Within Nairobi County	71
APPENDIX IV: Work Plan.....	72
APPENDIX V: Budget.....	73

LIST OF TABLES

Table 4.1 Response rate	29
Table 4.2 Respondents' gender	30
Table 4.3 SME Growth.....	33
Table 4.4 Mission, Vision, Strategies And Action Plans	35
Table 4.5 Forecasting.....	37
Table 4.6 Strategic Innovation Systems	39
Table 4.7 Formalities of Strategic Plans.....	41
Table 4.8 Pearson correlation matrix	43
Table 4.9 Model of Goodness of Fit	45
Table 4.10 Analysis of Variance (ANOVA)	46
Table 4.11 Regression coefficient results.....	47

LIST OF FIGURES

Figure 2.1: Conceptual Framework	24
Figure 4.1 Length of service.....	31
Figure 4.2 Respondents' highest levels of education.....	32

ABSTRACT

Small and Medium Enterprises (SMEs), play a major role in economic development around the world. Previous studies pertinent to strategic planning and growth in SMEs have largely focused on particular elements in the strategic planning process and how the same influences SME performance. This includes large corporations and in the public sector, leaving the association between strategic planning and SME Growth particularly among Micro Finance Institutions largely unexplored. Against this background, the present study seeks to answer the question: What is the nature of strategic planning practices and how do they influence growth of SMEs within the micro-finance sector in Nairobi County? More specifically, the study sought to determine strategic planning practices by SMEs within the micro-finance sector in Nairobi County and to determine how such practices contribute to the growth of the SMEs. The study took an exploratory research design where the units of analysis comprised of small and medium enterprises within the micro-finance sector within the Nairobi County. The study involved a census study to cover all the nine (9) licensed Deposit Taking Micro-finance (DTM). Semi-structured questionnaires were used to collect data at the premises of the sampled SMEs, using an administered questionnaire. In each of the nine DTMs, the researcher purposively administered the questionnaires to three respondents across the three management levels, i.e. top, middle and lower cadre for each micro-finance SME. This is because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analysis was used for data analysis. Findings reveal that because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analysis was used for data analysis. Results from ANOVA statistics further reveal that Growth among MFI SMEs in Nairobi County has a significant joint relationship with Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting which is significant at 5 percent level of significance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMEs) play a major role in economic development in the world. Studies indicate that in both advanced economies and developing economies, SMEs contribute on average 60 percent of total formal employment in the manufacturing and service sectors (Mohutsiwa, 2012). Strategic planning and thinking is important for small firms to be able to face global competition, technological change and increased dynamics in markets. Even if many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms.

1.1.1 Concept of strategy

Strategy can be defined as an action performed by the firm in order to achieve its business objectives (Kargar and Parnell, 2010). Strategy can be seen as a pathway to move a concept or an idea from the inventive state to the actual positioning in a competitive environment (Jennings and Beaver, 2009) or as a roadmap to the planned result (Grant, 2008). In general, strategic management is regarded as long-term oriented plan (at least three years), directed towards future yield potentials, substantial, holistic, and predominantly associated with the highest management level which determines the vision, mission, and culture of the enterprise (Andersen, 2010).

From a corporate perspective, strategy can be defined as an approach to reach corporate goals in order to be successful on a long-term basis (Pearce and Robinson, 2011). The discipline of strategic management was formed in the 1980's based on advancements in the field of strategic planning.

Kim and Mauborgne (2011) identify three basic levels of strategy. These are corporate, business and functional. Corporate strategy is primarily concerned with identifying the set of different businesses a company is to indulge in i.e. the various businesses in which the company will compete. These may be businesses within the same industry or in a different industry. Strategy at this level also specifies how total corporate resources will be allocated among the various businesses that the company is involved in. Business level strategy focuses on how each business unit will compete in a particular industry, market or market segment. It addresses issues on how to develop and maintain a competitive edge in the market. The business unit management has to ensure the different functional activities are integrated in such a way as to achieve and maintain the desired competitive competence in the market (Piercy, 2008).

Finally, functional level strategy primarily focuses on achieving maximum use of resources to attain maximum resource productivity. It addresses issues regarding the coordination and integration of activities within a single function. Of particular relevance to the present study, the corporate and functional levels of strategy are adopted.

1.1.2 Strategic planning process

Strategic planning is the attempt to prepare for all eventualities by abstraction and thus to account for the complexity and the dynamics of the environment. This entails the need to build alternative future scenarios and configurations (Berman et al., 2011). Although the future naturally cannot be foreseen, it is possible to prepare for the future or alternative futures and align the enterprise accordingly. In contrast to strategic management, it is not about visionary future concepts, but rather about extrapolating present development tendencies into the future. Hence, strategic planning does not provide visions but, more specifically, guidelines and programs for the achievement of specific goals. Consequently, strategic planning specifies the basic conditions as well as the scope for future business activities and thereby is a central instrument for strategic management, which in turn, is responsible for the goals and visions (Pearce and Robinson, 2011). The investigation of young small enterprises is of special interest since their strategies have to be developed in a highly emergent way, reflecting their fast changing requirements.

As Rowley et al. (2010) point out, identification of the enterprise's vision and mission is the first step of any strategic planning process. The vision sets out the reasons for enterprise's existence and the 'ideal' state that the organization aims to achieve. The mission identifies major goals and performance objectives. Both are defined within the framework of the university's philosophy, and are used as a context for development and evaluation of intended and emergent strategies. Once the vision and mission are clearly identified, the enterprise must analyze its external and internal environment (Caruthers et al., 2009). The environmental scan, performed within the frameworks of the Five Forces Model and SWOT, analyzes information about organization's

external environment (economic, social, demographic, political, legal, technological, and international factors), the industry, and internal organizational factors. The enterprise then conducts a gap analysis by evaluating the difference between their current position and desired future. As a result, an enterprise can develop specific strategies and allocate resources to close the gap (CSUN strategic planning leadership retreat, April 1997), and achieve its desired state (Lerner, 2009).

Benchmarking is the fourth step, entailing measuring and comparing the enterprise's operations, practices, and performance against others is useful for identifying best practices. The enterprise then determines its strategic issues based on (and consistent with) its vision and mission within the framework of environmental and other analyses. To address strategic issues and develop deliberate strategies for achieving their mission, enterprises set strategic goals, action plans, and tactics during the strategic programming stage. Unpredicted and unintended events frequently occur that differ from the enterprise's intended strategies, and the enterprise must respond (Mintzberg, 2007).

Periodic evaluations of strategies, tactics, and action programs are essential to assessing success of the strategic planning process. It is important to measure performance at least annually (but preferably more often), to evaluate the effect of specific actions on long-term results and on the organization's vision and mission (Rowley et al., 2008). After assessing the progress of the strategic planning process, the enterprise needs to review the strategic plan, make necessary changes, and adjust its course based on these evaluations. With time, people in the enterprise routinely make their decisions within the framework of the organization's strategic vision and

mission. Strategic planning becomes an organizational norm, deeply embedded within the organization's decision-making process, and participants learn to think strategically as part of their regular daily activities (Lerner, 2009).

1.1.3 Organizational growth

Growth is an important performance element and success measure in entrepreneurship. For Africa's economy, the contribution of the SME sector to job opportunities is even more important.

Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and relative employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment. Output and market share vary greatly within industries and is therefore hard to compare, total assets also depends on the industry's capital intensity and changes over time and profits is not that relevant unless measuring size over a long period of time (Gage and Leshner, 2012). Therefore sales and employment are the two most important indicators measuring firm's size and growth. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments. Sales figures are on the other hand affected by inflation and exchange rates and it is difficult to compare sales figures between industries. That is why it is important to use multiple growth indicators to study firm growth (Hertog, 2008).

The World Bank researchers argued that constraints facing growth of SMEs are complex tax systems (World Bank 2010). For SMEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Strategic actions need to be done in improved infrastructure, costs and IT training and in information relating to the business opportunities that e-commerce can generate (Harland and Lamming, 2009).

1.1.4 Microfinance sector

Microfinance refers to the small-scale financial services that involve mainly credit and savings services to the poor (Robinson, 2009). Microfinance has evolved to also include the provision of insurance, housing and investment services for low-income people. Globally, it is providing an avenue for the poor to enrich their livelihoods and to have a greater impact on their countries' economic growth (The Economist, 2012). The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 clients. Although serious operations of micro finance can be traced to 1984 when the Kenya Rural Enterprise Programme (K- Rep) was formed as a nongovernmental organizations support programme for Small and Micro Enterprises (Dondo, 1994). Microfinance is also rapidly becoming Kenya's most accessible and affordable financial service (Atieno, 2011).

The Kenyan Microfinance sector comprises of a large and diverse group of institutions, which can be grouped in 3 broad categories: the informal, the formal subsidized and the formal non-subsidized. The Informal category comprises of grassroots organizations including Rotating

Savings and Credit Associations (ROSCAs) and money lenders. Two striking features of informal microfinance institutions are that most of them involve savings transactions and that most are membership based. The number of informal organizations is not known with certainty. The sum of money transacted is also not known but it runs in billions of shillings annually.

