The Influence of Organizational Strategy and Institutional Factors on Performance of Small and Medium Enterprises (SMEs) in Kenya

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Declaration

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Dedication

This work is dedicated to my mother Elizabeth. my loving wife Ruth and my children Sheila, Samson. Michael and Timothy, with love.

Acknowledgement

The successful completion of this PhD thesis is due to the profound support of my three supervisors namely: Prof. Peter K'Obonyo, Prof. G.P. Porkaryal and Dr Harriet J. Kidombo, all from the University of Nairobi. I sincerely thank them for their immense support from the inception of the idea and subsequent development of the same till this stage of its completion. I am particularly grateful to Professor K'Obonyo for sharing immense knowledge in the field of strategic management which laid a strong foundation for this study.

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Abbreviations and Acronyms

ADB- African Development Bank

AGOA- African Growth Opportunity Act

CEO- Chief Executive Officer

DTI- Department of Trade and Industry

GDP- Gross Domestic Product

GOK- Government of Kenya

HR- Human Resource

JICA - Japan International Cooperation Agency and

MOTI- Ministry of Trade and Industry

KIRDI- Kenya Development Research Institute

MSEs- Micro and Small Enterprises

ROA- Return on Assets

ROE- Return on Equity

ROS- Return on Sales

SMEs- Small and Medium Enterprises

Abstract

The influence of institutional factors (structure. organizational culture and leadership) and strategy on performance of SMEs remains unclear. Also. the moderating effect of institutional factors on the relationship between strategy and performance of SMEs has not been established. Therefore. this study was motivated by the desire to fill these gaps in knowledge. The specific research objectives were to establish the relationship between strategy and performance of SMEs, the relationship between each institutional factor and performance of SMEs, the joint effect of institutional factors and strategy on performance of SMEs. the influence of each of the institutional factors on the relationship between strategy and performance of SMEs and lastly, the joint effect of institutional factors on the relationship between strategy and performance of SMEs.

A disproportionate stratified random sampling technique was used to select a sample of 116 firms drawn from a population of 166 small and medium enterprises in Nairobi. Structured survey questionnaires were administered to collect the primary data. The response rate was 46 percent. representing 53 respondents drawn from manufacturing and service sectors. Descriptive statistics, correlation and regression techniques were used to analyze the data.

The results of the study show that 87 percent of Kenyan SMEs employ strategic plans in their businesses, contrary to the findings of the previous research which indicated that small and medium sized enterprises (SMEs) barely plan their strategies because of lack of resources. It was also found that the relationship between organizational culture and performance of SMEs was positive and significant. This implies that organizational culture has influence on the performance of SMEs. The results further show that the relationship between strategy and performance is moderated by leadership. This is demonstrated by the positive effect of the interaction between leadership and strategy on performance. Transformational leadership style was found to be dominant. However, SMEs combine both transformational and transactional leadership styles. The ultimate practical implication is that for any SME to survive and make profit in a turbulent environment. it must put in place strategic plans and align strategies to the institutional factors. This is consistent with classical view (Whittington. 2001) which states that SMEs should have a rational process, emphasize on analysis. order and control to achieve long-term advantages and maximize profit.

Despite the foregoing. this study had inconclusive results on four fronts: the joint effect of strategy and institutional factors on performance of SMEs. the moderating effect of organizational culture on the relationship between strategy and performance. the moderating effect of structure on the relationship between strategy and performance of SMEs and the combined effect of the three moderating variables on the relationship between strategy and performance of SME's. It is recommended that further research be done to compare the results and thus establish the source of these differences.

The study has emphasized the importance of strategy and the institutional factors in improving performance. Therefore it is recommended that policy makers to come up with a policy framework to support the small and medium enterprises to enhance the quality of their strategies and institutional factors so that SMEs can survive and improve their performance in a competitive environment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The overall contribution of small and medium enterprises to economic development is well documented (Dollinger. 1995. Hisrich 1988. Kuratko and Hodgetts, 1998 and Yu. 2001). Papoutsis (1996) noted that 4 percent of enterprises. characterized as fast-growing SMEs. contributed some 50 percent of net job creation. Similar findings were reported ten years earlier in a study of fast growing small businesses in the North East of England (Storey et al. 1987). Mead and Liedholm (1998) reported from a study of micro and small enterprises (MSEs) that firms with 10-50 employees constituted less than 2 percent of the businesses in virtually all the surveyed countries in Africa. In fact, the majority of SMEs in Africa consist of only one employee, with the bulk of the remainder employing less than 10 people. Small businesses still comprise the great majority of all businesses in the UK with well over 99 per cent of all businesses having fewer than fifty employees (DTI 1998). In Japan, official data suggested that at the beginning of the 1990s, just fewer than 80 per cent of all jobs were in small and medium-sized enterprises with less than 300 employees (Ministry of International Trade and Industry 1993). Other developed countries such as United State of America (USA) and Germany, offer similar profiles. Kotey and Meredith (1997) asserted that SMEs play a major role as job provider, income distribution through business opportunities and rural development and also increase investment and development of entrepreneurship.

This sector plays a major role in employment-creation and income generation. It is also estimated to employ two-thirds of all Kenyans of working age, either on full-time or part- time basis (GOK. 1992). K'Obonyo (1999) asserted that a long-term solution to Kenya's growing problems of limited employment and income generation opportunities lies squarely in the small enterprises sector. He further pointed out that the Government of Kenya and donor agencies have recognized this fact and they have developed policies to support this sector. It is expected that the growth of the small enterprises into medium enterprises will be realized. However, K'Obonyo asserted that the expected growth of the small enterprises into medium to big scale

enterprises has not occurred despite the support from donor agencies and non- governmental organization.

The importance of the small and medium enterprise sector to economic development cannot be overemphasized. In Kenya, as in many other countries, the levels of economic dependence on small and medium enterprises have increased in recent years as a result of increasing lay-off in both public and private sectors. Many of the retrenches tend to establish SMEs. There has been no consensus on the definition of SMEs and researchers have given various definitions. For example. Kinyanjui (1996) defined them as firms employing between 1 and 150 persons. Soderbom (2004) and JICA and MOTI (2008) defined Small and Medium Enterprises in Kenya as businesses employing between 10 and 100 employees. They defined Small enterprises as those employing between 10 and 50. while Medium were those employing between 50 and 100. This study adopted Soderbom (2004) and JICA and MOTI (2008) definition.

The benefits of small firms to Kenya are outlined in Kenya's Sessional Paper No. 2 of 1992 (Government of Kenya, 1992). Kenya Vision 2030 is in line with Kenya Sessional Paper No 2. The aim of the Kenya Vision 2030 is to create "a globally competitive and prosperous country with a high quality of living by 2030. It is expected that the country will be transformed into "a newly-industrialized middle-income country providing a high quality of life to all its citizens in a clean and secure environment". This vision is anchored on three pillars: improvement of economic growth rate by 10 percent per annum. improvement of social life to all Kenyans and improvement of political governance (Kenya Vision 2030. 2007). The vision touched on the introduction of industrial parks for SMEs in major urban towns and intends to promote region-specific industrial and manufacturing activities. The agro-industries will be established across the country since Agriculture contributes 24 percent of GDP. it is expected that when agricultural products are processed. the industry will add value and earn a better price than selling the produce as raw materials. The agro-industries activities could include processes such as blending and packaging of fertilizers, tea. coffee and processing of meat and fish. However. vision 2030 did not articulate the major issues affecting SMEs such as credit with good interest rates and zero rating of taxes to enable them compete with cheap imported goods.

The need for policies which support SMEs to raise development funding, maximize the benefits of technology. improve their workforce skills, develop management and leadership, establish and sustain new businesses and also support SMEs to be innovative cannot be over-emphasized.
The SMEs play a major role in the economy. The following are some of the positive outcomes from this sector: significant contribution to the economy in terms of output of goods and services as exemplified by the sector's contribution of approximately 18.4 percent and 30 percent respectively to Kenya's GDP (G.O.K, 1999, 2004); creation of jobs at relatively low capital cost. especially in the fast growing sector for example. MSE sector account for 74.2 percent of Total Employment in the Economy in the year 2002 (GOK. 2003): development of a pool of skilled and semi-skilled workers who form the base for future industrial expansion; strengthening forward and backward linkages among socially, economically and geographically diverse sectors of the economy; creating demand as well as supply, as it has been established that 90 percent of rural enterprise products are marketed directly to rural households; contributing to increased participation of indigenous Kenyans in the economic activities of the country; offering excellent opportunities for entrepreneurial and managerial talent to mature, the critical shortage of which is often a great handicap to economic development: supporting industrialization policies that promote rural-urban balance; increasing savings and investment by local Kenyans and encouraging use of local resources, thus leading to more effective use of capital and quick adaptation to market changes.

Pearce and Robinson (2007) asserted that researchers during the last decade sought to understand the reasons behind the superior performance of the world's "best firms". They said that one of the early and widely accepted frameworks that identify the key factors that best explain superior performance was the use of Mckinsey's 7-s framework. The framework provides a useful visualization of the key components managers must consider in making sure a strategy permeates the day-to-day life of the firm. The Mckinsey framework suggests that managers should focus on the six components to ensure effective execution of strategy. The six components are structure, systems, shared values (culture), skills, style (leadership) and staff. Pearce and Robinson reorganized these six components into four basic elements through which managers can implement strategy. These four components were structure, leadership. culture and performance. In this study institutional factors represent structure, culture and leadership. They further

recommended that these factors be managed to fit the strategy if the strategy is to be effectively institutionalized to realize success in performance.

Performance of each firm is in turn determined by the strategy it employs both at the corporate level and in business operation. It is suggested that owner-managers' personal values influence the strategies they adopt in operating their businesses and ultimately, the performance of their businesses (Thompson and Strickland, 1986). Carland et al (1989) viewed the owner-manager as the individual responsible for planning in a small firm. They stated that if the individual is not predisposed to planning, then the activity will not take place and personality will play a key role in that predisposition. Researches on strategies used by small firms are inadequate (Robinson and Pearce, 1984). Existing research is mainly on strategies for large firms, only occasionally applied in small firms, suggesting that many do not formally plan or write down their business strategy beyond any immediate or short-term time horizon.

1.1.1 Organizational Strategy

Many researchers have defined strategy differently. For instance, Miles and Snow (1978) proposed that firms in general develop relatively stable patterns of strategic behavior in order to accomplish a good alignment with perceived environmental conditions. These authors proposed four strategic types as follows: defenders, prospectors, analyzers, and reactors. Defenders are organizations which have narrow product-market domains. Top managers in the organization are highly expert in their fields but do not search for new opportunities. As a result of this narrow focus, these organizations seldom do major adjustments in their technology, structure, or methods of operation, instead they devote primary attention to improving efficiency in their operations. Prospectors are organizations which are continuously in search for new market opportunities and they regularly experiment with potential responses to emerging environmental trends: they are creators of change and uncertainty to which their competitors must respond. They have strong concern for product and market innovation, and usually these organizations are not efficient. Analyzers are organizations that operate in two types of product-market domains, one in stable, and the other in a changing environment. In stable environment, these organizations operate routinely and efficiently through use of formalized structures and processes. In turbulent environment, top managers watch their competitors for new ideas and

adopt those which appear to be the most promising. Reactors are organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. They also lack a consistent strategy-structure relationship. it seldom makes adjustment of any sort until forced to do so by environmental pressures. This definition was adopted in the study.

