INFLUENCE OF STRATEGY-STRUCTURE ALIGNMENT ON FINANCIAL PERFORMANCE OF THE TOP 100 SMALL AND MEDIUM ENTREPRISES IN KENYA

BY

EUNICE MACHOCHO

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2015
DECLARATION

This research project is my original work and has not been submitted to any university for examination.

Signed..................................................................................Date……………………
Eunice Machocho
D61/69032/2013

This research project has been submitted for examination with my approval as the University supervisor.

Signed..................................................................................Date……………………
Dr. Jackson K. Maalu
Lecturer, School of Business
University of Nairobi.
DEDICATION

I dedicate this project to God and my family whom have been my source of inspiration and encouragement.
ACKNOWLEDGEMENTS

I am grateful to God for giving me the grace and strength to complete this project. My sincere gratitude goes to my supervisor Dr. Jackson Maalu whose consistent guidance and encouragement enabled me to successfully do this research project. I am also indebted to my family and friends for their patience, understanding and all the encouragement they gave me when I needed it most. God bless you all.
# TABLE OF CONTENTS

DECLARATION ........................................................................................................... i  
DEDICATION .............................................................................................................. ii  
ACKNOWLEDGEMENTS .............................................................................................. iii  
ABSTRACT .................................................................................................................. vi  
LIST OF TABLES ....................................................................................................... vii  
ABBREVIATIONS AND ACRONYMS ....................................................................... viii  
CHAPTER ONE .......................................................................................................... 1  
INTRODUCTION ......................................................................................................... 1  
1.1 Background of the Study ...................................................................................... 1  
   1.1.1 Strategy-Structure Alignment ........................................................................ 2  
   1.1.2 Financial Performance .................................................................................. 3  
   1.1.3 Small and Medium Enterprises in Kenya ....................................................... 4  
   1.1.4 Top 100 Small and Medium Enterprises in Kenya ........................................ 5  
1.2 Research Problem ............................................................................................... 5  
1.3 Research Objectives ......................................................................................... 6  
1.4 Value of the Study ............................................................................................. 7  
CHAPTER TWO ........................................................................................................... 8  
LITERATURE REVIEW ............................................................................................. 8  
2.1 Introduction ......................................................................................................... 8  
2.2. Theoretical Foundation of the Study ................................................................. 8  
   2.2.1 Structural Contingency Theory .................................................................... 8  
2.3 Empirical Literature Review .............................................................................. 10  
2.4 Summary of Literature Review and the Research Gap ..................................... 12  
CHAPTER THREE ..................................................................................................... 14  
RESEARCH METHODOLOGY ................................................................................. 14  
3.1 Introduction ....................................................................................................... 14  
3.2 Research Design .............................................................................................. 14  
3.3 Population of the Study ................................................................................... 15  
3.4 Sampling Design ............................................................................................. 15  
3.5 Data collection ................................................................................................. 15  
3.6 Data Analysis .................................................................................................. 16  
CHAPTER FOUR ....................................................................................................... 17
RESULTS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

4.2 Demographic Characteristics of the Respondents

4.2.1 Respondents Response rate

4.2.2 Period Business has been in existence

4.2.3 Nature of Business

4.2.4 Period the Respondent Worked with SME and Held Position

4.2.4 Extent to which organization structure is aligned to responsiveness

4.2.4.1: Responsiveness to Economic environment

4.2.4.2 Structure to Products

4.2.4.3 Structural Changes to Markets

4.2.4.4 Responsiveness to changes in Natural Factors

4.2.4.5 Structural Responsiveness to Changes in Service Delivery

4.2.4.6 Structural Responsiveness to Competition

4.3 Strategies Adopted by the Firms

4.4 Effect of Company strategy structure alignment on performance

4.5 Strategy-structure alignment and performance of top 100 SMEs in Kenya

4.6 Structural alignments to various changes and financial performance

4.7 Discussion of the Key Findings

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

5.2 Summary of Findings

5.3 Conclusion

5.4 Recommendations

5.5 Limitations of the Study

5.6 Suggestions for Further Research

REFERENCES

APPENDICES

Appendix 1: Questionnaire

Appendix 2: List of Firms
ABSTRACT

Small and Medium Enterprises (SMEs) are businesses in both formal and informal sector employing 1-50 workers. SMEs are very vital to economic growth and development in most countries, developing and developed ones alike. They are also great contributors of employment worldwide. The study was guided by the research objectives: to establish the strategy-structure alignment in the top 100 small and Medium Enterprises in Kenya and to establish the influence of strategy-structure alignment on financial performance of the top 100 SMEs in Kenya. A descriptive survey study was conducted to gain empirical data to help fill the existing gap. The study consisted of 100 Top small and medium sized firms in Kenya. Data was collected through structured questionnaires. Data obtained were edited, coded and analysed using descriptive statistics in the form of frequency, percentages, mean and standard deviation with the aid of statistical package for social sciences (SPSS) version 20 computer software. The inferential relationship was imputed using the Pearson’s regression analysis. The findings showed that strategy-structure alignment among the top 100 SMEs in Kenya was one major factor that determined the firms’ success. Majority of the firms were found to have put adequate measures in place to ensure that the strategies in force is clearly and seamlessly aligned to the structures, and that strategy followed structure; but also structure was flexible enough to follow strategy. This alignment qualified all the studied firms to make it to the top 100. While the study featured on the seven possible changes in an environment, the concept of performance for any business firm can be linked to very many other factors not included in this study. It is recommended that the management of top 100 SMEs continually enhance this alignment to realize further success. Based on the strength of the relationship, the management of the SMEs will have to set up clear policies on the same and communicate to the all the stakeholders on what it entail, what is expected, the potential benefits and challenges.
LIST OF TABLES

Table 4.1: Response Rate.................................................................................................17
Table 4.2: Period business in existence...........................................................................18
Table 4.3: Nature of business..........................................................................................18
Table 4.2.4: Period the respondent worked with SME..................................................19
Table 4.4: Nature of organisation structure....................................................................19
Table 4.5: Responsiveness to economic environment.....................................................20
Table 4.6: Structural Changes to Products.......................................................................21
Table 4.7: Structural Changes to markets.........................................................................21
Table 4.8: Responsiveness to changes in Natural factors................................................22
Table 4.9: Structural Responsiveness to Changes in service Delivery............................23
Table 4.10: Structural Responsiveness to competitors.....................................................23
Table 4.11: Strategies adopted by the firms......................................................................24
Table 4.12: Effects of Strategy on Performance..............................................................25
Table 4.13: Correlation matrix..........................................................................................27
ABBREVIATIONS AND ACRONYMS

EPS: Earnings Per share
GDP: Gross Domestic product
KPMG: Klynveld Peat Marwick Goerdeler
OECD: Organisation for Economic Co-operation and Development
PAT: Preferential Agreement and Trade
SME: Small Medium Enterprises
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There is great need for firms to embrace strategic alignment and matching with the organization structure so as to adopt and adapt to the ever rapid changing environmental forces. Strategy of any organization is administered through its design which is ideally its structure. Thus successful implementation of a new strategy may require a new structure to avoid any administrative problems thereof (Kavale 2012). You can create the most effective, efficient, team oriented, synergistic structure possible and still end up in the same place you are or even worse (as Kavale 2012 cited Johnson et al. 2008). He also cited Grant (1998) who further emphasized that the primary structure of an organization is one of the basic means through which strategists position the firm so as to execute the strategy in a manner that balances internal efficiency and effectiveness.