The formal subsidiary category comprises of formally registered organizations whose financial operations are not regulated. The main institutional actors in this category are microfinance institutions registered as NGOs, as companies limited by guarantee and as limited liability companies. There are a total of 56 Microfinance NGOs, companies limited by shares, including Faulu Kenya, Opportunity International, WEDCO, Kenya Women Finance Trust (KWFT), Micro Kenya; 4 companies limited by guarantee, including SMEP, Jitegemea credit and Kenya ECLOF; 2 parastatals (KIE and AFC) and 71 financial services associations.

The formal non-subsidized category comprises of formally registered and regulated institutions. They include: 1 Savings Bank, 1 Post Bank, 3500 SACCOS, 4 Commercial Banks downscaling (Co-operative, Barclays, KCB and Fina) and 3 Microfinance Banks (K-Rep, Equity and Family).

1.1.5 Microfinance sector SMEs in Nairobi County

Microfinance institutions are popular source of finances to SMEs in Kenya. They are more flexible with their lending requirements. To this end, the present study will be interested in 9 Registered SMEs within the Microfinance sector, particularly the deposit taking institutions under the formal category all of which headquartered in Nairobi County and they include:Faulu Kenya DTM Limited, Kenya Women Finance Trust DTM, SMEP DTM, U & I Microfinance

Limited, Rafiki DTM Ltd, Remu DTM, Uwezo DTM, Century DTM Ltd and Sumac Credit DTM Ltd (Ministry of Finance and Planning, 2010). A detailed list of the same is provided in the appendices. These institutions play a significant role in the Kenyan economy by mobilizing savings, taking deposits, lending money to the savers, undertaking money transfers and providing a host of other services derived from their wide range of financial expertise.

The Nairobi City County is a creation of the Constitution of Kenya 2010 and successor of the defunct City Council of Nairobi. It operates under the auspices of the Cities and Urban Areas Act, The Devolved Governments Act and a host of other Acts (GoK, 2010). Nairobi has grown around its central business district. This takes a rectangular shape, around the Uhuru Highway, Haille Selassie Avenue, Moi Avenue, and University Way. It features many of Nairobi's important buildings, including the City Hall, University of Nairobi and Parliament Building. The city square is also located within the perimeter. Most of the skyscrapers in this region are the headquarters of businesses, branches key educational institutions and corporations, such as I&M and the Kenyatta International Conference Centre. The United States Embassy bombing took place in this district, prompting the building of a new embassy building in the suburbs. In 2011, the city was considered to be about 4 million residents. A large beautification project took place in the Central Business District, as the city prepared to host the 2006 Afri-Cities summit. Iconic buildings such as the Kenyatta International Conference Centre had their exteriors cleaned and repainted (Perceptive Travel, 2011).

Nairobi is home to the Nairobi Stock Exchange (NSE), one of Africa's largest. The NSE was officially recognized as an overseas stock exchange by the London Stock Exchange in 1953. The exchange is Africa's fourth largest in terms of trading volumes, and fifth largest in terms of Market Capitalization as a percentage of GDP. Nairobi is the regional headquarters of several international companies and organizations (Woldie et al., 2008).

In 2007, General Election, Young & Rubicam, Google, Coca-Cola, Airtel, and Cisco Systems relocated their African headquarters to the city. The United Nations Office at Nairobi hosts UNEP and UN-Habitat headquarters. Several of Africa's largest companies are headquartered in Nairobi. KenGen, which is the largest African stock outside South Africa, is based in the city. Kenya Airways, Africa's fourth largest airline, uses Nairobi's Jomo Kenyatta International Airport as a hub. Goods manufactured in Nairobi include clothing, textiles, building materials, processed foods, beverages, and cigarettes. Several foreign companies have factories based in and around the city. These include Goodyear, General Motors, Toyota Motors, and Cola. Nairobi has a large tourist industry, being both a tourist destination and a transport hub (Roger et al., 2009).

Nairobi County is also home to a host of SMEs engaging in sectors such as agriculture, tourism, health, transport, industrial, communications, education, service and the Microfinance sectors. Here, most SMEs are small, often rural-based, family-owned, specialized independent enterprises that rely on low cost raw materials, energy, labor, technology and capital. Their owners and managers might lack education, business training and rely on past experience in decision making (Woldie et al., 2008). Challenges facing the SMEs sector in the country include

gender imbalance, entrepreneurial burnout, politics, economic, legal and regulatory environment, capital, markets, infrastructure, networks, technology, management skills and HIV. In addition this three out of every five SMEs fail within their first years of operation (Russell, 2008).

1.2 Research problem

An economic survey by OECD (2013) reports that in 2012 growth segmentation was devised which is based upon employment or turnover growth among SMEs in OECD countries. This was based upon the distribution of SME employers in terms of the percentage increase or decrease in numbers employed in the last 12 months (subject to a threshold of the actual increase/decrease in numbers), or the percentage increase or decrease in turnover in the last 12 months (subject to a threshold of the actual increase/decrease in turnover). A detailed segmentation of ten groups was devised, which was further categorized into two broad groups, growers and shrinkers. SME employers that had increased the numbers employed by five per cent or more in the last year with a minimum of three new employees, or SME employers that had increased turnover by five per cent or more in the last year, with a minimum increase of £50,000. SME employers that had decreased the numbers employed by five percent or more in the last year with a minimum of three employees lost, or SME employers that had decreased turnover by five per cent or more in the last year, with a minimum decrease of £50,000. In addition, this group could not have grown employment or turnover by five per cent or more.

A similar survey conducted by the United Nations Industrial Development Organization (UNIDO) over the year 2013 reported that in Africa, at the start of 2013 there were an estimated 12.9 million businesses in which employed 72.3 million people, and had a combined turnover of

\$7,300 billion. SMEs accounted for 99.9 percent of all private sector businesses in the, 59.3 percent of private sector employment and 48.1 percent of private sector turnover. SMEs employed 14.4 million people and had a combined turnover of \$5,600 billion. Small businesses alone accounted for 47 percent of private sector employment and 33.1 percent of turnover. Of all businesses, 62.6 percent (3.7 million) were sole proprietorships, 28.5 percent (1.4 million) were companies and 8.9 percent (434,000) partnerships. 27.5 percent of employment in SMEs was by financial and insurance sector. A common trend in conclusion for the above statistics was that strategic planning and management was attributed for the growers and failure to adequately implement a strategic plan for the shrinkers.

Previous studies pertinent to strategic planning and growth in SMEs have largely focused on particular elements in the strategic planning process and how the same influences SME performance. Miller (2008) for instance found a positive relationship between strategic planning and firm profitability and growth. Thompson (2010) found that visions can be considered sources of energy for achievement of formulated objectives. Wickham (2012) concludes that in order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives. Zimmerer (2011) further found that strategic planning can be beneficial for small firm performance, because it forces the entrepreneur to think about open business questions and search for solutions, and also encourages the entrepreneur's learning and making improvements. Locally, Olomi (2006) investigated whether SMEs have the adequate and requisite skills, competences and capacity to formulate strategic plans and exhibit growth, and concludes that there is a need for a study that provides a rigorous and systematic analysis concerning the strategic planning practices and growth process of local SMEs. Further, Wanjohi and Mugure

(2008), conceding that there is little published data on SME growth from a strategic planning point of view, note that it is important to conduct an investigation into the firm strategic factors affecting the successful growth of SMEs and in particular the strategic planning practices. Against this background, the present study seeks to answer the question: What is the nature of strategic planning practices and how do they influence growth of SMEs within the micro-finance sector in Nairobi County?

1.3 Objectives of the Study

The objectives of the study were:

- i. To determine strategic planning practices by SMEs within the micro-finance sector in Nairobi County.
- ii. To determine how such practices contribute to the growth of the SMEs.

1.4 Value of the Study

The study will be of utmost benefit among others, the managers and entrepreneurs in the SME sector. Managers in the SME sector will benefit, in that they might reconsider their current growth tools, should their SMEs be struggling to survive. They may be willing to try the tools and methods explored in the study and may feel the need for training for the purposes of improvement of their businesses with regard to general and financial performance measurement. It may also serve as an important exposition of the role of SMEs in the economy.

Entrepreneurs will also benefit as they will learn from the findings on the need to adequately assess their strategic plans based on the influence thereof on growth. They will be informed on the need to harness their entrepreneurial skills into determining the best strategic practices in order to enhance performance and firm growth.

In addition, SMEs will also benefit from the study findings, as they may serve to prevent many of them from failure in the sense that it could raise awareness for the need for training and the use of strategic best practices described in the study to measure financial performance. SMEs might then be able to foresee failure and change the course of their actions in time to prevent it. Finally the study may contribute to filling the gap in the literature pertaining to strategic planning for SME growth in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of pertinent literature. It covers both theoretical and empirical literature. Theoretical literature focuses on the Game theory and Resource based theory Perspective while the empirical literature covers the conceptualized elements of strategic planning practices in relation to SME growth.

2.2 Theoretical Foundation

This study reviews the following theories pertinent to strategic planning practices and growth of SMEs within the Micro-Finance sector.

2.2.1 Game theory

Game theory is the study of the ways in which strategic interactions among rational players produce out comes with respect to the preferences (or utilities) of those players, none of which might have been intended by any of them. Game Theory models the interaction between two or more players (Binmore, 2005). The theory attempts to create a model and to predict the outcome of a conflict between rational individuals, often with uncertainty and information asymmetry. We assume that the players are rational and that they all want to maximize their own expected utility. In game theory, each individual knows the strategies and payoffs available to everyone. However, they do not know the other players' choices of strategy. The outcome of one player affects all the other players (McMillan, 1991).