1.1.2 Institutional factors

In this study institutional factors comprise of structure. organizational culture and leadership. Organization structure often refers to an organization's internal pattern of relationships. authority. and communication (Thompson. 1967). The hierarchical dimensions of structure such as complexity. formalization and centralization have received more attention than any others (Child. 1974; Ford and Slocum. 1977; Fry, 1982). The dimensions of structure used in this study are complexity. formalization and centralization.

Johnson and Scholes (1984) defined corporate culture as being the deeper level of basic values, assumptions and beliefs that are shared by members of an organization. Harrison (1972) suggested that there are four main types of organizational culture. These are: power. role, task and person. Handy (1978) reworked Harrison's ideas and described the four cultures using single pictograms and making reference to Greek mythology. This simple way of representation has made scholars. students and practitioners understand how organizations work. Harrison definition was adopted in this study.

The research on leadership has drawn great attention from scholars in various fields in recent years. Bass (1985) elaborated the transactional-transformational model on the basis of Burns' earlier efforts (1978). Bass viewed transformational leadership from the perspective of leaders' influence on their subordinates. Subordinates, influenced by transformational leaders. are motivated to do more than what they are originally expected to do (Yukl, 1989). Bass argued that transactional leadership and transformational leadership are two "distinct dimensions rather than opposite ends of one continuum". Bass's definition of leadership was adopted in this study.

1.1.3 Performance

Performance is an essential concept in management research. Managers are judged on the basis of their firm's performance. Good performance influences the continuation of the firm. Much of the research on performance measurement has come from organizational theory and strategic management (Murphy et al., 1996). For instance, Porter (1980) defines good performance as the above-average rate of return sustained over a period of years. Postma and Zwart (2001) argue that in order to measure the multidimensional aspects of performance construct, both objective and subjective measures should be included in the measurement instrument. In this study both objective and subjective measures were used.

1.1.4 Strategy-Performance Linkage

Concerning the question on the relationship between strategy and performance, the existing literature does not reveal a straightforward answer. Some of the previous studies have found a positive link between the two variables (Hofer, 1976; Armstrong, 1982; Bracker & Pearson, 1986; Shrader & Schwenk, 1993) while some others a negative one (Shrader, Taylor & Dalton, 1984; Orpen, 1985). Pearce and Robinson (1984) argued that formal strategic planning has a linkage with performance in large firms but not in small firms. Similarly, Schwenk and Shrader (1993) analyzed fourteen studies on formal strategic planning and performance in small firms and found a linkage.

1.1.5 Strategy- Institutional Factors relationship

Bradford (2001) emphasizes the importance of aligning structure with strategy. He stated that aligning everyone in your organization with your strategy is one of the most important things you can do beyond formulating and implementing great strategies. He noted that alignment will make it much easier for your management team to push the organization in the direction you intend it to move. He further, said that without good alignment with the strategy, every bit of forward motion will be a struggle. Therefore, it is important that structure in SMEs is matched with the strategy for the firm to succeed.

Green (1988) suggested that if the culture is not fully synchronized and consonant with the favuored strategy, there is likely to be resistance to change. In such a situation, it is important to

create a fit between corporate culture and the preferred strategy. Change in strategy often requires new tasks and activities to be performed. For many of these activities, the organization does not have explicit rules. In performing these activities, members turn to the organizational culture as a source of guidance. In this sense, culture is a valuable tool for implementation of strategies (Barney, 1986; Schwartz and Davis, 1981). Therefore, it is expected that when the strategy and organizational culture is aligned the implementation of the strategies will be successful.

Beer (1980) and Mullins (1996) commented that leadership is one of the many factors which can impact upon the development and implementation of strategy. Leadership is about coping with change. Part of the reason it has become so important in recent years is that the business world has become competitive and more volatile. Major changes are frequent and strong leadership is necessary to survive and compete effectively in this new environment (Kotter, 2001).

1.1.6 Institutional Factors – Performance Linkage

From their research, Miles and Snow (1984) observed that when an organization matches the strategy and structure, they will economically perform well. Less successful organizations typically exhibit poor fit. Meijaard et al (2002) acknowledged the ongoing debate on the interrelationship between strategy, structure and performance. They asserted that the outcome of the organizational design process is unmistakably an important determinant of the performance of firms. In their findings they noted that the relationship is complex and they suggested that additional research be done in other countries to compare the results.

Bates, Amundson, Schroeder and Morris (1995) in their study on the crucial interrelationship between manufacturing strategy and organizational culture found a statistically significant relationship but reiterated that there was a need to research further on the process of implementing manufacturing strategy and associated changes in organizational culture. Given this concern, Olsen, Gough and Bokor (1997) carried out a research on planning and performance using an organizational culture perspective on small business export firms and found no relationship.

Berkeley (1988) noted that empirical research supports the proposition that leadership and strategy are positively related to performance. While Ireland and Hitt (1999) pointed out that the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above average performance.

1.1.7 SMEs in the Kenyan Manufacturing Sector

The Manufacturing sector contributes about 14 percent of gross domestic product (GDP) (GOK, 1998). The growth of Kenya's manufacturing sector since independence has been notable from 10 percent in 1964 to 13.6 percent in 1992. The growth in this sector was mainly attributed to rise in output of the Agro Processing Industries, total employment in this sector rose from 239.8 thousand persons in 2003 to 242.0 thousand persons in 2004. Annual growth slowed from an average of 10.5 percent between 1965 and 1980 to 5.2 percent between 1982 and 1989 and 2.8 percent between 1990 and 1997 (GOK, 1983-1998). The decline in the performance of the manufacturing industry over the years is due to: deteriorating demand in regional markets; increased competition from imports as a result of liberalization; political uncertainty and loss of donor funding; poor infrastructure and deteriorating security conditions; soaring costs of doing business and inefficient use of public resources (GOK, 2004a).

In 2005 the sector showed signs of recovery. A growth of 2.7 percent in 2004 was recorded compared to 1.4 percent in 2003 (GOK, 2005). The recovery is attributed to government imposing legislation to curb restructuring practices that disadvantaged local manufacturers and zero rating excise duty and related taxes. In addition, the African Growth Opportunity Act (AGOA) initiative and the Common Market for Eastern and Southern Africa (COMESA) trading arrangements continued to impact positively on the manufacturing sector. The sector grew by 6.9 percent in 2006 against 5.5 percent in 2005 and grew by 10 percent in 2007(GOK, 2008).

The main components of this sector include food processing such as cereal milling, meat, dairy, sugar, fruits and vegetables; chemicals, beverages, tobacco, textile, paper, metal and electronics. Manufacturing activities are mainly concentrated in the main urban centres of Nairobi, Mombasa, Nakuru, Eldoret and Kisumu due to availability of infrastructure and markets.

1.1.8 SMEs in Kenya's Service Sector

The service sector plays a key role in Kenya's economy today, with its share of National Gross Domestic Product (GDP) and employment being larger than the combined share of agriculture and manufacturing sector. The overall growth in this sector and its contribution to the country's (GDP). wage employment and balance of payments has been highly significant. The average annual growth rate of the sector has been generally higher than that of many countries in the Sub-Saharan Africa region since the 1970s as indicated in Table 1.

Table 1: Service Sector Contribution to GDP in percentages for selected sub-Saharan African countries.

Country	1970	1980	1990	1993	1997
Kenya	45.7	45.5	49.4	52.6	54.0
Uganda	21.8	27.2	33.1	33.4	39.0
Tanzania	30.2	36.9	30.0	27.5	31.0
Zimbabwe	43.6	46.2	50.0	50.7	41.0

Source: African Development Bank Report (August 1999).

The key service sectors in Kenya are tourism which grew by 14.9 percent from Ksh 48.9 Billion in 2005 to Ksh 56.2 Billion in 2006, and by 16.3 percent in 2007. thus contributing to GDP by 1.6 percent (GOK. 2008): and travel related services. financial services, insurance services and transport services.

1.1.9 Enterprise Governance

Good Governance is a fundamental building block for an economically prosperous society and is an essential component of development for attracting investors. Poor economic governance, including high levels of corruption and poor management of public and private resources, is one of the key impediments to economic and social development in Kenya. Poor Governance undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends (G.O.K. 2004c).

Aseto and Okelo (1997) noted that poor performance of parastatals in Kenya was caused by poor governance. They stated that the Chief Executives (CEOs) appointed to head these parastatals were appointed by the state on political patronage and did not have the qualifications to run such enterprises. They also noted that interference by the Government in these enterprises contributed to poor governance hence poor performance. Most of the institutions which play a key role in coordinating the functions of SMEs also have the same problem and for SMEs to succeed and play a major role in contributing to the economy, the government should put strong institutions in place to fight corruption and restore the rule of law in order to bring about equitable development that favors the establishment of SMEs.

1.2 Statement of the problem

Jennings and Seaman (1994) carried out a study on 115 Texas savings and loan organizations to explore the relationship among adaptation- strategy- structure and firm performance and found that an optimum strategy- structure match tends to have a higher performance than those organizations without an optimum strategy- structure alignment. In their study, they recommended that further research was necessary to analyze the relationship among adaptation, strategy, structure and performance in different industry settings. Similarly, Meijaard et al (2002) did research on the relationship between strategy, structure and performance in Dutch SMEs and concluded that the relationship was complex and recommended that additional research be done in other countries to compare the results.

Covin and Slevin (1989) in their research on strategic posture, environmental hostility, organization structure, competitive tactics and financial performance among small manufacturing firms found that the independent variables did not explain large portions of variance in performance and suggested that other institutional factors such as organization culture and industry structure may need to be studied further. Based on the above findings, there was a need to conduct further research on the relationship between strategy and structure and their influence on performance of SMEs. Many researchers agree that shared understandings of a firm's culture enhance strategy implementation, organizational change and positive images of the firm in clients' eyes (Deal and Kennedy, 1982; Kotter and Heskett, 1992; Wilkins and Ouchi, 1983).

Pearce, Freeman and Robinson (1987) argued that past studies did not consider other relevant variables (both internal and external) which could influence the planning--performance relationship. Given this concern, Olsen, Gough and Bokor (1997) carried out a research on planning and performance using an organizational culture perspective on small business export firm and found no relationship. In their conclusion they recommended that further research be undertaken on planning, beliefs and norms because they suspected that the planning could have been influenced by the requirements of the external capital provider.