The contingency approach to management seeks no one right structure for all organizations. Instead, the right structure depends on contingency factors. Such factors include organization’s strategy, its size, technology and environment, type of industry and organization’s stage of development (Galbraith, 1991) as cited by (Ng’enoh, 2013). Structural contingency theory maintains that organizational survival and performance depends upon the extent of alignment or fit between organizational structure and various contingent factors. The better the alignment between structural components and contingent factors, the greater the viability and performance of the organization (House and Rousseau, 1992) as cited by (Galunic and Eisenhardt, 1993).

Small and Medium Enterprises (SMEs) are businesses in both formal and informal sector employing 1-50 workers (as cited by Mwarari and Ngugi (2013) who cited Rok (2009). SMEs are very vital to economic growth and development in most countries, developing and developed ones alike. They are also great contributors of employment an income worldwide (OECD, 2009). In Kenya, SMEs are responsible for about 80% of employment and contributes about 40% to GDP Mwarari and Ngugi (2013). However, they do face challenges as a result of the ever changing environmental
forces just like any other business. Thus there is need to adopt appropriate strategies supported by organization structure to aid in improving performance.

1.1.1 Strategy-Structure Alignment

Chandler (1962) refers to strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals. Mintzberg (1987) brought out five types of strategies: Strategy as a plan; Strategy as a ploy; Strategy as a position; Strategy as a pattern; and Strategy as perspective.

Researchers have studied the relationship between strategy, and structure, for a long time, based on the contingency theory (Chandler 1962). This approach suggests that the optimal organizational design is contingent on strategy, among other factors. As a result some studies have demonstrated that the external environment and strategic decisions influence the characteristics of organizational structure in order to successfully implement the strategies (Burns and Stalker, 1961; Chandler, 1962; Okumus, 2003). However; there are still some gaps in the understanding of the strategy-structure-performance relationships, which need to be addressed.

First, the theoretical knowledge in this area is decades old and environment conditions have changed since Chandler (1962) arrived to the conclusion that structure follows strategy. Modern enterprises operate in rapidly changing environments that are hypercompetitive and turbulent (Volberda, 1996) where customer preferences are volatile, and technology is transforming scenarios (Galan and Sanchez-Bueno, 2009). In this context, the Resource Based View may explain the sources of sustainable competitive advantage better than an externally focused orientation. The definition of a business in terms of internal resources and what it is capable of doing may offer a more durable basis for strategy than a definition based on the needs which the business seeks to satisfy (Grant, 1991).

Secondly, previous studies (Chandler 1962; Galan and Sanchez-Bueno, 2009) focus on corporate strategy, and not on competitive strategy, which is the focus of this paper. The contingency approach may be appropriate for the study of corporate strategy but when a firm wants to develop a strategy of diversification, it will probably be necessary to change the organizational structure from a functional form to
a division one. However, in terms of competitive strategy, the firm can use its internal coordination mechanisms as a valuable resource to achieve competitive advantage. Therefore, the resource based view approach may be appropriate to analyse the relationship between organizational structure and competitive strategy.

Because of the very nature of a complex and turbulent environment, it is very difficult to anticipate its behaviour and how it might develop. Therefore, the most suitable way of ensuring the continued existence of an organization, or even its success, is to increase that organization’s flexibility which is a common characteristic of small firms.

**1.1.2 Financial Performance**

West and Fair (1996) defined performance as a function of an organization’s ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way as cited by (Muriithi, 2014). Brown (1996) stated that performance measures must focus attention on what identifies and communicates the drivers of success, support organization learning and provides a basis for assessment and rewards as cited by (Muriithi, 2014). He also cited Divenney et al., 2008 who stated that performance consists of three specific areas of firm outcomes: (1) Financial performance (profits, return on assets, return on investment); (2) Market performance (sales, market share, etc.); and (3) Shareholder return (total shareholder return, economic value added, etc.).

Performance is the ultimate dependent variable of interest for those who are concerned with just about any area of management. Multidimensionality of performance covers the many ways in which organizations can be successful; the domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

Measuring performance of an organization by its managers is very vital for strategy formulation, implementation and evaluation purposes. This can be achieved through financial and non-financial dimensions of measurement which is referred to as the hybrid approach. Profit after tax (PAT), earnings per share (EPS) and liquidity ratios
are some of the examples of the financial measures. Customer satisfaction and employee satisfaction are examples of non-financial measures (Chong, 2008).

Chong (2008) discovered the gap in studies focusing on comprehending how the SMEs measure their performance. He concluded that the focus on large organizations was because of the nature and complexity of the business structure and extent of the owner-managers willing to participate in the various fact finding studies. His results showed that the time-axis and hybrid approaches were used simultaneously by the five interviewed owner-managers in measuring the returns and performance of their businesses. The time axis approach, used by most organizations, small and large, relies on the time frame of the real world. The calendar year that can be divided into four quarters is an example. In this study, performance will be measured through the financial dimension and the profitability measures will, thus be used.

1.1.3 Small and Medium Enterprises in Kenya

Small and Medium Enterprises (SMEs) are businesses in both formal and informal sector employing 1-50 workers (as cited by Mwarari and Ngugi (2013) who cited Rok (2009). SMEs are very vital to economic growth and development in most countries, developing and developed ones alike. They are also great contributors of employment an income worldwide (OECD, 2009). In Kenya, SMEs are responsible for about 80% of employment and contributes about 40% to GDP Mwarari and Ngugi (2013). However, they do face challenges as a result of the ever changing environmental forces just like any other business. Thus there is need to adopt appropriate strategies supported by organization structure to aid in improving performance.

In Kenya, the Small and medium Enterprises (SMEs) sector plays a pivotal role in the overall industrial economy of the country. Further, in recent years the SME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 11 million persons spread over 2.2 million enterprises and the labour intensity in the SME sector is estimated to be almost 4 times higher than the large enterprises . (Strategic business advisors Africa ltd-SME banking sector report 2007)
The SME sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). SMEs are the driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved. Furthermore SMEs have been recognized as a feeder service to large-scale industries. While the contributions of SMEs to development are generally acknowledged, entrepreneurs in this sector face many obstacles that limit their long term survival and development. Scholars have indicated that starting a business is a risky venture and warn that the chances of small-business owners making it past the five-year mark are very slim (ILO, 2005).

1.1.4 Top 100 Small and Medium Enterprises in Kenya

Kenya’s Top 100 SMEs survey is an initiative of KPMG Kenya and Nation Media Group which ranks 100 best SMEs in a survey annually. The survey seeks to identify Kenya’s fastest growing medium-sized companies in order to showcase business excellence and bring out some of the country’s most successful stories of entrepreneurship (Muriithi 2014). With this regard, hundreds of SMEs have been identified and these are the focus of this study.

These companies selected to be in this list have to qualify in leading when it comes to growth in profitability, revenue, returns to their shareholders and cash liquidity positions. Such companies exhibit growth in market position in their specific industries. This implies therefore, good returns for the shareholders and a reputation of a sound financial position (Muriithi 2014).

1.2 Research Problem

Structural contingency theory has remained to be a dominant force in organizational studies, despite newer theories like population ecology theory (Hannan and Freeman, 1984) and resource dependency (Pfeffer and Salancik, 1978) that challenge it and sometimes be successful at it. Despite the widespread acceptance, the strategy-structure-performance paradigm suffers from shortcomings of the assumption of static equilibrium and outmoded concepts of strategy and structure. This paradigm also
suffers from empirical shortcomings such as reliance on bivariate models and single contingencies (Galunic and Eisenhardt 1993). This study thus mainly seeks to define the concepts of alignment and structure but focusing on small and medium enterprises.