The theory has been traditionally used in military strategy (Siiman & Cruz, 1975; Bacharach, 1977). Kotler and Singh (1981) pointed out that competition in markets is somehow similar to competition in the battlefield. Since the first formalization of game theory by Von Neuman and Morgastern (1944), researchers have been debating about the possibility to apply game theory to solve marketing problems, and in particular to use it as a tool to predict competitive behavior (Herbig, 1991). Later on the debate has been extended to all the other possible uses of game theory in marketing. Management decisions about marketing mix have to be taken in situation of competition and variability in the business environment. Porter (1980) clearly states the relevance to consider the possible effects of competitor's strategic decisions on every level of managerial decision process.

The game theory is divided in two main approaches: the cooperative and the non-cooperative game theory. The actors in non-cooperative game theory are individual players who may reach agreements only if they are self-enforcing, while in cooperative game theory, the actors are coalitions, group of players. As Serrano (2007) points out, the fact that a coalition has formed and that it has a feasible set of payoffs available to its members is now taken as given. These two approaches of game theory imply two different forms to look at the same problem.

As Aumann (1959) puts it, "The game is one ideal and the cooperative and non-cooperative approaches are two shadows". Game theory models imply situations in which players make decisions to maximize their own utility, while the rest of the players do the same. The decisions of the latter affect each other utilities. Cooperative game theory looks for the possible set of outcomes, study what the players can achieve, which coalitions will be formed, how the

coalitions will distribute the outcomes and whether the outcomes are robust and stable (Sosic and Nagarajan, 2006). The decisions by players to maximize utility as espoused in the game theory can be contextualized in the present study as the adoption of strategic planning practices by SMEs in microfinance sector in an effort to maximize profitability and enhance growth.

2.2.2 Resource based theory Perspective

Resource dependence theorists argue that organizations attempt to obtain stability and legitimacy, which is achieved through interdependencies and the exercise of power and control (Pfeffer & Salancik, 1978). The effectiveness of organizations depends on their ability to acquire the resources needed for survival. According to Pfeffer and Salancik (1978), organizations can select one of four strategic choices or a combination of the four to balance their dependencies. Firstly, they may adapt to constraints. Secondly, they may alter interdependencies by merger or diversification. Thirdly, they may negotiate their environment by interlocking directorships/control or joint ventures. Fourthly, they may attempt, by political action, to change the legality of its environment. The importance of the resource-based view (RBV) of strategic management is manifest in its rapid diffusion throughout the strategy literature (e.g., Wernerfelt, 1984; Rumelt, 1984; Barney, 1986, 1991; Dierickx & Cool, 1989; Mahoney & Pandian, 1992).

Theoretically, the central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. Clearly, these ideas are not new. During the last 50 years, many management academics have contributed to the development of this topic. For example, Selznick's (1957) idea of an organization's 'distinctive competence' is directly related to the RBV. Also, Chandler's (1962) notion of 'structure follows strategy', as well as Andrews' (1971) proposal of an internal

appraisal of strengths and weaknesses, led to the identification of distinctive competencies. However, the founding idea of viewing a firm as a bundle of resources was pioneered by Penrose in 1959. Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give each firm its unique character. The notion of firm's resources heterogeneity is the basis of the RBV. The significance of the resource perspective as a new direction in the field of strategic management was broadly recognized with the path-breaking article by Wernerfelt (1984). Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights that differ from traditional perspectives.

Critical resources are the focus of the resource dependence model since it is important for organizational survival and growth. The organization therefore depends on external organizations and stakeholders for resources. Pfeffer and Salancik (1978) discuss three conditions that define the importance of particular resources to the organization. Resource criticality is whether the absence of the resource discontinues the operation and functioning of the focal organization; discretion over resource allocation and use is whether the focal organization has control over the resource in terms of its allocation and use; concentration of resource control is whether the focal organization can find the alternative sources of the resource or how far those organizations who control the resource have a monopoly over it. Previous studies offer many fragmented terms to explain how organizations manage their resource dependence (Mahoney and Pandian, 1992). Unlike big business and corporations in which the RBV normally applies, SMEs are constrained by resource, which calls for strategic management approaches to optimize the limited resources available to them in order to grow.

2.3 Strategic planning practices and growth of SMEs

A myriad of strategic planning practices exist mostly applied in the large corporations but also applicable in the SMEs (Phillips, 2010; O'regan and Ghobadian, 2011).

2.3.1 Basic Elements of Strategic Planning Process

These strategic elements that are crucial for strategic planning are namely Mission statement, vision, Objectives, Strategies and action plans. Mission and vision are crucial elements of strategic management. The difference between vision and mission is in its time component; mission determines what the company does, whereas vision shows what the company will become and do in the future (Thompson and Strickland2011). Visions can be considered sources of energy for achievement of formulated objectives (Thompson and Strickland 2012). Vision, Mission and Strategies are interconnected elements of entrepreneurial perspective; together they turn the entrepreneur's wish for a positive change into a managerial tool for achievement of that change (Wickham, 2009). Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create (Ireland, 2012). Even if in a small firm the entrepreneur usually acts as a strategic manager taking all strategic and operative decisions (Hunger and Wheelen2012), strategic vision forms a basis for strategy development and strategic planning.

In order for the firm to grow, the entrepreneur needs to formulate an exact, clear Mission and Vision for his or her firm (Wickham, 2008). In addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits. Indeed, planning of corporate or business strategy needs to be centered on the market, product and service (Hunger and Wheelen,

2010). Vision and objectives are the bases of strategies and strategic planning. For an entrepreneur it is beneficial to have a clear vision, high and growth-oriented objectives, and a belief that he or she can achieve the objectives (Baum et al., 2009). In order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives (Wickham, 2008). In addition to growth objectives, other objectives (financial or non-financial, personal or non-personal) may play important roles in actual achievement of small firm growth. Action plans on the other are the pathways or avenues that guide the entrepreneur on how to reach the set objectives. Action planning typically includes deciding who is going to do what and by when and in what order for the organization to reach its strategic goals.

2.3.2 Forecasting as a basis of strategic planning

Today, emerging small and medium-sized enterprises (SMEs) find themselves in an environment of constant technological change (Tschirky, 2008). These changes may become a significant threat when ignored by the company, but they may as well become valuable opportunities in case of anticipation. The growing awareness and the will to take advantage of this have led to a broader interest in the field of Technology Intelligence (TI) (Schraedr, 2012). Both general and SME specific TI approaches are not always sufficiently strategy-related. On the other hand, there exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making. These approaches in turn are sometimes not sufficiently technology-related and not enough adapted to SME's needs (Raduan et al., 2009).

There are four basic forecasting methods, which are normally used in combination: extrapolation, leading indicators, casual models, and probabilistic methods (Kargar and Parnell,

2013). The first method is to identify trends or cycles of some kind in order to find patterns in historical data. The second method is to seek correlation between past and future series of events. Casual models examine cause and effect; these forecasts are based on formulas and equations. Probabilistic methods deliver probability distributions rather than a single value. Since these methods depend on historical data and continuity, it is essential to identify precursors of possible breakthroughs (Martino, 2012). This environmental monitoring process involves collection of information in all environmental sectors, screening to sort out relevant information, evaluation to specify its significance, and establishment of hypotheses, and finally setting of a threshold level when to actually make the forecast. So far however, not much effort has been put into linking SME-relevant TI and strategic planning together (Grant, 2008).

2.3.3 Strategic innovation systems and growth of SMEs

The dynamic contribution of SMEs to innovation and technological development is often emphasized, with examples such as Silicon Valley often cited as hot beds of small business innovation (Pellissier and Kruger, 2011). The strengths and weaknesses of SMEs in terms of innovation and exporting have also been widely discussed: typically smaller firms are said to have advantages in terms of quick decision making, willingness to take risk and flexibility in responding to new market opportunities; while larger firms have advantages linked to scale and the availability of specialist resources. This suggests that ‘the relative strengths of large business are predominantly material (economies of scale and scope, financial and technological resources etc.), while those of small firms are mostly behavioral (entrepreneurial dynamism, flexibility, efficiency, proximity to the market, motivation)’ (McIlquham-Schmidt, 2010).

The research literature provides considerable evidence of the direct contribution of workforce, managerial and marketing skills to innovation and exporting, although the literature on SMEs specifically is relatively limited (Popoola, 2000). Globalizing markets and increasingly open models of innovation therefore pose significant skills and people management challenges for smaller firms. This in turn emphasizes the importance for SME innovation of the national ‘skills ecosystem’ and related legal, vocational education and industrial relations systems (Ungerer et al., 2007). Partnering or collaborative working for innovation or exporting, however, also offer SMEs potential route for accessing external skills and so overcoming internal skill constraints and therefore grow (Verbeen and Boons, 2009). In-house research and development (R&D) plays a crucial role in firms’ ability to generate new knowledge which may provide the basis for proprietary intellectual property and innovation. In broadly based studies of the determinants of innovation, firms’ R&D capability is almost always strongly and positively linked to innovation outputs, a relationship which is stronger in research-intensive industries (Tangand Zhang, 2012). Innovation has long been recognized as a key element of competition and dynamic efficiency of markets (Phillips, 2010). Innovators (product, process and organizational) should take market share from non-innovators and grow at their expense, until such time as their market position is undermined first by imitations of new products and processes, and ultimately by yet newer products. In the long run, therefore, innovators will grow faster, be more efficient, and ultimately be more profitable than non-innovators (O’reganand Ghobadian, 2011).