Similarly, Bates, Amundson, Schroeder and Morris (1995) studied the crucial interrelationship between manufacturing strategy and organizational culture and found a statistically significant relationship but reiterated that there was a need to research further on the process of implementing manufacturing strategy and associated changes in organizational culture. They also recommended that further research be done to find out whether cultural change contributes to the effective implementation of manufacturing strategy. Cameron and Quinn (1999) observed that many of the successful companies, including Southwest Airlines, Wal-Mart, Tyson Foods, Circuit City, and Plenum Publishing have a strong leadership and a strong culture that promotes unique strategies.

From the literature review, it was apparent that most of the research was done in the Western World and most researchers have recommended that further research be done in different countries and in different sectors. In addition, a study focusing on the joint influence of structure, organizational culture and leadership on the relationship between strategy and performance of SMEs and the joint effect of strategy, culture, structure and leadership on performance of SME's appears not to have been done. Little research has been done on SMEs particularly in developing countries such as Kenya. To fill this gap in knowledge, this study attempted to answer this broad question: What is the influence of organizational strategy and institutional factors on performance of Small and Medium enterprises (SMEs) in Kenya?

1.3 Research Objectives

The study was guided by the following objectives:

(i) To determine the relationship between strategy and performance of SMEs.

(ii) To establish the relationship between each organizational institutional factor and performance of SMEs.

(iii) To determine the joint effect of organizational institutional factors and strategy on performance of SMEs.

(iv) To establish the influence of each of the organizational institutional factors on the relationship between strategy and performance of SMEs.

(v) To establish the joint effect of organizational institutional factors on the relationship between strategy and performance of SMEs.

1.4 Justification of the study

Small and Medium enterprises are becoming a very important sector in the Kenyan economy as it contributes 74.2 percent of total employment. Micro and Small enterprises contributes 18.4 percent to GDP, while Medium enterprises contribute 30 percent to GDP in the Kenyan economy (GOK, 2003 and GOK, 2004b). Despite the major role played by SMEs, little research has been done to establish the influence of organizational strategy and institutional factors on performance of SMEs in Kenya. Therefore, the purpose of this study is to enhance the understanding of the relationship among the above variables. The study is expected to provide information that the Government can use to come up with policies which will support SMEs raise development funding, maximize the benefits of technology, improve their workforce skills, develop management and leadership, establish and sustain new businesses and improve their performance. The findings of this research will also be useful to organizations/firms that wish to make better strategic decisions, put the right structures in place, change their cultures and implement leadership styles which will enable them make profits and become customer focused in a competitive environment. Finally, this study is expected to extend the frontiers of knowledge as scholars find it useful for teaching and as a basis for further research.

1.5 Research Hypotheses

The following nine hypotheses were formulated and tested and the results are presented in chapter five.

H1: There is a relationship between strategy and performance of SMEs

H2: (a) There is a relationship between leadership and performance of SMEs

H2: (b) There is a relationship between organizational culture and performance of SMEs

H2: (c) There is a relationship between structure and performance of SMEs

H3: There is a joint effect of strategy, structure, organizational culture and leadership on the performance of SMEs

H4: (a) The strength of the relationship between strategy and performance of SMEs depends on the Leadership of SMEs

H4: (b) The strength of the relationship between strategy and performance of SMEs depends on the organizational culture of SMEs

H4: (c) The strength of the relationship between strategy and performance of SMEs depends on the structure of SMEs

H5: The strength of the relationship between strategy and performance of SMEs depends on the joint effect of leadership, structure and organizational culture of SMEs

1.6 Structure of the thesis

This thesis is organized into six chapters. Chapter one consists of background to the study, organizational strategy, institutional factors, performance, strategy- performance linkage, strategy- institutional factors relationship, institutional factors- performance linkage, SMEs in the

Kenyan manufacturing sector, SMEs in Kenya's service sector, enterprises governance, statement of the problem, research objectives, justification for the study and research hypotheses. Chapter two presents the literature review and conceptual framework while Chapter three discusses the research methodology. The main areas here are the research design, target population, sampling procedure and data collection methods, operational definition of variables and data analysis techniques. Chapter four provides the descriptive data analysis and interpretation. Chapter five presents the tests of hypotheses and Chapter six gives the summary of findings, discussion, conclusions and recommendations.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This section discusses the theoretical and empirical literature on the influence of organizational strategy and institutional factors on performance of Small and Medium Enterprises (SMEs) in Kenya. The study looked on each variable, strategy, structure, culture and leadership and performance. The relationship between each variable and performance was reviewed.

Also, reviewed were the moderating variables that influence the strength of the relationship between strategy and performance. From this literature review a conceptual framework was developed showing the linkages among the various variables of the study and hypotheses were derived.

2.2 Strategy

Many researchers have defined strategy differently. For instance, Mintzberg and Quinn (1996) define strategy as the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Thompson and Strickland (2003) defined strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission. Porter (1996) asserted that the essence of strategy is choosing to perform activities differently than rivals do. While, D'Aveni (1994) takes the view that strategy is not only the creation of advantage but also the creative destruction of the opponent's advantage. Brown and Eisenhardt (1998) define strategy as the creation of a relentless flow of competitive advantages that, taken together, form a semi-coherent strategic direction.

The five P's (plan, pattern, position, perspective, and ploy) serve as a key aspect of Mintzberg et al.'s (1998) framework for analyzing different schools of thought about strategy. They explained the 5 P's as follows: plan – a direction, a guide, or course of action into the future, pattern --- a set of behaviors over time, for example a company that perpetually markets the most expensive products, position – selling particular products in particular markets, perspective – an organization's fundamental way of doing things, for instance, the McDonald's way, ploy – a specific maneuver intended to outwit a competitor.

Zahra (1993) noted that strategy offers a framework within which the company defines possible means for achieving goals. Much of the literature has emphasized the benefits of planning for the company's performance. Yet, research conducted by Pearce and Robinson (1984), and supported by Sexton & Van Aucken (1985), concluded that small and medium sized enterprises (SMEs) barely plan their strategies because of their lack of resources, even when their need for strategic decision making increases dramatically after reaching some initial market success.

Porter's (1998) well known five forces model determines the state of competition in an industry. The author proposes three generic strategies that can be pursued by almost any firm: cost leadership, differentiation and focus. A cost leadership strategy indicates that firms pursue economies of scale which allows them to be a low cost producer and to sell at a lower price than the competitors. The second strategy, differentiation, means that the firm tries to offer a unique product or service to customers by being innovative, which allows the firm to charge a premium price. The focus or niche strategy applies either to cost leadership or differentiation but concentrates on a specific market, group of customers, product or service.

Miles and Snow (1978) proposed that firms in general develop relatively stable patterns of strategic behavior in order to accomplish a good alignment with perceived environmental conditions. These authors proposed four strategic types as follows: defenders, prospectors, analyzers, and reactors. Defenders are organizations which have narrow product-market domains. Top managers in the organization are highly expert in their fields but do not search for new opportunities. As a result of this narrow focus, these organizations seldom do major adjustments in their technology, structure, or methods of operation, instead they devote primary

attention to improving efficiency in their operations. Prospectors are organizations which are continuously in search for new market opportunities and they regularly experiment with potential responses to emerging environmental trends; they are creators of change and uncertainty to which their competitors must respond. They have strong concern for product and market innovation, and usually these organizations are not efficient. Analyzers are organizations that operate in two types of product-market domains, one in stable, and the other in a changing environment. In stable environment, these organizations operate routinely and efficiently through use of formalized structures and processes. In turbulent environment, top managers watch their competitors for new ideas and adopt those which appear to be the most promising. Reactors are organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. They also lack a consistent strategy-structure relationship, it seldom makes adjustment of any sort until forced to do so by environmental pressures (Miles and Snow, 1978).

Gimenez et al (downloaded 25/1/03) adopted Miles and Snow's (1978) typology in their study and observed that analyzer strategy was mostly employed appearing in 44 percent of the firms. In second place came prospector strategy with 22.9 percent followed by reactors (18.3 percent) and defenders (14.7 percent). These findings gave additional evidence of the four types of generic strategies. Hence, this model was chosen for this study because it has been used successfully in previous studies. From the above definition we can say strategy is the roadmap which helps organizations to have focus in meeting customer's requirements and being competitive in the market place.

2.3 Strategy and Performance

Concerning the relationship between strategy and performance, the existing literature does not reveal a straightforward answer. Some of the previous studies have found a positive link (Hofer, 1976; Armstrong, 1982; Bracker & Pearson, 1986; Shrader & Schwenk, 1993) and some others a negative one (Shrader, Taylor & Dalton, 1984; Orpen, 1985). Although, multiform methodologies have been utilized, for instance, Hofer (1976) did not compare findings across studies and he could only suggest a positive relationship between formal planning and the content of plans. Pearce and Robinson (1984) argued that formal strategic planning has a linkage

with performance in large firms than in small firms. Similarly, Schwenk and Shrader (1993) analyzed fourteen studies on formal strategic planning and performance in small firms and found a linkage. They further recommended the use of strategic planning in all firms, regardless of size. According to Sinha (1990) there is a link between planning and performance but he stressed that the quality of planning was critical to the relationship.

Shrader and Schwenk (1993) also encountered a positive link. However, these authors noted the incomparable planning scales and performance measurements used in different studies and about the non-objective measurements, based on the manager's point of view rather than on objective economic criteria. Furthermore, Orpen (1985) criticized the arbitrary use of "formal planning" among different studies, which measure the engagement in strategic planning by asking the owner manager, who frequently gave a personal inaccurate opinion. Instead, Orpen (1985) based the measurement on the time spent by small firms' managers in long range planning but, as he found out, the quality of the plans appeared to be actually important. The high-performing firms were found to plan a wider range of functions and activities than the low performing ones.

Gibcus and Kemp (2003) carried out a research on strategy and small firm performance and found a positive relationship. In their research they used Porter's typology to measure the strategy and they suggested further research be done using Miles and Snow's typology and compare the results. Most of the studies were based on large firms and this study focused on SMEs in Kenya. Miles and Snow definition was adopted in this study.

2.4 Organizational Structure

Organization structure often refers to an organization's internal pattern of relationships, authority, and communication (Thompson, 1967). The hierarchical dimensions of structure such as complexity, formalization and centralization have received more attention than any others (Child, 1974; Ford and Slocum, 1977; Fry, 1982). Each of these dimensions is also the dominant characteristic of a well-known structural type. Complexity refers to the degree of differentiation that exists within an organization. Hall (1977) suggests that there are three potential sources of complexity- horizontal and vertical differentiation and spatial dispersion. Organizations with numerous levels, broad spans of control, and multiple geographic locations would be considered

highly complex. While such a structure is often considered appropriate for firms that compete in highly differentiated environments, it is important to recognize that a high level of complexity makes it difficult to coordinate and control decision activities (Lawrence and Lorsh, 1967). Therefore, it is expected that members in an organization of this type of structure normally have difficulty agreeing on goals, and that their decision process tends to be iterative and political which may hinder the performance of their firm.