Small and Medium Enterprises (SMEs) in Kenya account for 80% of employment and contributes about 40% to Kenya’s GDP (Mwarari, 2013) as cited by (Muriithi, 2014). This underscores the importance of this sector to the Kenyan economy. The business environment experiences complex forces that need any organization desiring survival to adopt strategies that will ensure this, and improved performance in the long run. The Top 100 SMEs in Kenya lists out companies that have shown higher performance in comparison to their peers. This can imply that they were able to properly align their strategies with their small sizes to produce good results.

Previous studies have focused more on the large firms in comparison to small firms. Machuki and Aosa (2011) analysed the effect of external business environment on publicly quoted firms in Kenya, and found that complexity and dynamism affected performance of the selected large firms. This study was cross-sectional and was therefore not able to draw conclusions on causality of the strategy practices and the variations thereof. Studies focusing on the influence of the strategy-structure alignment on performance of SMEs are limited. Kandie (2009) analysed the relationship between strategy and performance of Kenyan SMEs and found there is a positive and significant relationship moderated by leadership. This present study will attempt to address this gap from these studies by answering the following question: What is the influence of strategy-structure alignment on the financial performance of Top 100 SMEs in Kenya.

1.3 Research Objectives

The research objectives of this study include:

(i) To establish the strategy-structure alignment in the Top 100 Small and Medium enterprises in Kenya.

(ii) To establish the influence of strategy-structure alignment on financial performance of the Top 100 SMEs in Kenya
1.4 Value of the Study

The findings of this study will be of much benefit to different stakeholders: First, the management and owners of the selected SMEs; this study will play a vital role in assisting them in planning after understanding the influence of strategy-structure alignment has on the financial performance of their enterprises. Therefore, they will be in a better position to face the fast-changing environmental forces and remain competitive in the market.

Second, this study will add on to the growing literature on the strategy-structure alignment and its influence on SME financial performance, especially using data from Kenya. This is important as it will bring in the perspective of an African emerging economy.

Third, for the academicians, this study will form the foundation upon which related and replicated studies can be based on. Further research on different types of businesses and geographical locations can be done to further explore the strategy-structure alignment and its effect on the businesses.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents literature on the relationship between strategy and structure and its influence on the performance of small and medium enterprises.

2.2. Theoretical Foundation of the Study

Theories are reviewed in this study. They include structure follows strategy and the contingency theory.

2.2.1 Structural Contingency Theory

The contingency approach to management seeks no one right structure for all organizations. Instead, the right structure depends on contingency factors. Such factors include organization’s strategy, its size, technology and environment, type of industry and organization's stage of development (Galbraith, 1991) as cited by (Ng’enoh, 2013). Structural contingency theory maintains that organizational survival and performance depends upon the extent of alignment or fit between organizational structure and various contingent factors. The better the alignment between structural components and contingent factors, the greater the viability and performance of the organization (House and Rousseau, 1992) as cited by (Galunic and Eisenhardt, 1993).

Van de Ven and Drazin (1985) provided and excellent explanation of the concept of fit. They argue that conceptions of alignment fall into one of the three approaches; selection, interaction, and systems. The first two approaches typify most of the existing research in contingency theory and the strategy-structure-performance paradigm while the systems approach is infrequently used in research.

The selection approach maintains that organizations must adapt to their context in order to survive. Performance is not an issue in this highly causal approach because performance is often unquestioned. Affirmation is found merely, by a match between strategy and structure. It suggests therefore, that observed strategy-structure combinations must be optimal since very few mismatches are expected between
structure and the competitive environment under competitive business conditions. The market is assumed to select the optimal alignment of strategy and structure. This approach is empirically the most common approach in the contingency literature.

Gupta (1987) explored the interaction approach which examines performance through the interaction effects of pairs of strategy and structural variables on performance. This interest is less concerned with the cause and effect of performance and more with the implications of fit for performance. It tends to suggest that for an organization adopting the low-cost leadership strategy, then it will perform better with mechanical or highly formalized structures. In this case, strategy is the predictor, performance is the dependent variable and structure is the moderating variable. This approach to fit, tests for the effect of alignment between strategy and structure on performance.

They also on the systems approach to the alignment of strategy and structure. Its difference from the interaction approach is in terms of the number of variables considered. It maintains that multiple strategic and structural variables need to be aligned for optimal performance. The systems approach concludes that the fit of strategy and structure on performance is a pattern of unique relations between strategy variables and structural dimensions, which leads to high performance (albeit that performance is often given less attention than in the interaction approach). Strategy alignment originates from the body of conceptual and empirical work in the organizations literature whose fundamental proposition is that organizational performance is the fit between two or more factors such as strategy, structure, technology, culture and environment (Burns and Stalker 1961).

The paradigm of strategy-structure-performance also leads to the conclusion that when there is proper alignment among the three variables, then improved performance of the organization is much likely to be experienced. This was further explored by Galunic and Eisenhardt (1993) who analyzed the strategy-structure relationship and its effects on performance at the corporate level, strategic business unit level and intracorporate relations among the Strategic business units themselves and the firm’s headquarters. Findings from analysis at the corporate level stated that strategy and structure show significant alignment, a strategy of diversification is correlated with a divisionalized (M-form) structure, corporations seeking unrelated diversification
require a looser structure and greater decentralization of authority than those seeking related diversification, and finally, strategy-structure fit improves performance.

Findings from analysis at the Strategic Business Unit level were that, strategy and structure show significant alignment within a functional form organization, defensive, efficiency-seeking strategies generally require more formal, bureaucratic, and centralized structures and controls, strategies that deal with greater uncertainties and seek innovative directions require looser, organic structures, and more liaisons and technical people, and although the environment can be an important mediating variable, strategy-structure fit improves performance.

Their studies of the intracorporate structure suggested the following conclusions: Strategic business unit strategy and intracorporate structure show significant alignment, intracorporate relationships between corporate headquarters and SBU’s with more innovative strategies or with more central importance to the firm should be managed with more decentralization, openness and socialization, and less formalization, appropriate intracorporate relationships between SBU’s are less clear and require further study, and finally, a fit between strategy and intracorporate structure improves performance.

2.3 Empirical Literature Review

Size refers to the bigness or smallness of an organization as measured by some variable such as number of employees, value of property owned, sales revenue or profit made. The study at the University of Aston in Birmingham of 87 companies set to determine the relationship between size and structure found out that small organizations require decentralized and personal structures but as they grow in size, more centralized and impersonal structures are more effective. Another study in 1971 by Peter Blau of 53 autonomous state employment–security agencies found out that increasing size encourages structural differentiation but a decreasing rate. This means that increases in organization size are accompanied by initially rapid and subsequently more gradual increases in structural differentiation (horizontal, vertical and spatial differentiation). Mechanistic and organic organizations are opposite ends of a continuum of organizational structure possibilities.
Mechanistic organizations are efficient, rigid, predictable, and standardized organizations. Specifically, they are characterized by a rigid hierarchy; high levels of formalization; a heavy reliance on rules, policies, and procedures; vertical specialization; centralized decision making; downward communication flows; and narrowed defined tasks. In contrast, organic organizations are flexible, adaptable and team directed. They are characterized by weak or multiple hierarchies; low levels of formalization; loose rules, policies and procedures; horizontal specialization; decentralized decision making; communication flows in all directions; and fluidity of tasks adaptable to changing conditions (Lunenburg 2012).

Yang and Chen (2009) stated that small firms suffer less from the agency problem and are characterized by more flexible, non-hierarchical structures, which may be the appropriate organizational forms in changing business environments (as cited by Muriithi 2014). The study compared the technical efficiency of SMEs with that of large firms and found out that there was inconclusive relationship when choosing different estimation methods.