2.3.4 Formality of strategic plans and growth of SMEs

A significant number of SMEs in the ICT sector employ strategic planning practices and have written strategic plans (Onugu, 2005). Previous studies suggest that firms having formal strategic planning outperform those that do not (Allison and Kaye, 2005; Akinyele, 2007). Having written strategic plans for instance, suggests that a firm has a framework from which it can measure and evaluate its progress and direct and control its business activities. The formality of strategic planning emerged as the factor with a stronger impact on SME performance than environmental scanning and mission and vision (Grant, 2008).

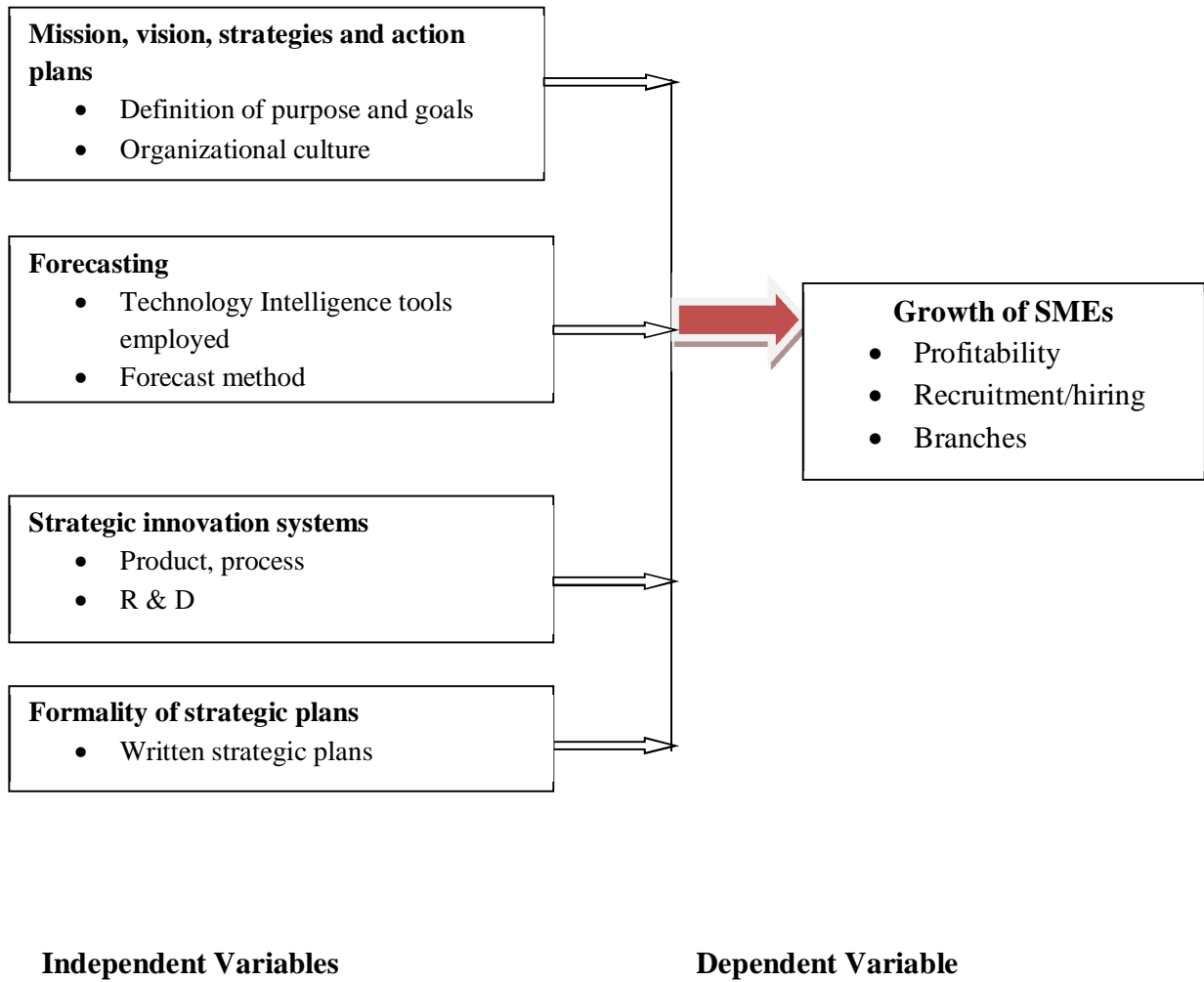
A study by Metcalfe et al. (2013) found that formality of strategic planning, explained 9.80% of the variance in competitive advantage for SMEs. High factor loadings on this factor pertains to the understanding of customers and their needs, continuous collection of information about the business environment, environmental scanning about technological advances, flexibility of the strategic planning process and the use of formal methods to present a strategic plan. Formality of strategic planning describes the extent to which the strategic plan is presented in written form. The respondents indicated that they present the strategic plan in facts and figures, and that the plan can be adjusted if necessary. Pellissier and Kruger (2011) report the use of a formalized strategic plan in a study of the practice of strategic management within the South African long-term insurance industry. The presence of this factor in the study indicates that SMEs acknowledge the necessity of formalizing the strategic plan. In this regard, strategic planning and its processes can be considered as a learning tool for SMEs. This is consistent with the underlying theories, namely; resource-based view (RBV), systems theory, and game theory that

advance that formal strategic planning and its underlying processes can constitute a source of sustained competitive advantage (Schwenk and Shrader, 2009).

In a practical sense, strategic planning is about competitive advantage. This is encapsulated by O'Regan and Ghobadian (2009) who stated that the purpose of strategic planning is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors”. Yet, the majority of SMEs do not plan and the reasons why are not well understood (Robinson and Pearce, 2011; Sexton and van Auken 2011). Throughout the world, governments have acknowledged the impact of small and micro enterprises (SMEs) on job creation, improvement of people’s standards of living and hence an overall impact on the economy. Indeed, SMEs often form the backbone of national economies and moreover, SMEs have increased in importance recently (McCartan-Quinn and Carson 2003). SMEs and the development of SME sectors in national economies is an important element of political and public policy life. Thus, the ways these SMEs firms perform and manage their activities justify a detailed investigation. Despite the existence of many SME support programmes that provide backing to SMEs, most SMEs in developing countries continue to weaken (not all SMEs are experiencing positive growth) (Baloyi 2010).

2.4 Conceptual framework

Figure 2.1: Conceptual Framework



2.4.1 Operationalization of the conceptual framework

Figure 2.1 above presents a diagrammatic conceptualization of the independent and dependent variables. From the diagram, the independent variables, strategic planning practices, forecasting, strategic innovation systems and formality of strategic plans are conceptualized as influencing Growth of SMEs which forms the dependent variable.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The methodology presents a description of how the study will be approached. It presents the plan of the research, that is, the research design, how data will be collected and from whom, and the data analysis technique that will be adopted to analyze the data in order to generate the findings of the study.

3.2 Research Design

There are two types of research: quantitative and qualitative. The purpose of quantitative research is to evaluate objective data consisting of numbers while qualitative research deals with subjective data that are produced by the minds of respondents or interviewees i.e. human beings (Welman, et al., 2001). This study was based on an exploratory research design. A mixed qualitative-quantitative method will be used in the study. Mixed-method research works particularly well for exploratory research since it allows the researcher to take the rich empirical data yielded from subjects and apply either quantitative or qualitative methods to the data (Kitchenham, 2009). Kitchenham goes on to say that in this manner, qualitative data can be quantified or quantitative data can be qualified to extract meaning from the data sets that might otherwise be hidden.

3.3 Population of the Study

The units of analysis for the study comprised of small and medium enterprises within the micro-finance sector within the Nairobi County. The study involved a census study to cover all the nine

(9) licensed Deposit Taking Micro-finance (DTM) Institutions within Nairobi County namely Faulu Kenya DTM Limited; Kenya Women Finance Trust DTM; SMEP DTM; U & I Microfinance Limited; Rafiki DTM Ltd; Remu DTM; Uwezo DTM; Century DTM Ltd; and Sumac Credit DTM Ltd (Ministry of Finance and Planning, 2010).

3.4 Data Collection

Semi-structured questionnaires were used to collect data at the premises of the participant SMEs, using an administered questionnaire. In each of the nine DTMs, the researcher purposively administered the questionnaires to three respondents across the three management levels, that is, top, middle and lower cadre for each micro-finance SME. This helped obtain different perspectives from the three management levels for more reliable data as far as strategic planning is conducted throughout each of the organization. The questions were divided into sections, typically, themed around the research objectives.

3.5 Data Analysis

Because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analyses were used for data analysis. Descriptive analysis goes beyond merely counting words or extracting objective content from texts to examine meanings, themes and patterns that may be manifest or latent in a particular text. Qualitative content analysis is mainly inductive, grounding the examination of topics and themes, as well as the inferences drawn from them, in the data. In some cases, descriptive analysis attempts to generate theory (Zhang & Wildemuth, 2011).