Formalization refers to an organization where there are explicit job descriptions, lots of organizational rules, and clearly defined procedures covering work processes (Robbins, 2004). Fredrickson (1986) noted that formalization has significant consequences for organizational members because it specifies how, where, and by whom those tasks are to be performed. He also added that a high level of formalization has the benefit of eliminating role ambiguity, but it also limits members' decision-making discretion which can drive out creative and proactive behavior thus, discouraging the pursuit of opportunities.

Centralization refers to the degree to which the right to make decisions and evaluate activities is concentrated (Fry and Slocum, 1984; Hall, 1977). A high level of centralization is the most obvious way to coordinate organizational decision making, but it places significant cognitive demands on those managers who retain authority. Mintzberg (1979) noted that an individual does not have the cognitive capacity or information that is needed to understand all the decisions that face a complex organization. Pugh et al (1968) as a result of Mintzberg's remarks concluded that it is not surprising that a negative relationship has been reported between an organization's size and its degree of centralization. This type of structure can motivate managers to work harder since they have been empowered to make decisions.

The structure also manifests the strategic choices and institutional models of structure chosen by the organisation. The structure of the organisation also relates to the context in which it operates, such as organizational size, technology, internal culture and climate, the environment, and national cultural factors (Hall, 1972). Several studies conducted in the 1960s and 1970s mainly used empirical data from large organizations. These include: Pugh et al (1968) and Child (1972) all of whom focused on organizations with more than 1000 employees as the mean value. Hall

(1972) focused on the structure of 75 organisations in different size classes (less than 100, 100-999, 1000 and more employees). The general conclusion from these studies was that larger organisations tended to be more complex and more formalized than smaller organisations, but this relationship proved only to be strong for a few variables.

Division of work causes a decrease in the proportion of superiors when the firm size reaches a certain level. When this level is reached, another way to co-ordinate and control activities/functions will be needed. The way structural factors relate to firm size seems to be less clear for small firms than for large firms. The conclusion that there is a positive relationship between size and complexity seems to hold true for both small and large firms (Barth, 1999). As mentioned earlier, organizational structure also relates to internal and external technological factors. Galbraith (1982) notes that innovative small firms risk more failure than those functional based, and their task is more uncertain. Consequently, organizations that perform innovative tasks need different structures from those organizations with few innovations. The author points out that, to be a consistently innovative firm, there must be both innovative and operational parts within the firm and the organisation structure must facilitate the transfer of ideas.

Entrepreneurial activities focusing on organizational structure are less visible to the competition, thus giving sustainable competitive advantage to the firm according to Zahra (1993), who also points out that organisational innovation should be examined as an indicator of entrepreneurship. The proper innovation-oriented organization should delegate authority for decision making and hire professional managers, as Miller & Toulouse (1986) concluded. Since the delegation of authority will create different goals among managers, these authors also comment that interdepartmental relations should be enhanced within the organization structure. This recommendation is specially addressed to small firms because the needs mentioned above are higher in growing firms with swift structural changes. Empirical data provided by Miller & Toulouse (1986) support these statements.

Economic performance measures were better among firms that followed their postulates. Although the classic bureaucratic structure may be the form of choice in a stable environment with low complexity, research has shown that rapid change and increased complexity require

greater lateral mechanisms and a more organic form (Galbraith 1973, 1994; Burns and Stalker 1961; Hall 1962). Therefore, the type of structure to be chosen by SMEs might depend on the environment, technology or the size of the firm. Hall definition of structure was adopted in the study.

2.5 Structure and Performance

The idea that an organization's structure should fit or match its environment has been around for a long time – and there is evidence that firms with good structure and environmental fit perform better than those without good fit (Habib and Victor, 1991). According to Barth (1999), there is a positive relationship between size and complexity, which seems to hold true for both small and large firms. He said as the organization increases in size, so will the degree of complexity. The complexity of the firm also seems to relate to the firm's performance. He further commented that studies on performance and structure of the firm indicate that high-performing firms seem to have a higher degree of horizontal differentiation than low-performing firms. Randolph, Sapienza & Watson (1991) supported the alignment between structure and technology, the fit was found to have a more powerful influence on performance.

Meijaard et al (2005) observed that the relationship between organizational structure and performance of Dutch SMEs is more relevant and more complex than commonly assumed. They added that SMEs are diverse in terms of organizational structure, both across sectors and size classes. They suggested further research be done. This study tested the relationship between structure and performance in Kenyan SMEs.

2.6 Organizational Culture

Johnson and Scholes (1984) defined corporate culture as being 'the deeper level of basic values, assumptions and beliefs that are shared by members of an organization'. These values, assumptions, attitudes and beliefs are reflected within an organizational culture. In fact, they are manifested in many ways such as the rites, rituals and routines that take place within an organization, the language used the stories, legends and myths that are told and re-told, the symbols, logos and artifacts that are found throughout the company.

Therefore, an organizational culture is considered to be a set of collective norms that govern the behavior of people within the company. An organizational culture is characterized by members' shared ability to understand specific concepts within the organization (Karathanos, 1998). The key feature is that culture is taught to new members as the correct way to behave, thus perpetuating organizational survival and growth (Maull et al., 2001). Pokharyal (2007) posits that culture and traditions need to be integrated with technology so that unique development strategies suitable to the region are formulated. He further suggested that Africa must inculcate national and regional pride on the basis of ethics; duty and morality among workers, managers, professionals, entrepreneurs and above all in politicians, for sustainable development of sub-Saharan Africa. The tradition may play a big role in improvement of performance of SMEs but this study focused on organizational culture.

Hofstede (1980) identified national and regional cultural groupings that affect the behavior of organizations. He identified four dimensions of culture in his study namely power distance which he described as relating to the degree of equality/inequality between people in a particular society; individualism collectivism. This dimension focuses on the degree to which a society reinforces individual or collective achievements and interpersonal relationships; certainty/ uncertainty avoidance. This dimension concerns the level of acceptance of uncertainty and ambiguity within a society; and masculinity versus femininity. This dimension pertains to the degree to which societies reinforce, or do not reinforce, the traditional masculine work role model of male achievement, control and power.

Harrison (1972) suggested four main types of organizational culture. These are: power, role, task and person. Handy (1978) reworked Harrison's ideas and described the four dimensions of culture using single pictograms and making reference to Greek mythology. This simple way of representation has made scholars, students and practitioners understand how organizations work. Power culture is characterized by a single source of power from which rays of influence spread throughout the organization. Role culture is characterized by bureaucracy, and its strength lies in its functions or specialists, which are coordinated and controlled by senior executives. Rules, procedures and job descriptions dominate the internal environment. Task culture is characterized by accomplishing the job in hand by availing resources to make the project successful. The tasks

are based on having experts rather than position or charisma to perform the job. Person culture is characterized by a group of people who come together to champion their own interests rather than on an individual basis.

Mahinda (2002) did a research on the relationship between Organizational Culture and Human Resource Practice in the Kenya manufacturing industry and found task culture to be dominant, followed by role culture and thirdly person culture but noted that none practiced power culture. For many years, especially during the last two decades, corporate culture has been acknowledged as an important component of organizational success (Gore Jr, 1999; Corbett and Rastrick, 2000; Lim, 1995). In particular, "corporate" or "organizational culture" was used to explain the economic successes of Japanese over American firms, through the development of a highly motivated workforce, committed to a common set of core values, beliefs and assumptions (Denison, 1984; Furnham and Gunter, 1993). Hampden- Turner (1990) suggested that the most significant functions of culture include: conflict reduction, co-ordination and control of organization. Likewise, Sathe (1985a) argued that an organization's culture can also be a liability if shared beliefs, values and assumptions can interfere with the needs of the business. Culture, therefore, seems to play a central role in binding together the elements of the organizational climate. Harrison definition was adopted in the study.

2.7 Organizational Culture and performance

A lot of studies in the 1980s were skeptical about the culture-performance link. In particular, concern was raised about the theoretical validity and practical utility of such claims (Carroll: 1983, Saffold: 1988, Soeters: 1986). Several researchers, such as Kotter and Heskett (1992) have concluded that corporate culture may hurt or help a firm's performance. For example, in Fortune's all star ranking, General Electric earned the highest honor in 1998 since it has spent years developing a corporate culture in which executives have the autonomy to swoop in and take advantage of sudden shifts in markets (Kahn, 1998). A strong organizational culture enables the smooth flow of information and nurtures harmony among its members (Karathanos, 1998). Improvements in work culture and internal communication thus improves customer's satisfaction (internal and external), which is essential for market growth and profitability in the long term (Lakhe and Mohanty, 1994).

In a study undertaken by Sluti et al. (1995), it was shown that a strong corporate culture could improve quality, and operational and business performance. Organizational culture influences people's actions and behaviors. It also alters their actions in the perceptions of all aspects of their work including quality (Reeves and Bednar, 1994). Findings by Klein et al. (1995), demonstrated that culture has a direct impact on service quality. Peters and Waterman (1982) identified in their Search of Excellence work 36 U.S. companies that had displayed excellent performance between 1961 and 1980; several performance measures were used in their studies. Denison (1984) also conducted an extensive quantitative study on organizational culture and economic performance based on 34 countries across 25 industries and the results were positive.

Hansen and Wernerfelt (1989) studied 60 firms representing 300 businesses and found that there was a link between organizational culture and performance. Brown (1998) suggested that culture can be seen as both the means to effective organizational performance through the medium of strategy, and a potential barrier inhibiting required strategic realignment which can adversely affect strategy implementation. He further suggested that high economic performance is correlated with a strategically appropriate culture. Similarly, Kotter and Hesket (1992), Deal and Kennedy (1982) and Denison (1990) also supported Brown's sentiments. Collins and Porrat (1994) found that companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. Bernard (1995) examined the relationship between organizational culture and organizational performance and found no relationship. However, he suggested that the influence of other variables such as organizational structure, leadership need to be studied.

Mahinda (2002) recommended that further research was required to determine the link between organizational culture, HR practices and performance. Therefore, in this research we investigated the relationship between organizational culture and performance.

2.8 Leadership

The research on leadership has drawn great attention from scholars in various fields in recent years. Yukl (1989) noted that "the study of leadership has been an important and central part of

the literature of management and organizational behavior for several decades". As a result, researchers have come up with various definitions of leadership. but we shall look at only a few. According to House et al (1999), leadership is the ability of an individual to influence, motivate and enable others to contribute toward the effectiveness and success of the organization. Sleeth and Johnston (1996), in addition, stated that the actions that link people and tasks to accomplish work is what leadership is all about. while Aosa (1998) asserted that leadership is the ability to influence others to strive towards achieving organizational objectives by mobilizing people and showing them the way forward.

Allen and Kraft (1987) found that 'the definition of successful leadership is the ability to bring about sustained culture change.' He further said that a leader has a crucial role in setting the vision that the organization is going to move towards and has the responsibility for allocating tasks. duties, structuring the organization and distributing materials and financial resources.