Gupta (1987) as cited by Galunic and Eisenhardt (1993), explored the interaction approach which examines performance through the interaction effects of pairs of strategy and structural variables on performance. This interest is less concerned with the cause and effect of performance and more with the implications of fit for performance. They also cited Drazin and Van de Ven (1985) that focused on the systems approach to the alignment of strategy and structure. Its difference from the interaction approach is in terms of the number of variables considered. It maintains that multiple strategic and structural variables need to be aligned for optimal performance.

As cited by Awino and Ogollah (2012), who cited McKiernan (2006) who noted that several political theorists, militants and scholars analyzed the concept of strategy that was prevalent in military and political contexts in the historical period. They also cited Sun Tzu (1988) from the Asian part of the world when it comes to the prominent strategy of “The Art of War” (500 BC) and democratic reforms of Kleisthenes (508 BC) in Athens. Trade and other religious dogma were forms of leverage used by other political institutions like churches and government that led to further rise and widespread of strategy beyond the military context. Post World War II period was
experienced instability in the business environment compared to former years, thus leading to a greater demand for organizations to be strategic to cope with the rapidly changing and competitive environment. This is much evidenced by Von Neumann in 1944 and Morgenstern in 1947 are some of the early writers to link strategy with business.

Machuki and Aosa (2011) analyzed the effect of external business environment on publicly quoted firms in Kenya, and found that complexity and dynamism affected performance of the selected large firms. This study was cross-sectional and was therefore not able to draw conclusions on causality of the strategy practices and the variations thereof. Ochiki (2014) did a study on the relationship between growth strategy and organization structure of commercial banks in Kenya. The findings were that most banks opted to adopt the functional organization structure because of its flexibility.

Awino (2011) studied strategy formulation and implementation on large manufacturing firms and concluded that there is a combined effect of the two processes which include business environment issues on corporate performance. Kandie (2009) analysed the relationship between strategy and performance of Kenyan SMEs and found there is a positive and significant relationship moderated by leadership. Okeyo (2014) studied the influence of business environmental dynamism, complexity and munificence on performance of SMEs in Kenya and the results imply that more of these factors can lead to increased performance of SMEs.

**2.4 Summary of Literature Review and the Research Gap**

This chapter has reviewed the contingency theory and structure follows strategy. It is not sufficient that organization adopt structures that are aligned to their strategies, but more so, establish the influence this alignment has on their performance. It is only at that point will true position of the organizations in their specific markets and industries be established. The Kenya Top 100 SME survey done annually thus serves a great role in listing the companies that have not only have the appropriate strategy-structure alignment given the competitive, complex and ever-changing business conditions, but have also good performance to show for it. Therefore, the contingency theory is most relevant in this study as it focuses on the Top 100 SMEs in Kenya.
The empirical review has shown several studies on different situational factors that affect the performance of different sized firms. The large firms may not respond in the same way as the small firms when facing the various environmental forces. In addition, with regards to establishing the relationship of the three variables of strategy, structure and performance of organizations, limited literature is found. Most tend to look at the strategy and structure relationship while others establish the effect of either strategy or structure on performance. Thus there is a gap in literature as far as establishing the strategy-structure alignment and how this affects the performance of organizations, with a greater focus on SMEs. This study, therefore seeks to establish the strategy-structure alignment on the financial performance of SMEs.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, the data collection methods and data analysis techniques to be used in this study. The research is exploratory in nature and sought to find out the influence of strategy-structure alignment on financial performance of the Top 100 small and medium enterprises in Kenya.

3.2 Research Design

A research design is a program that guides the investigator in the process of collecting, analysing and interpreting observations (Chava and Nathmias, 2005) as cited by (Munyoroku, 2012). It allows inferences concerning causal relations and defines the domain of generalizability. The study adopted a cross-sectional descriptive research design to examine the relationship between properties and dispositions (Nachmias, 1996), in this case between strategy-structure alignment and performance. A cross-sectional research design is one in which either the entire population or subset of the population is selected. From these individuals, data is then collected to help answer the questions of interest. It’s called cross-sectional because the information about the dependent and independent variables represents what is going on at only one point in time and being an observational one the researcher collects data about their subjects without manipulating the study environment. The benefit of a cross-sectional study design is that it allows researchers to compare many different variables at the same time (Marie, 2004).

A descriptive survey research design is one concerned with describing the characteristics of a particular individual or group (Kothari, 2004). It enables collection of qualitative data that include the size, form and distribution. The main reason for choosing this research design is that when used together, data about the size, form, distribution and existence of lean operations practices can easily be collected and analysed. This will also help establish the effect of strategy-structure alignment on financial performance of the top 100 small and medium enterprises in Kenya which will permit the researcher to make statistical inference on the broader population and
generalize findings to real life situations and thereby increase the external validity of the study.

### 3.3 Population of the Study

The target population of this study were the Kenya Top 100 small and medium enterprises in Kenya as approved by the Kenya Chamber of Commerce (2015). The target population comprised small and Medium Enterprises in Mombasa County (Appendix 2).

### 3.4 Sampling Design

The sample size of the study was (100) respondents. The researcher used non-probability sampling techniques (mainly purposive sampling) to select respondents for administration of questionnaires (Kothari 2004). This is supported by Sekaran (2003), who points out that purposive sampling technique allows the researcher to select respondents he believes has information to help resolve the field problem being studied.

Simple random sampling was used in collecting data from the SMEs whereby respondents were randomly picked. There are two types of simple random sampling: probability and the non-probability sampling methods. Of the two sampling methods mentioned, this study adopted the later (i.e. the non-probability sampling method), the reason for this choice being the limitation in resources available to conduct this research as the probability sampling method.

### 3.5 Data collection

The data collected was both primary and secondary sources. Secondary data was collected from the audited financial reports and any news bulletin thereof related to the study. Primary sources of data were questionnaires filled by respondents. These questionnaires had separate sections that sought to find out data on the various strategies being implemented by the selected SMEs, the current organization structure
that was chosen to suit the current strategy, the extent to which this alignment affects their financial performance.

The prospective respondents were the General Managers. This is because, managers at these levels, have more knowledge and ample experience on the matters of organizational structure, the current strategy and the performance details of the firms, in comparison to lower level and casual employees. The questionnaires was administered using drop and pick later method given the busy schedules of the managers. An estimated period of two to three weeks was given for collection process.

3.6 Data Analysis

At this stage of the study data was edited, coded and tabulated in consideration of the different sections of the research questions. The data was then entered into a computer using the Statistical Package for Social Sciences (SPSS) software for analysis. Inferential statistics was employed to analyse the data using a correlation model. The analysed data was then presented in frequency distribution tables for ease of understanding and analysis. The correlation model was used to establish the relationship between the independent variables (strategy and structure) and dependent variable (financial performance). The model equation took the following form:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 \]

Where;

\[ Y = \text{Financial Performance of the SME} \]
\[ X_1 = \text{Structure on changes in the Economic Environment} \]
\[ X_2 = \text{Structure in the Products} \]
\[ X_3 = \text{Structure on the Markets} \]
\[ X_4 = \text{Structure on Natural factors in the business environment} \]
\[ X_5 = \text{Structure on Quality Service Delivery to Customers} \]
\[ X_6 = \text{Structure on response to Competition} \]
CHAPTER FOUR

RESULTS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis of data collected and discusses the findings on the influence of strategy-structure alignment on financial performance of the top 100 small and medium enterprises in Kenya.

4.2 Demographic Characteristics of the Respondents

4.2.1 Respondents Response rate

From Table 4.1 of response rate, the results show that out of the 100 targeted respondents, 70 successfully filled the questionnaires. This represents a response rate of 70.0%. This response rate was excellent is in line with what other scholars as best for reporting (Mugenda, 2003).

Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>70</td>
<td>70.00</td>
</tr>
<tr>
<td>Non responses</td>
<td>30</td>
<td>30.00</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

4.2.2 Period Business has been in existence

From Table 4.2 which contains information on the period business has been inexistence in Kenya, the results show that majority of the businesses had been inexistence for more than 5 years. This implies that majority of the businesses had been in existence for period long enough to have experienced and witnessed various situations that called different changes to strategy.
### Table 4.2 Period that the business has been in existence

<table>
<thead>
<tr>
<th>Period business has been in existence</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 year</td>
<td>10</td>
<td>14.29</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>8</td>
<td>11.43</td>
</tr>
<tr>
<td>6 to 8 years</td>
<td>40</td>
<td>57.14</td>
</tr>
<tr>
<td>9 to 11 years</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td>Over 11 years</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

#### 4.2.3 Nature of Business

The results in Table 4.3 revealed that 12.86% of the respondents were in retailing; 21.43% of the respondents were in manufacturing; 24.29% were in hotel and tourism industry and 41.43% belonged to other service sectors. The distribution in the various sectors brought out interesting findings that were very helpful to the researcher. The various sectors relied on different strategies in order to survive in the highly competitive environment.

### Table 4.3 Nature of business

<table>
<thead>
<tr>
<th>Nature of business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailing</td>
<td>9</td>
<td>12.86</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15</td>
<td>21.43</td>
</tr>
<tr>
<td>Hotel and tourism</td>
<td>17</td>
<td>24.29</td>
</tr>
<tr>
<td>Other services</td>
<td>29</td>
<td>41.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)
4.2.4 Period the Respondent Worked with SME and Held Position

<table>
<thead>
<tr>
<th>Period worked in SME</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>8</td>
<td>11.43</td>
</tr>
<tr>
<td>6 to 11 years</td>
<td>10</td>
<td>14.29</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>40</td>
<td>57.14</td>
</tr>
<tr>
<td>Over 16 years</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

From Table 4.4 on the period respondent has worked with SMEs, the study revealed that over half of the respondents had worked with SMEs for a period of more than 6 years. This meant that most of the respondents had adequate experience and that their feedback could be relied upon. It also meant that the respondents must have undertaken enough experiences in strategy formulation and implementation in the sector and that they had vast experience in the same area of expertise. This then followed that the information given by them was dependable.

Table 4.4 Nature of Organization Structure

<table>
<thead>
<tr>
<th>Nature of organization structure</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional</td>
<td>21</td>
<td>30.00</td>
</tr>
<tr>
<td>Divisional</td>
<td>34</td>
<td>48.57</td>
</tr>
<tr>
<td>Matrix/Hybrid</td>
<td>15</td>
<td>21.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

From the table 4.4 on nature of organization structure, the study revealed that 30% of the organizations operated on functional structure; 48.57% of the organizations operated on divisional structure while 21.43% operated on matrix/hybrid organization
structure. The respondents cited different reasons for the choice of structures above but largely centred about control, flexibility and customer service.

4.2.4 Extent to which organization structure is aligned to responsiveness

4.2.4.1: Responsiveness to Economic environment

The results in table 4.5 revealed that the organization structure of only 8.57% of the organizations in the study had to a very great extent the ability to respond to changes in the economic environment. 58.57% could respond to changes in the economic environment to a great extent; 15.71% could respond to some extent; 12.86% could respond to little extent while 4.29% could only do so to a smaller extent.

Table 4.5 Responsiveness to Economic environment

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td>Great extent</td>
<td>41</td>
<td>58.57</td>
</tr>
<tr>
<td>Some extent</td>
<td>11</td>
<td>15.71</td>
</tr>
<tr>
<td>Little extent</td>
<td>9</td>
<td>12.86</td>
</tr>
<tr>
<td>Very little extent</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

4.2.4.2 Structure to Products

A similar trend was noted in this regard. The findings in table 4.6 revealed that the organization structure of only 5.71% of the organizations in the study had to a very great extent the ability to respond to structure on the products. 57.14% could respond to structure of product a great extent; 21.43% to some extent; 12.86% to little extent while 2.86% to a smaller extent.
Table 4.6 Structural Changes to Products

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>4</td>
<td>5.71</td>
</tr>
<tr>
<td>Great extent</td>
<td>40</td>
<td>57.14</td>
</tr>
<tr>
<td>Some extent</td>
<td>15</td>
<td>21.43</td>
</tr>
<tr>
<td>Little extent</td>
<td>9</td>
<td>12.86</td>
</tr>
<tr>
<td>Very little extent</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

4.2.4.3 Structural Changes to Markets

The findings in table 4.7 revealed that the organization structure of only 10.00% of the organizations in the study had to a very great extent the ability to structure changes in the Markets. 48.14% could respond to changes in the markets to a great extent; 21.47% could respond to some extent; 12.86% could respond to little extent while 10.86% could only do so to a smaller extent.

Table 4.7 Structural Changes to Markets

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td>Great extent</td>
<td>38</td>
<td>48.14</td>
</tr>
<tr>
<td>Some extent</td>
<td>16</td>
<td>21.47</td>
</tr>
<tr>
<td>Little extent</td>
<td>6</td>
<td>10.86</td>
</tr>
<tr>
<td>Very little extent</td>
<td>3</td>
<td>2.86</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)
4.2.4.4 Responsiveness to changes in Natural Factors

Natural factors played a key role in organization structure, and this caused most of the SMEs to institute in place structures that are relevant and responsive to any change that occurred in the same. The findings in table 4.9 revealed that the organization structure of only 10.00% of the organizations in the study had to a very great extent the ability to respond to changes in the natural actors. 48.14% could respond to changes in the natural factors to a great extent; 21.47% could respond to some extent; 12.86% could respond to little extent while 10.86% could only do so to a smaller extent.

Table 4.8 Responsiveness to changes in Natural Factors

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td>Great extent</td>
<td>40</td>
<td>48.14</td>
</tr>
<tr>
<td>Some extent</td>
<td>15</td>
<td>21.47</td>
</tr>
<tr>
<td>Little extent</td>
<td>9</td>
<td>12.86</td>
</tr>
<tr>
<td>Very little extent</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

4.2.4.5 Structural Responsiveness to Changes in Service Delivery

Majority of the SMESs acknowledged that they belonged to the top 100 cadre courtesy of the service they delivered to the consumers and without this, they would be nowhere. The study findings show that 57.14% of the business could to a very great extent respond to changes in the service delivery; 28.57% to a great extent; 7.14% to some extent; 4.29% to a little extent while only 2.86% could do so to a very little extent. This was a key characteristic of the top 100 SMEs.
### Table 4.9 Structural Responsiveness to changes in service delivery

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>40</td>
<td>57.14</td>
</tr>
<tr>
<td>Great extent</td>
<td>20</td>
<td>28.57</td>
</tr>
<tr>
<td>Some extent</td>
<td>5</td>
<td>7.14</td>
</tr>
<tr>
<td>Little extent</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>Very little extent</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Source:** Research Data (2015)

### 4.2.4.6 Structural Responsiveness to Competition

The study findings showed that competition was cited as one of the major forces that pushed organizations to undertake major structural changes. In order to either fend off or gain advantage, the top 100 SMEs had generally to greater extent designed their organizations structures to be able to respond to the changes in competition. The study revealed that 71.43% of the firms could to a very great extent respond to changes in completion; 14.28% to a great extent; 7.14% to some extent and only 2.86% to very little extent.