Descriptive statistics will be used to show central tendencies such as the mean and measures of dispersion like the standard deviation as well as frequencies and percentages. The inferential statistic was used to show the nature and magnitude of relationships established between the independent, intervening and dependent variable using regression analysis. This was done by using computer software referred to as “statistical package for the social sciences (SPSS)” version 17. This entails data cleaning and organization. Then the data was coded and classified as well as screened for accuracy. The data was then being entered into the computer in order to perform descriptive and inferential statistic.

The regression analysis took the following model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Financial performance measured by profitability Return on Assets (RoA)

α = Constant

$\beta_1 - \beta_4$ = Beta coefficients

X_1 = Strategic planning practices

X_2 = Forecasting

X_3 = Strategic innovation systems

X_4 = Formality of strategic plans

ϵ = Error term

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the results and discussions. Generally, the study sought to answer the question: What is the nature of strategic planning practices and how do they influence growth of SMEs within the micro-finance sector in Nairobi County? More specifically, the study sought to determine strategic planning practices by SMEs within the micro-finance sector in Nairobi County and to determine how such practices contribute to the growth of the SMEs. The reliability and viability of the data collected for the study were ascertained.

4.2 Response Rate

The study achieved a response rate of 85.2% with 69 respondents reached, out of the 81 targeted. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The study therefore attained an excellent response rate as presented in table 4.1 below.

Table 4.1 Response rate

Questionnaires	Frequency	Percent (%)
Returned	69	85.2
Unreturned	12	14.8
Distributed	81	100.0

Source: Survey data, 2015

4.3 Demographic information

This section captures the responses by gender, length of service, as well as the highest education levels. Findings are presented and illustrated in tables and figures below.

4.3.1 Response by gender

In order to show the gender distribution and parity in the study areas, the study sought to determine the respondents' gender. Results are presented in table 4.2 below.

Table 4.2 Respondents' gender

Gender	Frequency	Percent (%)
Male	42	60.9
Female	27	21.8
Total	69	100.0

Source: Survey data, 2015

As presented in table 4.2 above, male respondents, 42 (60.9%), registered the most as compared to their female counterparts, 27 (21.8%). It follows then, from the findings, that the males make the dominant gender across the study areas surveyed.

4.3.2 Length of service

With some level of working experience necessary in establishing the study objectives, the study found it necessary to establish the length of service of the respondents, in years, serving at the respective stations. Figure 4.1 presents the findings.

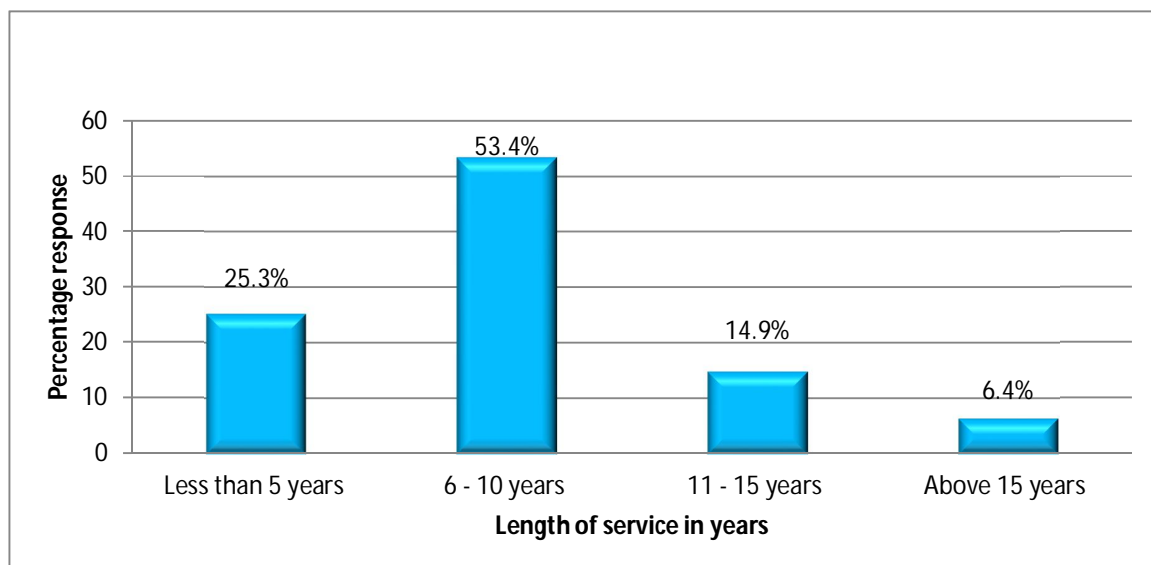


Figure 4.1 Length of service

Source: Survey data, 2015

It was established that a majority of respondents, 53.4% have worked in the study area for between 6 and 10 years. This was followed by those having worked for less than 5 years, as indicated by 25.3% of the respondents. Only 14.9% and 6.4% of respondents were found to have worked at the study area for between 11 and 15 years and above 15 years respectively. The results present a rather fair distribution across the years representing the length of experience. With a majority of respondents (74.7%) having worked for over 5 years, responses can be deemed to be informed by adequate experience in the study area.

4.3.3 Highest education levels

Respondents were also asked to indicate their highest levels of education. This would serve to show the academic qualification among respondents in their respective positions, as well as a general overview of education levels in the study area. Findings are as shown in figure 4.2.

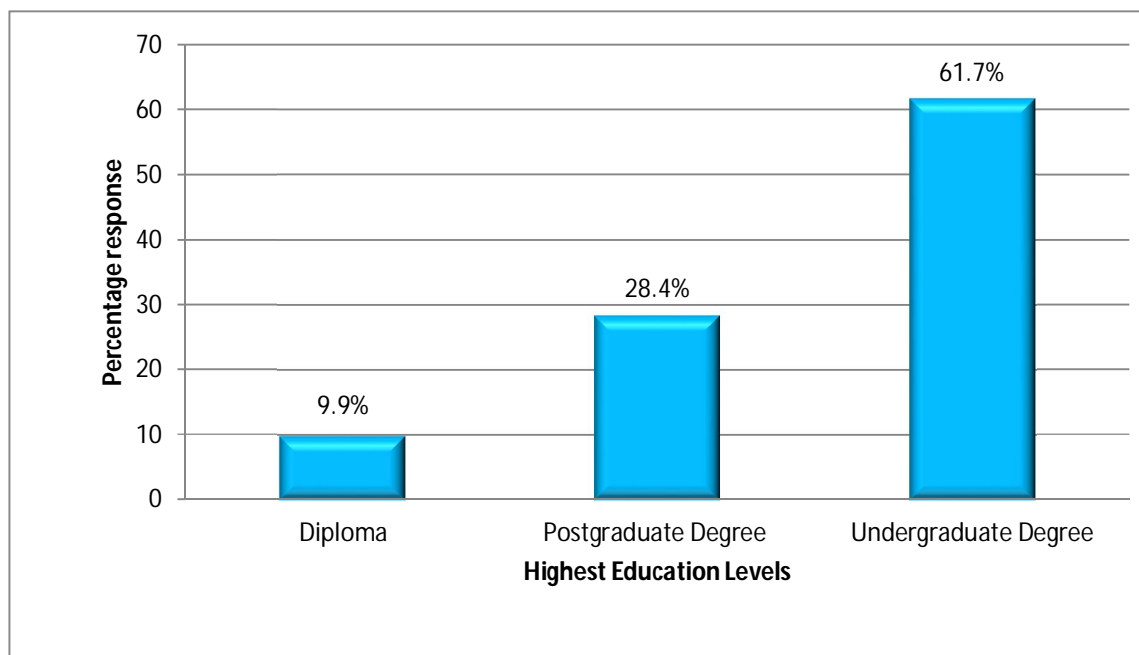


Figure 4.2 Respondents’ highest levels of education

Source: Survey data, 2015

As illustrated in figure 4.2 above, a majority, 61.7% of respondents indicated having attained an undergraduate degree level, followed by 28.4% having attained a postgraduate degree level while only 9.9% have a Diploma. Overall, the study area can be said to comprise staff from relatively high levels of education. It can be deduced therefore that based on their high education levels, respondents were in a position to comprehend the survey objectives and give reliable responses.

4.4 SME Growth

In order to establish SME growth across the study areas, respondents were asked to indicate the extent to which their respective organizations had experienced growth in selected areas over the last 5 years. Responses were given on a five-point Likert scale, where 1= Not at all; 2= To a small extent; 3= To a moderate extent; 4 = To a great extent; 5= To a very great extent. The

scores of ‘not at all’ and ‘small extent’ have been taken to represent a statement agreed upon to a small extent, equivalent to mean score of 0 to 2.5. The score of ‘moderate extent’ has been taken to represent a statement agreed upon to a moderate extent, equivalent to a mean score of 2.6 to 3.4. The score of ‘great extent’ and ‘very great extent’ have been taken to represent a statement agreed upon to a large extent, equivalent to a mean score of 3.5 to 5.4. Table 4.3 below presents the results.

Table 4.3 SME Growth

	Mean	Standard deviation
Number of staff	3.843	.5360
Adoption of New Technology	3.915	.5137
Establishment of new divisions	3.113	.4976
Acquisition of new machinery	3.672	.5587
Upgrading of machinery	3.391	.5645
Establishment of new products	4.072	.4762
Establishment of new business strategies	3.814	.5765

Source: Survey data, 2015

As table 4.3 above presents, a majority of respondents indicate that over the last 5 years, their respective organizations have to a great extent, established new products (4.072); adopted new technology (3.915); employed more staff (3.843); established new business strategies (3.814); and that they have acquired new machinery (3.672). A majority however indicate that their respective organizations have only to a moderate extent upgraded their machinery (3.391) and

that they have established new divisions (3.113). As such, it can be noted that a majority of the organizations reached have actually experienced growth over the past five years, most notable exhibited in the establishment of new products, adoption of new technology, number of staff and the establishment of new business strategies.