A comparatively new leadership paradigm was proposed in the late 1970s (Burns, 1978) and was further developed in the 1980s (e.g., Bass. 1985). This is the transactional-transformational model of leadership. According to Burns, transactional leadership involves leader-subordinate exchange relations in which the subordinate receives some reward related to lower-order needs in return for compliance with the leader's expectations (Doherty and Danylchuk. 1996). On the other hand. it is believed that transformational leaders will motivate subordinates to pursue higher-order goals by transforming commitment to higher ideals and values instead of self-interests in order to benefit the organization (Doherty and Danylchuk. 1996: Sourcie. 1994; Yukl. 1989).

Bass (1985) elaborated the transactional-transformational model on the basis of Burns' earlier efforts (1978). Bass viewed transformational leadership from the perspective of leaders' influence on their subordinates. Subordinates, influenced by transformational leaders. are motivated to do more than what they are originally expected to do (Yukl. 1989). Bass argued that transactional leadership and transformational leadership are two "distinct dimensions rather than opposite ends of one continuum" (Doherty and Danylchuk, 1996) - they are distinct but closely related parts of leadership (Yukl, 1989; Weese. 1994).

In addition, Bass pointed out that transformational leadership is the augmentation and extension of transactional leadership. They state that: "all leaders are transactional, to some extent, exchanging rewards for performance, but some leaders are also transformational, going beyond simple leader-subordinate exchange relations" (Doherty and Danychuk, 1996). According to Doherty and Danylchuk (1996), Bass's argument was supported both empirically and theoretically by other researchers' studies.

Armstrong (2001) laid out four main characteristics of transformational leadership when he discussed the transformational leadership of sports teams' coaches, emphasizing: ethical behavior, sharing a vision and goals, improving performance through charismatic leadership, and leading by example. This shows a simplified version of the components of transformational leadership provided by Bass (1985), which also has four elements - intellectual stimulation, individual consideration, inspirational leadership, and idealized influence (Doherty and Danylchuk, 1996; Weese, 1994).

First, intellectual stimulation refers to a leader's capability to stimulate his or her followers to be more curious and creative in thinking and problem solving (Doherty and Danylchuk, 1996; Weese, 1994). Second, individualized consideration involves relationships between leaders and followers on two dimensions: developmental orientation and individual orientation. Third, inspirational leadership refers to the idea that transformational leaders inspire and encourage subordinates to create greater emotional attachments to leaders and greater identification with leaders' visions of organizational goals. The last element is the idealized influence. This component is closely related with charisma. They also 4) pointed out that idealized influence is the behavioral counterpart to charisma and this element refers to the fact that the charismatic traits of a leader will promote his or her followers' commitment in order to tap their full potential.

Bass (1985) noted that transactional leadership behavior is described by contingent reward, management-by-exception (active) and management-by-exception (passive). He also commented that effective leaders use a combination of both types of leadership style (transformational and

ansactional leadership styles). This study sought to establish which leadership style is mployed by Kenyan SMEs. Bass definition was adopted in the study.

.9 Leadership and Performance

Results from several studies attempting to clarify the effect of top-level leadership on economic spects of organizational performance include the following: Barling. Weber and Kelloway 1996) noted that Leadership training was found to result in significant effects on subordinates perceptions of leaders' transformational leadership, subordinates own organizational commitment, and improved financial performance. Hart and Quinn (1993) also posits that CEOs with high "behavioral complexity" (the ability to play multiple, competing roles) produce the best firm performance, particularly with respect to business performance (growth and innovation) and organizational (stakeholder) effectiveness. While, Howell and Avolio, (1993) said that Leadership measures are associated with personality characteristics (e.g., internal locus of control) and significantly and positively predict business-unit performance. Executive leadership was found to explain as much as 45 percent of an organization's performance (Day and Lord, 1988).

Darling and Thomas (1999) asserted that there are commonalties in leadership style or strategy that distinguish very successful firms from less successful firms. They believe that leadership is only one of several variables that affect the performance of a firm. Also Fiedler (1996) noted that leader's performance is contingent on the leader's style, abilities, and background and on the control and influence of the situation. Thus Kirkpatrick and Locke (1996) empirically supported the opinion of Fiedler that leadership characteristics are correlated with firm success. Peter and Waterman (1982) asserted that the success of a leader is determined by the manager's ability to deal with people effectively and meaningfully. Pinar et al in their study on Organizational Performance and Leadership "an empirical study of small Turkish Firms" noted that there is a positive relationship between Leadership and Performance but reiterated that the scale needs to be improved and further research be done in other countries. It appears that leadership plays a major role in performance of SMEs and this was tested in this study.

.10 Strategy and Structure

Hall and Thorp (2005) asserted that when company's structure is not aligned with its strategy, ne effects on the organization are similar to when the automobile is not in alignment. He stated nat misalignment result in wasted energy, unnecessary wear-and-tear on the organization and ersonnel. fractured resources, and higher operating costs. Daft (2004) suggested that to know hen a company's structure is out of alignment with the strategy the following symptoms will be een: decision making is delayed or lacking in quality; the organization does not respond nnovatively to a changing environment. and too much conflict is evident. Daft further observed hat an organization structure must provide a framework of responsibilities, reporting elationships, and groups, and it must provide mechanisms for linking and coordinating organizational elements into a coherent whole.

Bradford (2001. pp 1) emphasizes the importance of aligning structure with strategy. "Aligning everyone in your organization with your strategy is one of the most important things you can do beyond formulating and implementing great strategies. Alignment will make it much easier for your management team to push the organization in the direction you intend. Without good alignment with the strategy, every bit of forward motion will be a struggle". Galbraith and Kazanjian (1986) also noted that the chances that an organization's strategy will succeed are far greater when its structure matches its strategy. Meijaard et al (2002) posits that theoretical support can be found in major textbooks such as Mintzberg (1979); Robbins (1990); Burton and Obel (1998). Chakravarthy (1982) asserted that the level of the strategy-structure match is dependent on the resources available to the organization and the adaptive ability of its managers.

Chandler (1962) examined large organizations and observed that as organizations change. strategies to suit technological. economic and demographic changes emerge. New strategies created administrative problems and economic inefficiencies and structural changes were needed to solve those problems and to maximize the organization's economic performance. Chandler thus concluded that organizational structure followed and reflected the growth strategy of the firm. According to him. he suggested that organizations pass through three stages of development. moving from a unit, to a functional. and then to a multidivisional structure. Therefore, it is important that structure in SMEs is matched with the strategy for it to succeed.

2.11 Strategy, Structure and performance

Research by Miles and Snow (1984) observed that when an organization matches the strategy and structure, then they will economically perform well, while less successful organizations typically exhibit poor fit. Meijaard et al (2002) acknowledged the ongoing debate on the interrelationship between strategy, structure and performance. They asserted that the outcome of the organizational design process is unmistakably an important determinant of the performance of firms. In their findings they noted that the relationship is complex and they suggested additional research be done in other countries to compare the results. Contingency theory suggests that congruence or fit among key variables, such as environment, structure, and strategy, is critical for obtaining optimal performance (Miller, 1988).

The success of the Hewlett-Packard Company which is recognized as one of the world's largest manufacturer of test and measurement instruments is determined by having the right fit between its corporate strategy and its organization structure (Miles and Snow, 1984). On the same note Chandler (1962), Siggelkow and Levinthal (2003), and Olson, Slater and Hult (2005), Galbraith et al. (1993); Galbraith (1994); and Tushman et al. (1997) found that the alignment between structure and strategy have positive implications on firm performance.

Covin and Slevin (1989) in their research on strategic posture, environmental hostility, organization structure, competitive tactics and financial performance among small manufacturing firms found that the regression equations did not explain large portions of variance in performance and suggested that other organizational context variables (e.g. organization culture and industry structure) may need to be studied further. Jouirou and Kalika (2004) researched on the effect of alignment of IT with strategy and organizational structure on SMEs to determine if it could have a decisive influence on its performance. Their research was based on manufacturing industries and the results suggested that there is a positive relationship. They recommended that future research be focused in one sector such as manufacturing. Based on these findings, SMEs in the manufacturing and service sector in Kenyan were targeted for study.

.12 Strategy and Organizational Culture

Bate (1994) champions the view that culture and strategy influence each other. The reversal of Bate's view is that culture is derived from the strategies the organization follows. In essence, organizational culture is the way that problems are dealt with (as indicated by Schein. 1985), which is organized by the strategies in place. Pearce and Robinson (2007) commented that a company culture can be a major strength when it is consistent with strategy and thus can be a power driving force in implementation. Peters and Waterman (1982) also asserted that at Delta Airlines and Japanese firms in the American auto market, the beliefs and values (culture) that drive employee behavior are fully consistent with the "service-driven" strategies of the company. As a result this has made these companies to succeed. The opposite can occur, if the culture can prevent a company from meeting competitive threats or adopting to changing economic or social environments that a new strategy is designed to overcome, for example, (Fortune. Oct 1983). Hennestad (1991) also argued that 'the organizational culture constitutes the existing strategy or the strategy in use'. In addition, Miles and Snow (1978) suggested that strategy of an organization tended to reflect the dominant culture or managerial ideology while. Beach (1993) noted that an organization's culture may well exert an influence over the strategies it pursues.

Green (1988) suggested that if the culture is not fully synchronized and consonant with the favoured strategy, then cultural resistance to change has to be eliminated. Change in strategy often requires new tasks and activities to be performed. For many of these activities, the organization does not have explicit rules. In performing these activities. members turn to the organizational culture as a source of guidance. In this sense. culture is a valuable tool for implementation of strategies (Barney. 1986; Schwartz and Davis. 1981). Therefore. it is expected that when the strategy and organizational culture is aligned the implementation of the strategies will be successful.

2.13 Strategy, Culture and Performance

Lorsch (1986). in his research on 12 successful companies. concluded that all these companies had a culture which supported the strategy they pursued. He further stated that culture. is both the means to effective organizational performance through the medium of strategy, and a potential barrier inhibiting required strategic realignment which can adversely affect strategy

implementation. Olson et al (2005) also in their research on export planning of performance in small firms found out that culture which supports formal planning had a better export performance. Bates, Amundson, Schroeder and Morris (1995) in their study on the crucial interrelationship between manufacturing strategy and organizational culture found a statistically significant relationship but reiterated that there was a need to research further on the process of implementing manufacturing strategy and associated changes in organizational culture. They also recommended research to find out whether cultural change contributes to the effective implementation of manufacturing strategy. Their study did not address the relationship between manufacturing strategy and organizational culture on performance.

Given this concern, Olsen, Gough and Bokor (1997) carried out a research on planning and performance using an organizational culture perspective on small business export firm and found no relationship. In their conclusion they recommended that further research be undertaken on planning, beliefs and norms because they suspected that the planning could have been influenced by the requirements of the external capital provider. This study attempted to determine if there was a relationship between these two variables on performance of Kenyan SMEs.