### Table 4.10 Structural Responsiveness to Competition

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>50</td>
<td>71.43</td>
</tr>
<tr>
<td>Great extent</td>
<td>10</td>
<td>14.28</td>
</tr>
<tr>
<td>Some extent</td>
<td>5</td>
<td>7.14</td>
</tr>
<tr>
<td>Little extent</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>Very little extent</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
4.3 Strategies Adopted by the Firms

The study also sought to establish to what extent the following strategies had been adopted by the firms.

Table 4.11 Strategies adopted by the firms

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Mean</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Leadership</td>
<td>4.36</td>
<td>2</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>4.57</td>
<td>1</td>
</tr>
<tr>
<td>Market focus</td>
<td>4.23</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13.16</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

The respondents’ ranked Product differentiation as the most commonly adopted strategy with a mean rating of 4.57; followed by cost leadership with a mean rate of 4.36 and finally market focus with a mean rate of 4.23.

4.4 Effect of Company strategy structure alignment on performance

The study also sought to establish the extent to which the alignment of company strategy structure on performance. The respondents were expected to rate whether this alignment had significant effect on performance by rating whether to a very great extent, to great extent, to some extent, to a little extent or to very little extent. The study results showed that 64.28% of the firms had rated the effect of this alignment as significant to a very great extent, 21.43% to a great extent, 7.14% to some extent, 4.29% to a little extent and 2.86% to a very little extent.
Table 4.12: Effects of strategy on performance

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>45</td>
<td>64.28</td>
</tr>
<tr>
<td>Great extent</td>
<td>15</td>
<td>21.43</td>
</tr>
<tr>
<td>Some extent</td>
<td>5</td>
<td>7.14</td>
</tr>
<tr>
<td>Little extent</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>Very little extent</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

4.5 Strategy-structure alignment and performance of top 100 SMEs in Kenya

To facilitate an inferential analysis of the relationship between strategy alignment and performance of top 100 SMEs in Kenya, the seven strategic-structural changes were regressed against performance of the SMEs. The respondents were requested to indicate the extent to which the strategic structural changes had contributed to performance of the SMEs.

A correlation model was applied to determine the effect of structural alignment to financial performance of the top 100 SMEs in Kenya. The linear regression model used took the following form:

Financial performance being the dependent variable was regressed against the structural alignments to the different changes in the environment being the independent variables yielding the results discussed in the following subsections.

4.6. Structural alignments to various changes and financial performance

A correlation analysis of the relationship between structural alignments and financial performance done yielded the results as discussed below.
From the data in the table 4.14 the correlation model equation developed was:

\[ Y = 2.567 + 0.720X_1 + 0.489X_2 + 0.383X_3 + 0.360X_4 + 0.311X_5 + 0.393X_6 \]

Where;

\( Y \) = Financial Performance of the SME

\( X_1 \) = Structure on changes in the economic environment

\( X_2 \) = Structure in the products

\( X_3 \) = Structure on the markets

\( X_4 \) = Structure on Natural factors in the business environment

\( X_5 \) = Structure on Quality service delivery to customers

\( X_6 \) = Structure on response to competition
Table 4.13 Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>Economic</th>
<th>Products</th>
<th>Markets</th>
<th>Natural factors</th>
<th>Quality</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1.000</td>
<td>0.720</td>
<td>0.489</td>
<td>0.383</td>
<td>0.360</td>
<td>0.311</td>
<td>0.393</td>
</tr>
<tr>
<td>Economic</td>
<td>0.720</td>
<td>1.000</td>
<td>0.798</td>
<td>0.758</td>
<td>0.713</td>
<td>0.711</td>
<td>0.645</td>
</tr>
<tr>
<td>Product</td>
<td>0.489</td>
<td>0.798</td>
<td>1.000</td>
<td>0.763</td>
<td>0.775</td>
<td>0.728</td>
<td>0.671</td>
</tr>
<tr>
<td>Markets</td>
<td>0.383</td>
<td>0.758</td>
<td>0.763</td>
<td>1.000</td>
<td>0.884</td>
<td>0.878</td>
<td>0.440</td>
</tr>
<tr>
<td>Natural factors</td>
<td>0.360</td>
<td>0.713</td>
<td>0.775</td>
<td>0.884</td>
<td>1.000</td>
<td>0.783</td>
<td>0.455</td>
</tr>
<tr>
<td>Quality</td>
<td>0.311</td>
<td>0.711</td>
<td>0.728</td>
<td>0.878</td>
<td>0.783</td>
<td>1.000</td>
<td>0.570</td>
</tr>
<tr>
<td>Competition</td>
<td>0.393</td>
<td>0.645</td>
<td>0.671</td>
<td>0.440</td>
<td>0.455</td>
<td>0.570</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>0.014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Markets</td>
<td>0.048</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural factors</td>
<td>0.059</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>0.091</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>0.043</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

The coefficients of correlation from the table 4.14 above and the associated significance revealed the following: That there exists a positive and significant relationship between strategy-structural alignment to economic changes and performance of the top 100 SMEs in Kenya as shown by the positive coefficient of correlation (0.720) and significance (0.000) that is less than the level of significance of 0.05.
There also exists a positive and significant relationship between performance of the top 100 SMEs and strategy-structure alignment to products changes as shown by the positive coefficient of correlation (0.489) and significance (0.014) that is less than the level of significance.

There also exists a positive and significant relationship between performance of the top 100 SMEs and strategy-structure alignment to market changes as shown by the positive coefficient of correlation (0.383) and significance (0.048) that is less than the level of significance of 0.05.

There also exists a positive and not significant relationship between performance of the top 100 SMEs and strategy-structure alignment to changes in natural factors as shown by the positive coefficient of correlation (0.360) and significance (0.059) that is greater than the level of significance of 0.05.

Similarly, there also exists a positive and not significant relationship between performance of the top 100 SMEs and strategy-structure alignment to changes in quality of service delivered to the customers as shown by the positive coefficient of correlation (0.314) and significance (0.091) that is greater than the level of significance of 0.05.

Finally, there also exists a positive and significant relationship between performance of the top 100 SMEs and strategy-structure alignment to competition changes as shown by the positive coefficient of correlation (0.393) and significance (0.043) that is less than the level of significance of 0.05. Other findings showed show that a strong positive relationship between strategy-structure alignment and the various changes occurring in the business environment in Kenya.

**4.7 Discussion of the Key Findings**

The study sought to establish the influence of strategy structure alignment on financial performance of the top 100 SMEs in Kenya. The research objectives of this study included establishing the strategy-structure alignment in the Top 100 small and medium enterprises in Kenya and establishing the influence of strategy-structure alignment on financial performance of the Top 100 SMEs in Kenya.

The study established that there exists a positive relationship between strategy-structure alignments to the various changes in the business environment among the
top 100 SMEs. This relationship was seen to be significant and hence very dependable in explaining the overall financial performance of the firms.

Within the business environment, changes in economic factors, changes in products environment, markets changes and changes in competition were seen to have very significant effect on the financial performance of the top 100 SMEs in Kenya. Any adjustment on the alignments be it positive or negative had a significant influence on the resultant financial performance. Changes in the natural factor and quality of service delivered indeed would have an effect on performance but not significantly as compared to the other three included in this study.

From the model developed, it can be deduced that keeping all the alignments to changes constant, the level of performance would be 2.567; a unit change in alignment to economic factors would lead to a change in financial performance by 0.720 units; while a unit change in alignment to products changes would affect financial performance by 0.489 units; a unit change in alignment to markets changes would affect financial performance by 0.383 units; a unit change in alignment to natural factors would affect financial performance by 0.360 units; a unit change in alignment to service quality would affect financial performance by 0.314 and finally, a unit change in alignment to competition would affect financial performance by 0.393 units.