4.5 Mission, Vision, Strategies and Action Plans

The study further sought to determine the impact of Mission, vision, strategies and action plans on the growth of SMEs. Respondents were asked to respond to key statements posed in this regard. This was also on a five-point Likert scale, where, 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree. The scores of ‘strongly disagree’ and ‘disagree’ have been taken to represent a variable which was not agreed upon (equivalent to mean score of 0 to 2.5 on the continuous Likert scale: $0 \leq S.E. \leq 2.4$). The score of ‘moderately agree’ has been taken to represent a variable which was agreed upon, moderately (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. \leq 3.4$). The score of ‘agree’ and ‘strongly agree’ have been taken to represent a variable which was highly agreed upon (equivalent to a mean score of 3.5 to 5.4 and on a continuous Likert scale: $3.5 \leq L.E. \leq 5.4$). Table 4.4 below presents the findings.

Table 4.4 Mission, Vision, Strategies And Action Plans

Statement	Mean	Standard Deviation
Visions can be considered sources of energy for achievement of formulated objectives	3.701	0.9431
Vision, mission and strategies are interconnected elements essential for SME growth	3.052	0.5423
Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create	3.976	0.8612
Strategic vision forms a basis for strategy development and therefore business growth	3.713	1.0617
For an SME to grow, the entrepreneur needs to formulate an exact, clear mission and vision for their firm	3.663	1.2610
In addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits	3.884	0.9745
Planning of corporate or business strategy needs to be centered on the market, product and service	3.953	0.6734
Vision and objectives are the bases of strategies and strategic planning	3.052	1.0080
It is beneficial to have a clear vision, high and growth-oriented objectives	3.757	0.6834

Source: Survey data, 2015

As findings in table 4.4 above indicate, a majority of respondents highly agree that vision, mission and strategies are interconnected elements essential for SME growth (3.052); ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create (3.976); planning of corporate or business strategy needs to be centered on the market, product and service (3.953); and that in addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits (3.884). A majority however only moderately agree that vision and objectives are the bases of strategies and strategic planning (3.052). As such, it can be deduced that mission, vision, strategies and action plans are key influences to growth among Small and Medium Enterprises in the microfinance sector, going by the high agreement levels and the growth exhibited among the SMEs in the findings.

This agrees with Wickham (2009) who argues that vision, mission and strategies are interconnected elements of entrepreneurial perspective; together they turn the entrepreneur's wish for a positive change into a managerial tool for achievement of that change. Ireland (2012) adds that ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create. Accordingly, Hunger and Wheelen (2012) point out that even if in a small firm the entrepreneur usually acts as a strategic manager taking all strategic and operative decisions, strategic vision forms a basis for strategy development and strategic planning.

4.6 Forecasting

The study also assessed the influence of forecasting on the performance of the small and medium sized enterprises within the micro finance sector in Nairobi County. To this end, respondents

were required to respond to key statements posed with a view to establish stakeholder involvement in various project undertakings. This was also on a five-point Likert scale, where, 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree. Table 4.5 below presents the findings.

Table 4.5 Forecasting

Statement	Mean	Standard Deviation
In order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives	3.783	0.9442
Action plans are the pathways that guide the entrepreneur on how to reach the set objectives	3.919	0.0429
Technological change is a valuable opportunity in case of anticipation	3.329	0.8592
We identify trends or cycles of some kind in order to find patterns in historical data when forecasting	3.003	0.3056
We seek correlation between past and future series of events when forecasting	3.601	1.3078
We adopt formulae and equations when forecasting	2.842	0.9745
We adopt probability distributions rather than a single value when forecasting	2.874	0.6734

Source: Survey data, 2015

As shown in table 4.5 above, a majority of respondents highly agree that action plans are the pathways that guide the entrepreneur on how to reach the set objectives (3.919); in order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives (3.783); and that they seek correlation between past and future series of events when forecasting (3.601). A majority however only moderately agrees that they identify trends or cycles of some kind in order to find patterns in historical data when forecasting (3.003); they adopt formulae and equations when forecasting (2.842) and that they adopt probability distributions rather than a single value when forecasting (2.874). From the foregoing, it can be deduced that based on the low levels of agreement to the pertinent statements posed, a majority of respondent organizations do not extensively practice forecasting. The most common forecasting tool among organizations employing the same is correlation between past and future series of events when forecasting. A majority however is in agreement that forecasting based on their experiences significantly determines their growth.

This is in tandem with Schrader (2012) who provides that the growing awareness and the will to take advantage of this have led to a broader interest in the field of Technological Intelligence. Raduan et al. (2009) also note that both general and SME specific Technological Intelligence approaches are not always sufficiently strategy-related. On the other hand, there exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making. Martino (2012) argues that since these methods depend on historical data and continuity, it is essential to identify precursors of possible breakthroughs.

4.7 Strategic Innovation Systems

The study further sought to determine the impact of strategic innovation systems on the growth of SMEs. Respondents were thus required to respond to pertinent statements posed on a five-point Likert scale, where, 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree. Table 4.6 below presents the findings.

Table 4.6 Strategic Innovation Systems

Motivation	Mean	Standard Deviation
There exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making	3.239	0.8317
Globalizing markets and increasingly open models of innovation provide management challenges for SMEs	3.793	0.6315
Partnering or collaborative working for innovation or exporting offer SMEs potential route for accessing external skills	3.925	1.0092
In-house research and development (R&D) plays a crucial role in SMEs' ability to generate new knowledge	3.857	1.3718
Innovation has long been recognized as a key element of competition and dynamic efficiency of markets	3.742	0.6347
A significant number of SMEs in the microfinance sector employ strategic planning practices and have written strategic plans	3.949	0.9130

Source: Survey data, 2015

As presented in table 4.6 above, a majority of respondents highly agree that a significant number of SMEs in the microfinance sector employ strategic planning practices and have written strategic plans (3.949); partnering or collaborative working for innovation or exporting offer SMEs potential route for accessing external skills (3.925); in-house research and development (R&D) plays a crucial role in SMEs' ability to generate new knowledge (3.857) and that globalizing markets and increasingly open models of innovation provide management challenges for SMEs (3.793). A majority however only moderately agrees that there exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making (3.239). Overall, significantly high levels of agreement were established in this finding. SMEs in the microfinance sector are particularly found to employ strategic planning practices and have written strategic plans; leverage partnering or collaborative working for innovation or exporting; and invest in in-house research and development. As such, based on the findings, strategic innovation systems can be deemed key determinants to SME growth in the microfinance sector.

This finding conforms to Pellissier and Kruger (2011) who argue that the dynamic contribution of SMEs to innovation and technological development is often emphasized, with examples such as Silicon Valley often cited as hot beds of small business innovation. This, according to McIlquham-Schmidt (2010) suggests that 'the relative strengths of large business are predominantly material while those of small firms are mostly behavioral.

4.8 Formality of Strategic Plans

Finally, the study sought to determine the impact of formality of Strategic plans on the growth of SMEs. To this end, respondents were required to respond to key statements posed on a five-point Likert scale, where, 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree.

Table 4.7 below presents the findings.

Table 4.7 Formalities of Strategic Plans

Statement	Mean	Standard Deviation
SMEs having formal strategic planning outperform those that do not	4.052	0.5638
Having written strategic plans suggests that an SME has a framework from which it can measure and evaluate its progress	3.893	0.9025
Formality of strategic planning describes the extent to which the strategic plan is presented in written form	3.359	0.7295
Our strategic plan is presented in facts and figures, and the plan can be adjusted if necessary	3.019	0.6520
Strategic planning and its processes can be considered as a learning tool for SMEs	3.273	0.4028
We acknowledge that the purpose of a strategic plan is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors	3.724	0.5682

Source: Survey data, 2015

As presented in table 4.7, a majority of respondents highly agree that SMEs having formal strategic planning outperform those that do not (4.052); having written strategic plans suggests that an SME has a framework from which it can measure and evaluate its progress (3.893) and that they acknowledge that the purpose of a strategic plan is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors (3.724). A majority however only moderately agrees that formality of a strategic plan describes the extent to which the strategic plan is presented in written form (3.359); strategic planning and its processes can be considered as a learning tool for SMEs (3.273); and that their strategic plan is presented in facts and figures, and the plan can be adjusted if necessary (3.019). It can thus be noted that among a majority of respondent organizations surveyed, formality of strategic plans is only moderately observed. It is notable however that a majority of respondents concede that SMEs having formal strategic planning outperform those that do not. Formality of Strategic Plans can thus be deduced as imperative for the growth of SMEs in the microfinance sector.

This supports Onugu’s (2005) assertion that a significant number of SMEs in the ICT sector employ strategic planning practices and have written strategic plans. Grant (2008) offers that the formality of strategic planning emerged as the factor with a stronger impact on SME performance than environmental scanning with Mission and Vision. Pellissier and Kruger (2011) also report the use of a formalized strategic plan in a study of the practice of strategic management within the South African long-term insurance industry.