2.14 Strategy, Leadership and Performance

O'Regan and Ghobadian (2004) did a research on "Leadership and Strategy: Making it Happen" and their study objective was to answer what is the real link between leadership, strategy and performance of SMEs. In their findings they noted that there was a positive relationship with performance. Ireland and Hitt (1999) pointed out that the literature suggests the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above average performance. Berkeley (1988) noted that empirical research supports the preposition that leadership and strategy are positively related to performance. Therefore, we expect that performance of SMEs will do well when strong leadership is aligned with the Strategy.

2.15 Performance and its measurement

Performance is an essential concept in management research. Managers are judged on their firm's performance. Good performance influences the continuation of the firm. Much of the research on performance measurement has come from organizational theory and

strategic management (Murphy et al., 1996). For instance, Porter (1980) defines good performance as the above-average rate of return sustained over a period of years.

For an empirical study, it is necessary to specify how a firm's performance will exactly be measured. Additional problems in analyzing performance differences between groups relate to the measurements of the performance used. A number of studies have highlighted the 'multidimensionality' of business performance and the need to include both traditional financial accounting measures together with non-financial data (Venkatraman and Ramanujam, 1986; Dess and Davies, 1984). Financial indicators are important, but provide only a limited view of a company's total value. Non-financial measures such as the quality of management, customer retention, Research and Development (R&D) and innovation, are also indicators of internal operating performance and achievement. Organizational performance is enhanced when there is a good 'fit' between management style and various contextual factors (Khandwalla, 1977).

Measuring performance in new small ventures is subject to a variety of problems (Lentz 1981, Kanter and Brinkerhoff 1981, Tsai, MacMillan, and Low 1991). Traditional accounting measures such as net profits or return on investment are questionable since some new ventures take many years to reach profitability (Biggadike 1979, Tsai, MacMillan, and Low 1991). Market share is not often relevant to small ventures. Survival is an incomplete measure since it does not evaluate performance differences among such firms (Tsai, MacMillan, and Low 1991). Tsai, MacMillan, and Low (1991) and Miller and Adams (1988) suggested the use of multiple measures to compensate for weaknesses in each of the performance measures individually. Thus, the multiple measures are: average annual growth of full time employees since the firm was founded, growth in sales revenue during the last financial year, growth in profits over the last fiscal year; and profitability relative to competitors. Venkatraman and Ramanujam (1986) have pointed out that firm Performance is a multidimensional construct. They proposed three general levels of firm Performance. The three general levels of firm performance are briefly discussed below. Financial performance is at the core of the organizational effectiveness domain. Such performance measures are considered necessary, but not sufficient to define overall effectiveness (Murphy et al., 1996). Accounting-based standards such as return on assets (ROA), return on

sales (ROS) and return on equity (ROE) measure financial success (Parker, 2000). These indicators tap current profitability.

Business performance measures market-related items such as market share, growth, diversification, and product development (Gray, 1997). There appears to be two dimensions here: a) those indicators related to growth/share in existing business such as sales growth and market share and those indicators related to the future positioning of the firm including new product development and diversification. Organizational effectiveness measures are closely related to stakeholders other than shareholders. Examples of such measures are employee satisfaction, quality and social responsibility. The indicators related to quality are product quality, employee satisfaction and overall quality and those indicators related to social responsibility are environmental and community responsibility.

Although firm performance plays a key role in strategic research, there is a considerable debate on the appropriateness of various approaches to the concept utilization and measurement of organizational performance. The complexity of performance is perhaps the major factor contributing to the debate (Beal, 2000). Despite such debate there is general agreement among organization scholars that objective measures of performance are preferable to subjective measures based on manager perceptions (Beal, 2000).

The correct performance measures might be influenced by the size of the firm and the ambition of the management or entrepreneur. There is evidence in the literature that many SMEs establish businesses for reasons other than wealth creation (Boyd and Gumpert, 1987, and Peacock, 1990). The entrepreneur often starts a business with the declared intention of becoming independent and (then) maintains independence by keeping operational control (Gray, 1997). This is supported by study in which most entrepreneurs responded that the most important objective is perpetuation/survival, the second most important objective is independence, and Growth comes in third place (Meijaard et al., 2002).

Measures of profitability (cash flow), therefore, may not be the first objective of the entrepreneur and therefore not measure success (defined as achieving the objectives) adequately. Moreover on

the one hand, sometimes in SMEs subjective goals can be considered more important than objective measures of performance. while, on the other hand. a certain level of profitability is required to remain independent and/or for the continuation of the firm. As a result. several researchers (Postma and Zwart. 2001) argue that in order to measure the multidimensional of the performance construct, both objective and subjective measures should be included in the measurement instrument. In this study both objective and subjective measures were used.

2.16 Summary of Empirical Literature Review and Research Gaps

A summary of the empirical literature review showing research findings of various studies and gaps in knowledge is presented in Table 2.

Table 2: A Summary Review of the Empirical Literature

Researcher(s)	Focus	Findings	Comments and Gaps
Gibcus & Kemp (2003) (Research done in Netherlands)	Relationship between strategy and performance of small firms	Positive relationship	They used Porter typology but suggests research be done using Miles & Snow typology
Olsen, Gough & Bokor (1997) (Research done in Russia- Moscow)	Relationship between planning, culture and performance	No relationship	Suggests that further research be done on the relationship between planning , culture and performance
Meijaard . Brand and Mosselman (2005) (Research done in Netherlands)	Relationship between structure and performance of small firms	Positive relationship and more complex than commonly assumed	They suggested that further studies be done on the relationship between structure and performance
Bernard (1995) (Research done in Singapore)	Relationship between organizational culture and performance	Found no relationship	He suggests that influences of the variables such as organizational structure and leadership need to be studied
Mahinda (2002)	Relationship between	She noted that there	She suggests that research be

(Research done in Kenya)	organizational culture & human resource practices in the Kenyan manufacturing industry	was a link between organizational culture and HR practices	done to determine the link between organizational culture, HR practices and performance
Joniron & Kalika (2004) (Research done in France)	Researched on the effect of alignment of IT with strategy and organizational structure on performance of SMEs	Positive relationship	Research was based on manufacturing industries. Communication. e.tc .Suggests that studies be done on one sector e.g. service or manufacturing sector
Covin and Slevin (1989) (Research done in U.S.A)	Relationship among strategic posture. Environmental hostility, Organizational Structure, Competitive tactics and Financial Performance of Small Firms	Found that the independent variables did not explain the variance in performance	They suggested that other organizational context variables e g. organizational culture and industry structure be studied
Jennings & Seaman (1994) (Research done in U.S.A)	Relationship among adaptation – strategy – structure and Firm performance	Positive relationship	They suggested further research in different industry settings be done on the relationship among strategy, structure and performance
Bates, Amundson, Schroeder and Morris (1995) (Research done in U.S.A)	Relationship between Manufacturing strategy and organizational culture	Significant relationship	Effect of the relationship between manufacturing strategy and culture on performance was not addressed

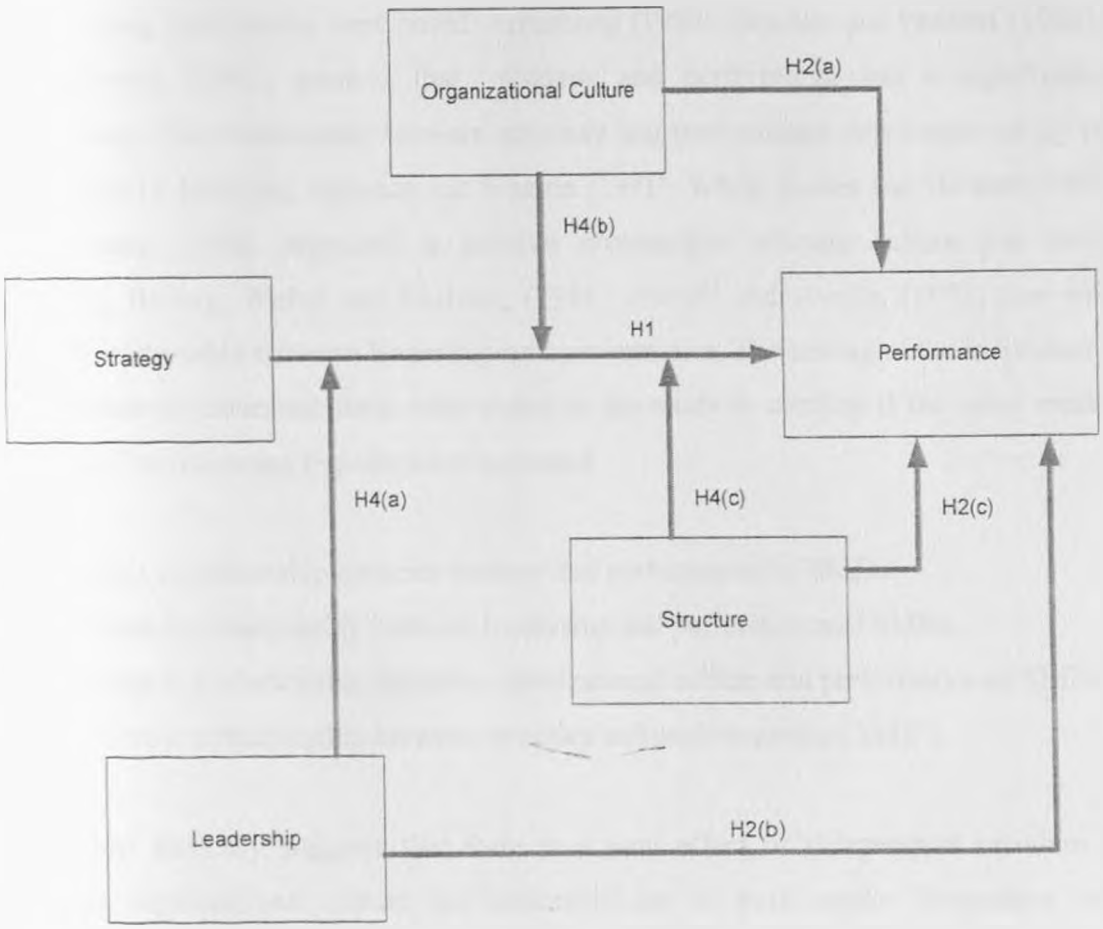
The gaps identified in the literature formed the basis for this study whose findings are reported in Chapter four, five and six of this study. From the literature review it is noted that the moderating effect of structure, leadership and culture on the relationship between strategy and performance have not been studied. Similarly, the joint effects of strategy, structure, organizational culture,

and leadership on performance of SMEs have not been studied and thus their joint effect is not known.

2.17 Conceptual Framework and Hypotheses

The gaps identified in the literature review lead to the conceptual framework presented in Figure 1.

Fig 1 A Conceptual Model of the relationships between strategy, structure, culture, leadership and SMEs Performance



Note: The arrows for H3 and H5 are not shown on Figure 1 above, but they are explained below. H3 combines the following variables: strategy, leadership, organizational culture and structure [H1, H4 (a), H4 (b) and H4 (c)].