This study is in line with other researches that have been carried in regards to strategy-structure alignments and financial performance of going concerns. Yang and Chen (2009) in a study to compare the technical efficiency of SMEs with that of large firms acknowledged that there existed a relationship between structure, strategy and performance; though in their study, this was inconclusive on the nature and significance of the relationship. Gupta (1987) in a study explored the interaction approach which examines performance through the interaction effects of pairs of strategy and structural variables on performance. The study concluded that multiple strategic and structural variables need to be aligned for optimal performance.

Machuki and Aosa (2011) analysed the effect of external business environment on publicly quoted firms in Kenya, and found that complexity and dynamism affected performance of the selected large firms. This study concluded that optimal performance was highly related to strategy. Ochiki (2014) in a study on the
relationship between growth strategy and organization structure of commercial banks in Kenya concluded that most banks opted to adopt the functional organization structure because of its flexibility.

Finally, Awino (2011) studied strategy formulation and implementation on large manufacturing firms and concluded that there is a combined effect of the two processes which include business environment issues on corporate performance. All these studies coupled with the findings of this research conclude that strategy-structure alignment is crucial in enhancing the financial performance of any going concern.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research findings and also presents conclusions and recommendations of the study. The conclusions are drawn from the findings of the study which sought to find out the influence of strategy – Structure alignment on financial performance of the top 100 Small and Medium Enterprises in Kenya.

5.2 Summary of Findings

The study found out that there are various factors that influence strategy structure alignment on financial performance of the top Small and Medium Enterprises in Kenya this include natural factors in the environment, changes in service delivery, competition, economic environment as well as changes in the Markets by use of the inferential statistics revealed that there exists a positive and significant relationship between strategy-structural alignment and the variables.

Economic changes had a positive coefficient correlation 0.72 and 0 significance, product changes had a positive coefficient correlation of 0.489 and 0.014 significance, market changes positive coefficient correlation of 0.383 and 0.048 significance, natural factors positive coefficient correlation of 0.36 and 0.059 significance, changes in quality of service delivered to the customers positive coefficient correlation of 0.314 and 0.091 significance, competition positive coefficient correlation of 0.393 and 0.043 significance to achieve financial performance of the firms.

Small and Medium Enterprises (SMEs) of have been creditably playing a vital and vibrant role in the economic growth and development of the County. This has been confirmed by the level of employment and GDP contribution. Currently, Kenyan SMEs responsible for about 80% of employment and contributes about 40% of the GDP. The study confirms a majority of permanently employed respondent at a rate of 62.5% compared to casual employment at a rate of 37.5%. However with the good performance also comes the challenging factor affecting SME performance. These
include issues of policy and legal framework and access to Market information. This situation has been of great concern to the Government, citizenry, operators, practitioners and the organized private sector groups.

5.3 Conclusion

The findings of this research are consistent with the research done by other scholars. The objective of the study was to establish the strategy-structure alignment in the Top 100 small and medium enterprises in Kenya besides establishing the influence of strategy-structure alignment on financial performance of the top 100 SMEs in Kenya.

The study concluded that strategy-structure alignment among the top 100 SMEs in Kenya was one major factor that determined the firms’ success. Majority of the firms were found to have put adequate measures in place to ensure that the strategies in force is clearly and seamlessly aligned to the structures, and that strategy followed structure; but also structure was flexible enough to follow strategy. This alignment qualified all the studied firms to make it to the top 100.

The study also concluded that strategy-structure alignment had greater and significant influence on the financial performance of the SMEs. According to Tourki (2010), many organizations have realized the need to ensure that strategies adopted by the firms are aligned to structure to enhance higher performance. This alignment and relationship if properly harnessed could be used to ensure further success.

5.4 Recommendations

Based on the findings of the study it is recommended that the management of top 100 SMEs continually enhance this alignment to realize further success. Based on the strength of the relationship, the management of the SMEs will have to set up clear policies on the same and communicate to all the stakeholders on what it entail, what is expected, the potential benefits and challenges. These strategies are also recommended for other firms that do not match this cadre of high performers.

5.5 Limitations of the Study

While the study was carried out among the top 100 SMEs in Kenya, interesting results would have been realized had this study included the rest of the firms that did not
feature in this cadre for comparison purposes. While the study featured on the seven possible changes in an environment, the concept of performance for any business firm can be linked to very many other factors not included in this study.

5.6 Suggestions for Further Research

Since this study was carried out in on the influence of strategy structure alignment on Financial Performance of the top 100 small and Medium Enterprises in Kenya it should be carried also on large enterprises in the country to determine the difference in the factors affecting the performance of the firms.
REFERENCES


Ogollah, K. and Bolo, Z. A. *Strategy Structure Environment Linkage and Corporate Performance: A Conceptual Overview*


APPENDICES

Appendix 1: Questionnaire

Part 1: General Information. (Please tick where appropriate)

1. How long has this business been in existence?
   a) Less than 3 years
   b) 3 – 5 years
   c) 6 – 8 years
   d) 9 – 11 years
   e) More than 11 years

2. What is the nature of your business?
   a) Retailing
   b) Manufacturing
   c) Hotel and Restaurant
   d) Other Service

3. How long have you worked with the SME?
   a) Less than 1 year
   b) 1 – 5 years
   c) 6 – 11 years
   d) 11- 15 years
   e) More than 16 years

4. For how long have you held this position?
   a) Less than 1 year
   b) 1 – 5 years
   c) 6 – 11 years
5. Describe the nature of the organization structure of your company and the extent to which it is applied in your company.

<table>
<thead>
<tr>
<th>NATURE OF ORGANIZATION STRUCTURE</th>
<th>Very Great extent</th>
<th>Great extent</th>
<th>Some extent</th>
<th>Little extent</th>
<th>Very little extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUNCTIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>It is a structure that consists of activities such as co-ordination, supervision and task allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIVISIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Also known as a product structure and it is a configuration of an organization, which breaks down the company into divisions that are self-contained</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MATRIX/HYBRID</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>It is a structure that groups employees by their function and product aspects. This structure can combine the best of the two separate structures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. To what extent is your company’s structure aligned to respond to changes in the economic environment?

   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent
7. To what extent is your company’s structure aligned to respond to Socio-cultural changes?
   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent

8. To what extent is your company’s structure aligned to respond to Political changes?
   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent

9. To what extent is your company’s structure aligned to respond to changes in technology?
   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent

10. To what extent is your company’s structure aligned to respond to Natural factors?
    a) Very great extent
    b) Great extent
    c) Some extent
    d) Little extent
11. To what extent is your company’s structure aligned to ensure quality service delivery to the customers?
   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent

12. To what extent is your company’s structure suited to respond to competition from other businesses?
   a) Very great extent
   b) Great extent
   c) Some extent
   d) Little extent
   e) Very little extent

13. What is the current strategy(s) adopted by your company and to what extent is it applied?

<table>
<thead>
<tr>
<th>NATURE OF STRATEGIES ADOPTED</th>
<th>Very Great extent</th>
<th>Great extent</th>
<th>Some extent</th>
<th>Little extent</th>
<th>Very little extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST LEADERSHIP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRODUCT DIFFERENTIATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARKET FOCUS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
14. Is the strategy mentioned in (6) above the same adopted in the following years? If No, which other strategy was previously adopted and why did you change to the current one?

a) 2014………………………………………………………………………………

b) 2013………………………………………………………………………………

c) 2012………………………………………………………………………………

d) 2011………………………………………………………………………………

15. To what extent is the current organization structure aligned to the current company’s strategy?

a) Very great extent

b) Great extent

c) Some extent

d) Little extent

e) Very little extent

Part III: Financial performance and how it has been affected by current strategy- structure alignment in the SME