4.9 Pearson Correlation Analysis

The study further conducted inferential statistics entailing both Pearson and regression analysis with a view to determine both the nature and respective strengths of associations between the conceptualized strategic planning practices (independent) variables and SME Growth (dependent variable) among MFI SMEs in Nairobi County. Table 4.8 below presents the Pearson correlations.

Table 4.8 Pearson correlation matrix

	SME Growth	Mission, Vision, Strategies and Action Plans	Strategic Innovation Systems	Formality of Strategic Plans	Forecasting
SME Growth	1				
Mission, Vision, Strategies and Action Plans	0.7603 (0.002)	1			
Strategic Innovation Systems	0.7910 (0.000)	0.642 (.022)	1		
Formality of Strategic Plans	0.7084 (0.021)	0.679 (.046)	0.687 (.022)	1	
Forecasting	0.6301 (0.013)	0.417 (0.038)	0.545 (0.055)	0.506 (0.333)	1

***Correlation is significant at the 0.05 level (2-tailed)**

Source: Survey data, 2015

From the findings, a positive correlation is seen between the each procurement management variable and SME Growth. The strongest correlation was established between Strategic Innovation Systems and SME Growth ($r = 0.7910$), and the weaker relationship found between Forecasting and SME Growth ($r = 0.6301$). Mission, Vision, Strategies and Action Plans and Formality of Strategic Plans are also strongly and positively correlated with SME Growth at correlation coefficient of 0.7603 and 0.7084 respectively. All the independent variables were found to have a statistically significant association with the dependent variable at 0.05 level of confidence.

4.10 Regression Analysis

To establish the degree of influence of procurement management components on procurement SME Growth, a regression analysis was conducted, with the assumption that: variables are normally distributed to avoid distortion of associations and significance tests, which was achieved as outliers were not identified; a linear relationship between the independent and dependent variables for accuracy of estimation, which was achieved as the standardized coefficients were used in interpretation.

The regression model was as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

$$\text{SME Growth} = \alpha + \beta_1 (\text{Mission, Vision, Strategies and Action Plans}) + \beta_2 (\text{Strategic Innovation Systems}) + \beta_3 (\text{Formality of Strategic Plans}) + \beta_4 (\text{Forecasting}) + \varepsilon.$$

Regression analysis produced the coefficient of determination and analysis of variance (ANOVA). Analysis of variance was done to show whether there is a significant mean difference

between dependent and independent variables. The ANOVA was conducted at 95% confidence level.

4.10.1 Model of goodness of fit

Regression analysis was used to establish the strengths of relationship between SME Growth (dependent variable) and the strategic planning variables, that is, Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting (independent variables). The results showed a correlation value (R) of 0.753 which depicts that there is a good linear dependence between the independent and dependent variables. This is presented in table 4.12 below.

Table 4.9 Model of Goodness of Fit

R	R ²	Adjusted R ²	Std. Error of the Estimate
0.753	0.567	0.562	0.046

a. Predictors: (Constant), Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans, Forecasting

b. Dependent Variable: SME Growth

Source: Survey data, 2015

With an adjusted R-squared of 0.562, the model shows that Mission, Vision, Strategies And Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting explain 56.2 percent of the variations in SME Growth while 43.8 percent is explained by other factors

not included in the model. According to Howell (2002), measures of goodness of fit typically summarize the discrepancy between observed values and the values expected under the model in question.

4.10.2 Analysis of Variance (ANOVA)

As presented in table 4.13, ANOVA statistics was conducted to determine the differences in the means of the dependent and independent variables to show whether a relationship exists between the two.

Table 4.10 Analysis of Variance (ANOVA)

	Sum of Df	Mean	F	Sig.	
	Squares	Square			
Regression	4.019	4	2.310	4.387	.002a
Residual	15.423	191	.445		
Total	19.442	195			

Source: Survey data, 2015

The P-value of 0.002 implies that SME Growth among MFI SMEs in Nairobi County has a significant joint relationship with Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting which is significant at 5 percent level of significance. This also depicted the significance of the regression analysis done at 95% confidence level. This implies that the regression model is significant and can thus be used to assess the association between the dependent and independent variables. According to

Gelman (2006), ANOVA statistics analyzes the differences between group means and their associated procedures (such as "variation" among and between groups).

4.10.3 Regression coefficients of determination

To determine the relationship between the independent variables and the dependent variable and the respective strengths, the regression analysis produced coefficients of determination as presented in table 4.14 below.

Table 4.11 Regression coefficient results

	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	6.751	4.732		1.427	.043
Mission, Vision, Strategies And Action Plans	1.021	0.589	.296	1.733	.017
Strategic Innovation Systems	1.244	.697	.338	1.785	.033
Formality of Strategic Plans	.889	.689	.287	1.290	.032
Forecasting	.761	.720	.362	1.057	.023

a. Dependent Variable: SME Growth

Source: Survey data, 2015

Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting.

Findings in table 4.14 reveal a positive relationship between SME Growth and all the independent variables.

Taking the regression model: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$; where, Y= SME Growth; α = Constant; $\beta_1 - \beta_4$ = Beta coefficients; X_1 = Mission, Vision, Strategies and Action Plans; X_2 = Strategic Innovation Systems; X_3 = Formality of Strategic Plans; X_4 = Forecasting and ϵ = Error term, the established regression equation was:

SME Growth = 6.751 +1.021 (Mission, Vision, Strategies and Action Plans) + 1.244 Strategic Innovation Systems + .889 (Formality of Strategic Plans) + .761 (Forecasting)

A unit change in Mission, Vision, Strategies And Action Plans would thus lead to a 1.021 change in SME Growth *ceteris paribus*; a unit change in Strategic Innovation Systems would lead to a 1.244 change in SME Growth *ceteris paribus* and a unit change in Formality of Strategic Plans would lead to a .889 change in SME Growth *ceteris paribus* while a unit change in Forecasting would lead to a .761 change in SME Growth. This implies that among other factors, Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting are strong and significant determinants of SME Growth in the microfinance sector within Nairobi County.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion drawn from the findings and recommendations. The conclusion and recommendations drawn were focused on addressing the research question: What is the nature of strategic planning practices and how do they influence growth of SMEs within the micro-finance sector in Nairobi County?

5.2 Summary of Findings

In order to establish SME growth across the study areas, respondents were asked to indicate the extent to which their respective organizations had experienced growth in selected areas over the last 5 years. A majority of respondents indicate that over the last 5 years, their respective organizations have to a great extent, established new products (4.072); adopted new technology (3.915); employed more staff (3.843); established new business strategies (3.814); and that they have acquired new machinery (3.672). A majority however indicate that their respective organizations have only to a moderate extent upgraded their machinery (3.391) and that they have established new divisions (3.113).

The study further sought to determine the impact of mission, vision, strategies and action plans on the growth of SMEs. a majority of respondents highly agree that vision, mission and strategies are interconnected elements essential for SME growth (3.052); ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they

can create (3.976); planning of corporate or business strategy needs to be centered on the market, product and service (3.953); and that in addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits (3.884). A majority however only moderately agree that vision and objectives are the bases of strategies and strategic planning (3.052).

The study also assessed the influence of stakeholder involvement on the performance of USAID funded projects in Kenya. A majority of respondents highly agree that action plans are the pathways that guide the entrepreneur on how to reach the set objectives (3.919); in order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives (3.783); and that they seek correlation between past and future series of events when forecasting (3.601). A majority however only moderately agrees that they identify trends or cycles of some kind in order to find patterns in historical data when forecasting (3.003); they adopt formulae and equations when forecasting (2.842) and that they adopt probability distributions rather than a single value when forecasting (2.874).

The study further sought to determine the impact of strategic innovation systems on the growth of SMEs. A majority of respondents highly agree that a significant number of SMEs in the microfinance sector employ strategic planning practices and have written strategic plans (3.949); partnering or collaborative working for innovation or exporting offer SMEs potential route for accessing external skills (3.925); in-house research and development (R&D) plays a crucial role in SMEs' ability to generate new knowledge (3.857) and that globalizing markets and increasingly open models of innovation provide management challenges for SMEs (3.793). A

majority however only moderately agrees that there exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making (3.239).

Finally, the study sought to determine the impact of Strategic innovation systems on the growth of SMEs. A majority of respondents highly agree that SMEs having formal strategic planning outperform those that do not (4.052); having written strategic plans suggests that an SME has a framework from which it can measure and evaluate its progress (3.893) and that they acknowledge that the purpose of a strategic planning enable a business “to gain as efficiently as possible, a sustainable edge over its competitors (3.724). A majority however only moderately agrees that formality of strategic planning describes the extent to which the strategic plan is presented in written form (3.359); strategic planning and its processes can be considered as a learning tool for SMEs (3.273); and that their strategic plan is presented in facts and figures, and the plan can be adjusted if necessary (3.019).

The study further conducted inferential statistics entailing both Pearson and regression analysis with a view to determine both the nature and respective strengths of associations between the conceptualized strategic planning practices (independent) variables and SME Growth (dependent variable) among MFI SMEs in Nairobi County. A positive correlation is seen between the each procurement management variable and SME Growth. The strongest correlation was established between Strategic Innovation Systems and SME Growth ($r = 0.7910$), and the weaker relationship found between Forecasting and SME Growth ($r = 0.6301$). Mission, Vision, Strategies and Action Plans and Formality of Strategic Plans are also strongly and positively

correlated with SME Growth at correlation coefficient of 0.7603 and 0.7084 respectively. All the independent variables were found to have a statistically significant association with the dependent variable at 0.05 level of confidence.