H5 combines leadership, organizational culture and structure [H4 (a), H4 (b) and H4 (c)].
It should be noted that the study did not look on the relationships between leadership and organizational culture, leadership and structure, organizational culture and structure on the performance of SMEs.

The conceptual framework in Figure 1 suggests that there is an interrelationship among the various variables of the study. The model suggests that each individual independent variable (strategy, structure, organizational culture and leadership) may influence the relationship on the performance (dependent variable) of SMEs. In the past, researchers have carried out studies on these linkages by examining the effect of each individual variable on performance of SMEs and the following conclusions were noted. Armstrong (1982); Bracker and Pearson (1986); Shrader and Schwenk (1993) asserted that strategy and performance has a significant positive relationship . The relationship between structure and performance was supported by Habib and Victor (1991): Radolph, Sapienza and Watson (1991). While, Kotter and Heskett (1992); Lakhe and Mohaty (1994) supported a positive relationship between culture and performance. Similarly, Barling, Weber and Kellway, (1986); Howell and Avolio, (1993) also supported a positive relationship between leadership and performance. The testing of the individual variables was extensively done and these were tested in this study to confirm if the same results will be obtained. The following hypotheses were tested:

H1: There is a relationship between strategy and performance of SMEs.
H2(a): There is a relationship between leadership and performance of SMEs.
H2(b): There is a relationship between organizational culture and performance of SMEs.
H2(c): There is a relationship between structure and performance of SME's.

The model similarly suggests that there is a joint effect of independent variables (strategy, structure, organizational culture and leadership) on the performance (dependent variable) of SMEs. This joint effect appears to have not been studied. The following non-directive hypothesis was tested to establish if the unified interactive effect of all the variables would create a synergistic effect.

H3: There is a joint effect of strategy, structure, organizational culture and leadership on performance of SMEs.

Another dimension of the model was to establish the influence of each of the organizational institutional factors (structure, organizational culture and leadership) on the relationship between strategy and performance of SMEs. The study tested the interactive effect of these variables and established if there is any relationship among them. From the literature review the relationship among strategy, leadership and performance of SMEs have been studied and researchers have largely suggested that there is a positive relationship (O'Regan and Ghobadian 2004), Berkeley 1988). With regard to leadership, Hart & Quinn (1993) noted that CEOs with high "behavioral complexity" (i.e. the ability to play multiple, competing roles) produce the best firm performance, particularly with respect to business growth and innovation and organizational effectiveness. Howell and Avolio, (1993) said that leadership measures are associated with personality characteristics (e.g., internal locus of control) and significantly and positively predict business-unit performance. Executive leadership was found to explain as much as 45 percent of an organization's performance (Day and Lord, 1988).

Darling and Thomas (1999) posit that there are commonalities in leadership style or strategy that distinguish very successful from less successful firms. They observed that leadership is only one of several variables that affect the performance of a firm. Also, Fiedler (1996) noted that a leader's performance is contingent on the leader's style, abilities, and background and on the control and influence of the situation. Kirkpatrick and Locke (1991) empirically supported Fiedler's assertion that leadership characteristics are correlated with firm success. Peter and Waterman (1982) asserted that the success of a leader is determined by the manager's ability to deal with people effectively and meaningfully. The above argument led to the following hypothesis.

H4:(a) The strength of the relationship between strategy and performance depends on leadership.

Similarly, researchers have studied the relationship among strategy, culture and performance. Lorsch (1986), in his research on 12 successful companies in the USA found that all the

companies had a culture which supported the strategy they pursued. He concluded that culture is both the means to effective organizational performance through the medium of strategy, and a potential barrier inhibiting required strategic realignment which can adversely affect strategy implementation. Olson et al (2005) also found that culture which supports formal planning was related to better export performance. From the above argument, the following hypothesis was posed and tested.

H4:(b) The strength of the relationship between strategy and performance depends on organizational culture.

Research by Miles and Snow (1984) observed that when an organization matches its strategy and structure, its performance improves, while lack of fit between strategy and structure leads to poor performance. Meijaard et al (2002) acknowledged the ongoing debate on the interrelationship between strategy, structure and performance. They asserted that the outcome of the organizational design process is unmistakably an important determinant of the performance of firms. They said that the theoretical support for this can be found in major textbooks such as Mintzberg (1979), Robbins (1990), Burton and Obel (1998). Contingency theory suggests that congruence or fit among key variables, such as environment, structure, and strategy, is critical for obtaining optimal performance (Miller, 1988). The following hypothesis was formulated and tested.

H4: (c) The strength of the relationship between strategy and performance depends on structure

The model also sought to establish if there is any joint effect of organizational institutional factors (structure, organizational culture and leadership) on the relationship between strategy and performance of SMEs. The study tested if the organizational institutional factors influence the relationship between strategy and performance of SMEs. Previous researchers appear not to have studied the joint relationship among leadership, structure and organizational culture on the relationship between strategy and performance of SMEs. Therefore, this observation leads to the following non-directive hypothesis.

H5: The strength of the relationship between strategy and performance depends on leadership, organizational culture and structure.

2.18 Summary of the chapter

This chapter discussed the theoretical and empirical literature on the relationship between strategy, structure, culture and leadership, and how this impacts on performance of Small and Medium Enterprises (SMEs). From the literature review, knowledge gaps were identified, a conceptual framework was developed showing the linkages among the various variables of the study and nine hypotheses were derived from it and tested. The results of the tests are presented in chapter five.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

This study sought to establish the individual and joint effects of the institutional factors on the relationship between strategy and performance of SMEs. A descriptive survey design was used and the data was collected at one point in time. thus was cross-sectional.

The choice of this design was determined by the purpose of the study. which was to compare firms in terms of their strategies. structures. cultures. leadership and performance. The study was further guided by the type of investigation which was cross sectional. the extent of researcher involvement. the stage of knowledge in the field and the type of analysis. The philosophical traditions that guide social science research. namely positivism and phenomenology considered. The positivist paradigm is a philosophy of science which emphasizes development of theoretical/conceptual framework a priori. developing hypotheses from the framework and collecting empirical data to test them. Positivist data tends to be more quantitative.

Phenomenological approach differs from positivist perspective in some fundamental ways. A researcher operating within the phenomenological paradigm neither develops theoretical or conceptual framework nor formulates hypotheses in advance. Instead. he/she develops interest in a phenomenon then sets out observe it in its natural setting and to describe it as it is. Phenomenological data tends to be more qualitative. Positivist paradigm research design was considered more appropriate for this study. Descriptive surveys fall within the positivist philosophy of research which seeks to use quantitative techniques in analyzing social phenomena. Positivism was appropriate for this study because the observer was independent of what was to be observed; the choice of what to study was determined by the objective criteria rather than human belief; and it was expected that the results would be generalized to the target population.

3.2 Population

The population of the study consisted of Small and Medium Enterprises in Nairobi. Most of the firms in this category are located within Nairobi. The Directory from Kenya Industrial Development Research Institute (KIRDI, 1997), list of registered firms from Ministry of Trade and Kenya Hotel and Restaurant Guide, 2007 were used to compile the sampling frame. The directory of Kenya Industrial Development Institute was lastly revised in 1997. It is comprehensive and classifies enterprises into small, medium and large. However, to ensure that the sampling frame from KIRDI was up-to-date, the Postel directory (2007) and directory of Kenya Association of Manufacturers (2007) were used to cross examine and confirm accuracy of the list.

The list of registered firms from the Ministry of Trade did not classify the firms as Small, Medium and large. Therefore, the researcher had to call the firms themselves to determine the size of their respective workforce in order to place them in the sampling frame. According to the Kenya Association of Manufacturers survey (KAM 2007), 79.6 percent of its members were located in Nairobi, which reflects the fact that most of the SMEs are concentrated in Nairobi. This is why the study focused exclusively on Nairobi.

3.3 Sample Size

The sample size of this study was calculated using the formula suggested by several authors (e.g. Sekaran, 1992, 2006; Cooper and Emory, 1995) as indicated below.

$$n = \frac{z^2_{\alpha/2}\ pq}{d^2} = \frac{(1.96)^2 (.50)(.50)}{(.05)^2} = 384$$

Where:

n is the desired sample size (if the target population is greater than 10.000)

z is the degree of confidence chosen 95% confidence interval

p is the proportion in the target population estimated to have characteristics being measured. 50% is chosen as recommended by Fisher et al (1999).

q is the proportion in the target population estimated having no characteristics being measured is 0.5 (q=1-p).

d is the level of statistical significance set at 5 percent.

Since the target sample size for this study is below 10,000, the required sample size will be smaller. In such a case, the sample size needs to be adjusted without affecting the accuracy by using the formula below:

$$N' = \frac{n}{1+[n/N]} = \frac{384}{(1+\frac{384}{166})} = 116$$

N' is the adjusted minimum sample size

N is the total Population

n is the sample size already calculated on page 45.

From the above formula the sample size obtained is 116. (using Sekaran's Table, the same sample size was obtained- see appendix E).

3.4 Sampling Procedures

A disproportionate stratified random sampling technique was used to select 116 firms. Strata consisted of sub-sectors, namely agro-based, engineering and chemical and service firms. The sample sizes for the various strata computed using this technique is indicated in Table 3.1. Sample for each stratum was chosen using a simple random sampling technique. The names of the companies were written on pieces of paper and put in a bowl and then shaken before the sample was drawn (rotary random).

Table 3.1: Sampling procedure of SMEs in Kenya

s sector	Agro-based firms		Engineering Firms		Chemical Firms		Service Firms		Total	
graphi Region	Target Population	Sample size	Target Population	Sample size	Target Population	Sample Size	Target Population	Sample size	Total Target Population	Total Sample size
obi	54	30	64	38	20	20	28	28	166	116
entage	33%	26%	39%	33%	12%	17%	16%	24%	100%	100%

3.5 Data collection

Mail survey was used to collect primary data. The questionnaire was administered by drop and pick method to the senior managers or the general managers who were in the best position to articulate the firm's strategies, structure, culture, leadership and performance. The advantage of this method is that the researcher can collect all the completed responses within a short period of time. Any unclear questions that the respondents might have could be clarified on the spot.

The questionnaire was divided into six sections. Section A asked the respondents about their personal information such as job title, education level, and years worked, gender, age and the organizational characteristics such as number of employees, name, sub-sector, ownership and target market. Section B asked them about performance. The performance instrument was divided into 3 parts.

Part A elicited data on accounting-based standards such as return on assets (ROA), return on sales (ROS) and profit were measured. The respondents were asked to fill the questionnaire. The two parts, B and C were measured using a questionnaire rated on a five point likert type scale ranging from not at all, to a great extent (appendix I).

Section C asked the respondents to choose the appropriate strategy which their organization applies. Questionnaires developed by Snow and Hrebiniak's (1980) using strategy types of the Miles and Snow's (1978) typology was adopted. This tool was selected because the literature indicates it has been widely used in previous studies and has good reliability and validity. The above instrument was used by Jennings and seaman (1994) in their research and the coefficient alpha for the organizational strategy was 0.86. Thus, the instrument suggests acceptable level of reliability.