16. What was your profit before taxes in the following financial years?

a) 2014………………………………………………………………………………

b) 2013………………………………………………………………………………

c) 2012………………………………………………………………………………

d) 2011………………………………………………………………………………

17. How much did the business make in profit after taxes in the following years?

a) 2014………………………………………………………………………………

b) 2013………………………………………………………………………………

c) 2012………………………………………………………………………………
d) 2011………………………………………………………………………………

e) To what extent has the company’s strategy-structure alignment affected the performance stated above?

a) Very great extent
b) Great extent
c) Some extent
d) Little extent
e) Very little extent

PART IV: Commentary

18. What changes should be made to the strategy – structure alignment of your company?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

19. Comment on the ideal Strategy-Structure alignment to improve the financial performance of your company?

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

FILLED BY: ……………………………………………………………………………
COMPANY NAME: …………………………………………………………………
DESIGNATION: ………………………………………………………………………
Appendix 2: List of Firms

1. OPTIVEN ENTERPRISES Ltd
2. VEHICLE AND EQUIPMENT LEASING LIMITED
3. SHADE SYSTEMS E.A LTD
4. NORTH STAR COOLING SYSTEMS LTD
5. LEAN ENERGY SOLUTIONS LTD
6. WOTECH KENYA LIMITED
7. PHARMACEN LIMITED
8. SYNERMEDICA (KENYA) LIMITED
9. NOVEL TECHNOLOGIES EA LTD
10. ASLAN ADVENTURE
11. MEGA PACK K LTD
12. EAST AFRICAN CANVAS CO LTD
13. HAJAR SERVICES LTD
14. PEWIN CABS
15. BTB INSURANCE
16. BLUEKEY SOFTWARE SOLUTIONS (K) LTD
17. ARK CONSTRUCTION
18. DIGITAL CITY Ltd
19. VIVEK INVESTMENTS LTD
20. WOODBRIDGE GROUP LTD
21. ONFON MEDIA LTD
22. LANOR HOLDINGS LIMITED
23. ASL CREDIT
24. SPRY ENGINEERING CO. Ltd
25. PWANI CELLULAR SERVICES Ltd
26. PINNACLE K TRAVEL & SAFARIS
27. POWERPOINT SYSTEMS EA Ltd
28. SPECICOM TECHNOLOGIES Ltd
29. EXECUTIVE HEALTHCARE SOLUTIONS Ltd
30. ALLWIN PACKAGING INTL Ltd
31. AFRICA PRACTICE EA Ltd
32. UPPERHILL EYE & LASER CENTRE
33. CUBE MOVERS LIMITED
34. MACHINES TECHNOLOGIES (2006) Ltd
35. CHARLESTON TRAVEL LIMITED
36. AFRICA BIOSYSTEMS LIMITED
48. UNIQUE OFFERS LIMITED
49. DEVSONS INDUSTRIES Ltd
50. GENERAL CARGO SERVICES Ltd
51. JOGIAN INTERLINK LIMITED
52. WAUMINI INSURANCE BROKERS
53. PROFESSIONAL CLEAN CARE Ltd
54. XRX TECHNOLOGIES LIMITED
55. AMEX AUTO & INDUSTRIES HARDWARE Ltd
56. SYNERMED
57. PHARMACEUTICALS (K) Ltd
58. SECURITY WORLDTECHNOLOGY Ltd
59. VINTAGE TRAVEL & TOURS SERVICES Ltd
60. VINEP FORWARDERS LIMITED
61. DUNE PACKAGING LIMITED
62. RAVENZO TRADING LIMITED
63. TRINITY PETROLEUM LIMITED
64. SOFTWARE TECHNOLOGIES Ltd
65. AVTECH SYSTEMS Ltd
66. AAR CREDIT
67. THIKA WAX WORKS Ltd
68. EUROCON TILES PRODUCTION
69. POLYGON LOGISTICS Ltd
70. RUSHAB PETROLEUM LIMITED
71. PRAFULCHANDRA & BROTHERS Ltd
72. HEALTHY U 2000 Ltd
73. SHEFFIELD STEEL SYSTEMS Ltd
74. VIRO LOCKS Ltd
75. SPECIALIZED ALUMINIUM RENOVATORS Ltd
76. KENBRO INDUSTRIES
<table>
<thead>
<tr>
<th>37. IMPAX BUSINESS SOLUTIONS</th>
<th>77. NAIROBI ENTERPRISES Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>38. KENYA BUS SERVICE MANAGEMENT Ltd</td>
<td>78. OFFICE DYNAMICS LIMITED</td>
</tr>
<tr>
<td>39. ELITE TOOLS Ltd</td>
<td>79. DE RUITER EAST AFRICA Ltd</td>
</tr>
<tr>
<td>40. MIC GLOBAL RISKS INSURANCE BROKERS Ltd</td>
<td>80. BROLLO KENYA Ltd</td>
</tr>
<tr>
<td>41. LANTECH (AFRICA) LIMITED</td>
<td>81. MELVIN MARSH</td>
</tr>
<tr>
<td>42. SMART BRANDS LIMITED</td>
<td>82. INTERNATIONAL Ltd</td>
</tr>
<tr>
<td>43. CARE CHEMISTS STITCH MASTERS Ltd</td>
<td>83. SIGMA SUPPLIES Ltd</td>
</tr>
<tr>
<td>44. ALEXANDER FORBES FINANCIAL SERVICES EA Ltd</td>
<td>84. SENSATIONS LIMITED</td>
</tr>
<tr>
<td>45. RONGAI WORKSHOP &amp; TRANSPORT Ltd</td>
<td>85. SUPREME PHARMACY LIMITED</td>
</tr>
<tr>
<td>46. COAST INDUSTRIAL &amp; SAFETY SUPPLIES</td>
<td>86. SOLUTIONS ASSOCIATIONS Ltd</td>
</tr>
<tr>
<td>47. ELDOHOSP PHARMACEUTICALS</td>
<td>87. KURRENT TECHNOLOGIES Ltd</td>
</tr>
<tr>
<td></td>
<td>88. TOTAL SOLUTIONS Ltd</td>
</tr>
<tr>
<td></td>
<td>89. TRIDENT PLUMBERS Ltd</td>
</tr>
<tr>
<td></td>
<td>90. PALBINA TRAVEL Ltd</td>
</tr>
<tr>
<td></td>
<td>91. TABAKI FREIGHT SERVICES LTD</td>
</tr>
<tr>
<td></td>
<td>92. HOTEL WATERBUCK LIMITED</td>
</tr>
<tr>
<td></td>
<td>93. XTREME ADVENTURES LIMITED</td>
</tr>
<tr>
<td></td>
<td>94. SATGURU TRAVEL AND TOURS</td>
</tr>
<tr>
<td></td>
<td>95. STILE GAS SUPPLIES Ltd</td>
</tr>
<tr>
<td></td>
<td>96. MURANGA FORWARDERS LIMITED</td>
</tr>
<tr>
<td></td>
<td>97. FURNITURE RAMA Ltd</td>
</tr>
<tr>
<td></td>
<td>98. CONVENTIONAL CARGO CONVEYORS</td>
</tr>
<tr>
<td></td>
<td>99. TOTAL OFFICE SOLUTIONS EA Ltd</td>
</tr>
<tr>
<td></td>
<td>100. TYPOTECH IMAGING SYSTEMS</td>
</tr>
</tbody>
</table>

Source: www.eastafricatop100.com