Regression analysis was used to establish the strengths of relationship between SMEs Growth (dependent variable) and the strategic planning variables, that is, Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting (independent variables). The results showed a correlation value (R) of 0.753 which depicts that there is a good linear dependence between the independent and dependent variables.

5.3 Conclusion

From the foregoing findings, the following conclusions are hereby drawn. It can be noted that Because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analyses were used for data analysis. The study further deduces that Mission, Vision, Strategies and Action plans are key influences to growth among Small and Medium Enterprises in the microfinance sector, going by the high agreement levels and the growth exhibited among the SMEs in the findings.

It can further be deduced that based on the low levels of agreement to the pertinent statements posed, a majority of respondent organizations do not extensively practice forecasting. The most common forecasting tool among organizations employing the same is correlation between past and future series of events when forecasting. A majority however is in agreement that forecasting based on their experiences significantly determines their growth. It can also be deduced that

SMEs in the microfinance sector are particularly found to employ strategic planning practices and have written strategic plans; leverage partnering or collaborative working for innovation or exporting; and invest in in-house research and development. As such, based on the findings, strategic innovation systems can be deemed key determinants to SME growth in the microfinance sector.

It was further established that among a majority of respondent organizations surveyed, formality of strategic plans is only moderately observed. It is notable however that a majority of respondents concede that SMEs having formal strategic planning outperform those that do not. Formality of Strategic Plans can thus be deduced as imperative for the growth of SMEs in the microfinance sector.

Results from ANOVA statistics further reveal that Growth among MFI SMEs in Nairobi County has a significant joint relationship with Mission, Vision, Strategies and Action Plans, Strategic Innovation Systems, Formality of Strategic Plans and Forecasting which is significant at 5 percent level of significance.

5.4 Recommendations

From the foregoing findings and conclusions, the following recommendations are hereby made: There is need for SMEs to develop their strategic plans constituted by aspects including Purpose, value, vision, general corporate goal and a big goal; unique competence, expected competitive position and competitive strategy; behavioral standard; financial and non-financial objectives;

the specific market, customer and product; self-concept, public image pursued; and Concern for survival, customers, employees, shareholders and society.

Resource allocation is an important aspect in determining how effective the strategic planning process will be. This calls for microfinance institutions to try and balance resource allocation and even allocate more funds to strategic planning departments. This is because strategic planning is the base of all other departments and its success percolates down to the whole organization. It's imperative that as resource allocation planning is done in a manner that it takes care of the pursued strategic fit in SMEs.

5.5 Suggestions for further studies

The study established a strong and significant association between strategic planning and success in SMEs. Furthermore, scientific literature provides evidence that the use of strategic planning methods and instruments is dependent on increasing company size, and thus that SMEs do seem to plan less than established larger enterprises. Future studies should therefore address these restrictions and attempt to gain deeper insight into type, extent and alignment of strategic management instruments in SMEs as well as the resulting consequences for company success. Here, a possible measure, for instance, could be a random inter-industry sample with the highest possible sample size at several points of time.

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APPENDICES

APPENDIX I: COVER LETTER

Humphrey Wafula Waliang'i,

University of Nairobi,

P.O BOX, 30197,

Nairobi.

May 2015

Dear Sir/Madam,

RE: DATA COLLECTION

I am a Master of Business Administration student at the University of Nairobi, majoring in Strategic Management. One of my academic outputs before graduating is a thesis and for this I have chosen the research topic “Strategic Planning Practices and Growth of Small and Medium Enterprises (SMEs) within the Micro-Finance Sector in Nairobi County, Kenya”.

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the interview guide. The information you provide will be used strictly for academic purposes and will be treated with utmost confidence. A copy of the final report will be availed to you upon request. Your assistance will be highly appreciated.

Yours Sincerely,

Humphrey Wafula Waliang'i

APPENDIX II: QUESTIONNAIRE

STRATEGIC PLANNING PRACTICES AND GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMES) WITHIN THE MICRO-FINANCE SECTOR IN NAIROBI COUNTY KENYA

PART A: BACKGROUND INFORMATION

1. Gender of the respondent

Male [] Female []

2. Designation: _____

3. Number of Years in Service

0 – 5 [] 5 – 10 []

10 – 15 [] 15 – 20 []

Over 20 years []

4. Highest Education Level Attained:

a) Primary Certificate []

b) Diploma []

c) Undergraduate []

d) Postgraduate []

SECTION B: SME GROWTH

Kindly indicate the extent to which your organization has experienced growth in following areas over the last 5 years, using the scale: 1= No extent; 2= To a small extent; 3= To a moderate extent; 4 = To a great extent; 5= To a very great extent:

SME GROWTH	5	4	3	2	1
Number of staff					
Adoption of New Technology					
Establishment of new divisions					
Acquisition of new machinery					
Upgrading of machinery					
Establishment of new products					
Establishment of new business strategies					

SECTION C: MISSION, VISION, STRATEGIES AND ACTION PLANS

The following set of questions are meant to determine the impact of Mission, vision, strategies and action plans on the growth of SMEs. Using the scale: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree; indicate the extent to which the statements relate to your organization:

MISSION, VISION, STRATEGIES AND ACTION PLANS	5	4	3	2	1
Visions can be considered sources of energy for achievement of formulated objectives					
Vision, mission and strategies are interconnected elements essential for SME growth					
Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create					
Strategic vision forms a basis for strategy development and therefore business growth					
For an SME to grow, the entrepreneur needs to formulate an exact, clear mission and vision for their firm					
In addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits					
Planning of corporate or business strategy needs to be centered on the market, product and service					
Vision and objectives are the bases of strategies and strategic planning					
It is beneficial to have a clear vision, high and growth-oriented objectives					

SECTION D: FORECASTING

8. The following set of questions is meant to determine the impact of forecasting on the growth of SMEs. Using the scale: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree, indicate the extent to which the statements relate to your organization:

FORECASTING	5	4	3	2	1
In order to be successful and to grow, the firm needs to formulate high, optimistic, growth oriented objectives					
Action plans are the pathways that guide the entrepreneur on how to reach the set objectives					
Technological change is a valuable opportunity in case of anticipation					
We identify trends or cycles of some kind in order to find patterns in historical data when forecasting					
We seek correlation between past and future series of events when forecasting					
We adopt formulae and equations when forecasting					
We adopt probability distributions rather than a single value when forecasting					

SECTION E: STRATEGIC INNOVATION SYSTEMS

9. The following set of questions is meant to determine the impact of Strategic innovation systems on the growth of SMEs. Using the scale: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree, indicate the extent to which the statements relate to your organization:

STRATEGIC INNOVATION SYSTEMS	5	4	3	2	1
There exists a great variety of well-documented and field-tested strategic tools and methods designed to aid strategic planning and decision-making					
Globalizing markets and increasingly open models of innovation provide management challenges for SMEs					
Partnering or collaborative working for innovation or exporting offer SMEs potential route for accessing external skills					
In-house research and development (R&D) plays a crucial role in SMEs' ability to generate new knowledge					
Innovation has long been recognized as a key element of competition and dynamic efficiency of markets					
A significant number of SMEs in the ICT sector employ strategic planning practices and have written strategic plans					

SECTION F: FORMALITY OF STRATEGIC PLANS

10. The following set of questions is meant to determine the impact of Strategic innovation systems on the growth of SMEs. Using the scale: 1= strongly disagree; 2= disagree; 3= neutral; 4 = agree; 5= strongly agree, indicate the extent to which the statements relate to your organization:

FORMALITY OF STRATEGIC PLANS	5	4	3	2	1
SMEs having formal strategic planning outperform those that do not					
Having written strategic plans suggests that an SME has a framework from which it can measure and evaluate its progress					
Formality of strategic planning describes the extent to which the strategic plan is presented in written form					
Our strategic plan is presented in facts and figures, and the plan can be adjusted if necessary					
Strategic planning and its processes can be considered as a learning tool for SMEs					
We acknowledge that the purpose of a strategic planning enable a business “to gain as efficiently as possible, a sustainable edge over its competitors					

APPENDIX III: Licensed Deposit Taking Micro-finance (DTM) Institutions within Nairobi

County

1. Faulu Kenya DTM Limited
2. Kenya Women Finance Trust DTM
3. SMEP DTM
4. U & I Microfinance Limited
5. Rafiki DTM Ltd
6. Remu DTM
7. Uwezo DTM
8. Century DTM Ltd
9. Sumac Credit DTM Ltd

APPENDIX IV: Work Plan

The following is a schedule of activities indicating when each respective activity is due to occur:

Event/Date	Nov 2014	Dec 2014	Jan- March 2015	April 2015	May 2015	June 2015
Proposal writing						
Presentation of proposal						
Correcting proposal						
Formal approval of study						
Reconnaissance visit and pre-testing questionnaires						
Data Collection						
Data Analysis						
Report Writing						
Project submission						

APPENDIX V: Budget

ITEM	AMOUNT (Kshs.)
Typing and editing	15,000
Research material	12,000
Travelling	25,000
Stationery	15,000
Printing and binding	20,000
Communication	8,000
TOTAL	95,000