Section D asked respondents to choose the type of structure of which their organization applies. The type of structures was organic (complexity, centralization) and mechanic (formalization). The data collection instrument developed by Hages (1965) was used in this section. The above instrument was used by Jennings and seaman (1994) in their research and the coefficient alpha for the structural variables of formalization: complexity and centralization were 0.90, 0.95, and 0.92 respectively, indicating acceptable reliability.

Section E asked the respondents to choose the type of culture their organization used. A survey questionnaire developed by Brown (1998) was used to measure organizational culture. The respondents were expected to assess the state of their organizational culture by answering questions in four categories: power culture, role culture, task culture and person culture. In each case the respondent had to decide whether a particular statement was definitely true, mostly true, mostly false, or definitely false. Although reliability was not indicated, Brown noted that it was successful in measuring culture. However, before the instrument was applied, a pilot study was carried out and the reliability was between 0.75 and 0.81 which suggested an acceptable reliability.

Section F asked the respondents to choose the type of leadership their organization uses. A questionnaire developed by Bass, Avolio, and Jung (1995) was used to measure organizational leadership. Hashim et al (download/F6/4/04) used the above instrument in their research and confirmed the reliability by obtaining Cronbach's alpha values for transformational leadership style and transactional leadership style 0.7342 and 0.6975 respectively. These scores suggest

acceptable reliability of the measures. The respondents were expected to assess the style of their organizational leadership by answering questions in two categories: transformational leadership and transactional leadership. In each case the respondents were requested to rate each category on five point Likert scales ranging from not at all, rarely, occasionally, frequently and always. A pilot study was carried out to pretest the instruments discussed above to confirm if they are reliable as indicated in the literature. The results obtained were 0.96 and 0.62 respectively.

3.6 Operationalization of variables

The dependent variable was the performance of the SMEs and the independent variables were the strategy, structure, organizational culture and leadership. The Data were collected using both quantitative and qualitative indicators of the variables. The indicators of the variables are described and shown in appendix F.

3.7 Data Analysis

The data from the questionnaire was checked for incompleteness, inconsistencies and mistakes in the data corrected. Descriptive statistics were used to describe the distribution of scores or measurements using a few indices or statistics. The main types of computed data were:

Measures of central tendency- mean
Measures of variability- standard deviation
Frequency distribution and percentages

Inferential statistics were used to test hypotheses in order to facilitate generalization of the Sample results to the population. The statistical methods used were simple regression analysis and Pearson's Product-Moment Correlation (r) - to test hypothesis H1, H2(a), H2(b), H2(C), while multiple regression and Pearson's Product-Moment Correlation was used to test hypotheses H3, H4 (a), H4 (b), H4(c) and H5. The measurement scales for the dependent and independent variables were interval. The mathematical models presented below were used to analyze the data and test the hypotheses.

3.7.1 Regression models

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Strategy, denoted as X_1

Moderating variables:

Leadership. denoted as X_2

Culture, denoted as X_3

Structure, denoted as X_4

α – Constants term

β – Beta coefficients

ε – Error term

Model 1

Corporate performance = f_1 (strategy)

$P = \alpha + \beta_1 X_1 + \varepsilon$

Model 2(a)

Corporate performance = f_2 (Leadership)

$P = \alpha + \beta_2 X_2 + \varepsilon$

Model 2(b)

Corporate performance = f_3 (culture)

$P = \alpha + \beta_3 X_3 + \varepsilon$

Model 2(c)

Corporate performance = f_4 (structure)

$P = \alpha + \beta_4 X_4 + \varepsilon$

Model 3

Corporate performance = f_5 (strategy, leadership, culture, structure)

$P = \alpha - \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

The equation for the moderated regression model is as follows:

Model 4(a)

$P = \alpha - \beta_1X_1 + \beta_2X_2 + \beta_5X_1X_2$, where

P = the dependent variable (SMEs performance)

X_1 = the independent variable (strategy)

X_2 = the moderator variable (leadership)

X_1X_2 = the interaction term

Thus, we have the following models:

Model 4(b)

$P = \alpha + \beta_1X_1 + \beta_3X_3 + \beta_6X_1X_3$, where

X_3 = the moderator variable (culture)

X_1X_3 = the interaction term

Model 4(c)

$P = \alpha + \beta_1X_1 + \beta_4X_4 + \beta_7X_1X_4$, where

X_4 = the moderator variable (structure)

X_1X_4 = the interaction term

Model 5

$P = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_1X_2 + + \beta_6X_1X_3 + \beta_7X_1X_4$

3.7.2 Tests of Hypotheses

The Hypotheses were formulated to test the relationship between the dependent and independent variables. These are shown in the table 3.2 in the next page.

Table 3.2: Summary of the tests of the hypotheses

Objectives	Hypotheses	Type of Analysis	Interpretation of results
1. To determine the relationship between strategy and performance of SMEs.	H1: There is a relationship between strategy and performance of SMEs.	Simple regression Pearsons correlation	R^2 r
2. To establish the relationship between organizational institutional factors and performance of SMEs.	H2(a): There is a relationship between organizational culture and performance of SMEs.	Simple regression Pearsons correlation	R^2 r
	H2(b): There is a relationship between Leadership and Performance of SMEs.	Simple regression Pearsons correlation	R^2 r
	H2(c): There is a relationship between structure and performance of SMEs.	Simple regression Pearsons correlation	R^2 r
3. To determine the joint effect of organizational institutional factors and strategy on performance of SMEs.	H3: There is a joint effect on firm strategy, Structure, organizational culture, leadership and Performance of SMEs.	multiple regression pearsons correlation	R^2 r

To establish the influences of each of the organizational institutional factors on the relationship between strategy and performance of SMEs.	H4(a): The strength of the relationship between strategy and performance of SMEs depends on leadership.	multiple regression pearsons correlation	R^2 r
	H4(b): The strength of the relationship between strategy and performance of SMEs depends on organizational culture.	multiple regression pearsons correlation	R^2 r
	H4(c): The strength of the relationship between strategy and performance of SMEs depends on structure.	multiple regression pearsons correlation	R^2 r
5. To establish the joint effect of organizational institutional factors on the relationship between strategy and performance of SMEs.	H5: The strength of the relationship between strategy and performance of SMEs depends on organizational culture. leadership and structure.	Multiple Regression Pearsons correlation	R^2 r

CHAPTER FOUR

DESCRIPTIVE DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the profiles of the respondents and the organizations that formed the sample of this study. Percentages, means, standard deviations, Cronbach Alpha coefficients of reliability and correlations were computed and presented in frequency tables.

The results are presented and interpreted. The descriptive data presented in this chapter have been used as the basis for testing of hypotheses and making inferences. This further statistical analysis is presented in Chapter Five.

4.2 Response Rate

The population of Small and Medium Enterprises (SMEs) were 166; a sample of 116 was drawn using the disproportionate random sampling technique. Out of 116 firms, 46 percent (53) returned complete questionnaires and all were analyzed. The response rate compared to previous studies is comparable; for example, Farley *et al* (1989) had response of 29.8 percent. O'Regan and Ghobadian (2006) had 27 percent response rate, Waweru (2008) had a response of 42 percent and Kidombo (2007) had a response of 64 percent.

The drop and pick method was used. Personal face to face visits and follow-up telephone calls to the respondents and explanations of the importance of the study and the usefulness to the business community improved the response rate. Out of 46 percent of the questionnaires returned. 32 percent were from small firms. which employed 10 to 49 while 14 percent were from medium firms that employed 50 to 100. Some respondents' did not accept to answer the questionnaire and the reasons they gave included lack of time and resources; a reluctance to divulge information because of reasons known to them and refusal to participate with no particular reasons given.

4.3 Respondents' Profile

The survey questionnaire was administered to a range of managers of Small and Medium Enterprises. The managers ranged from top management and senior managers as shown in Table 4.1. Of the respondents who completed the questionnaire, 26 percent were top management and 74 percent were senior managers.

Table 4.1: Distribution of Respondents by Job status

Status	Frequency	Percent
Senior managers	39	74.0
Top management	14	26.0
Total	53	100.0

Table 4.2 shows that the level of education of the respondents ranged from diploma to PhD degree. Those with diploma education were 49 percent, undergraduate were 34 percent, master's degree were 8 percent, PhD degree were 3 percent and others were 6 percent. The majority of the middle and top management had diploma and college degree with a contribution of 83 percent. It is interesting to note that most of the senior managers were holders of Diploma. These were employees who had worked for many years and were promoted due to their experiences.

Table 4.2: Distribution of respondents by level of Education

	Frequency	Percent
Diploma	26	49.1
Undergraduate	18	34.0
Masters	4	7.5
PhD	2	3.8
Others	3	5.7
Total	53	100.0

Table 4.3 shows the distribution of the number of years worked in the current organization by the respondents. 38 percent have worked between 1-3 years, 21 percent, between 4 and 6 years, 9 percent have worked between 7-9 years and 32 percent have worked for more than 10 years. The majority of the respondents worked between 1-6 years and over 10 years. More than 62 percent of employees worked more than four years and above. This implies that for any person to be promoted to a higher position somebody must have an experience and that is why most of the senior managers worked for more than 4 years in the current organization.

Table 4.3: Distribution of respondents by length of service

Years	Frequency	Percent
1-3 yrs	20	37.7
4-6 yrs	11	20.8
7-9 yrs	5	9.4
over 10 yrs	17	32.1
Total	53	100.0

The frequency distribution of the gender is shown in Table 4.4. The distributions for male were 68 percent while 32 percent were female. This indicates that most of the senior positions in small and medium enterprises were dominated by men.

Table 4.4: Distribution of Respondents by Gender

	Frequency	Percent
Male	36	67.9
Female	17	32.1
Total	53	100.0

Table 4.5 indicates the age distribution of the respondents. 25 percent were less than 30 years. 45 percent were aged between 31-40 years, 17 percent were between 41 and 50 years and 13 percent were over 50 years. The majority of the senior manager's age fell under 40 years which constituted 70 percent of the respondents. This meant that most firms recruited young managers who were conversant with new technologies and those who could embrace change management in their place of work.

Table 4.5: Distribution of the Respondents by Age

	Frequency	Percent
Less than 30	13	24.5
31-40 yrs	24	45.3
41-50 yrs	9	17.0
over 50 yrs	7	13.2
Total	53	100.0

4.4 Organizational Profile

The organizational profile gave the characteristics of the firms which participated in the study. The respondents were asked to indicate the number of years the firm was in existence or operational. Number of years of operation was used as a measure of age. The range of years of the firms' operation is shown on Table 4.6. It is noted that 15 percent had been in operation for less than 4 years, 28 percent have been in operation between 5-10 years, 21 percent were in

operation between 11-20 years and 36 percent were more than 21 years. The majority of the firms are old and well established, 85 percent of these firms had been in operation for more than 5 years old.

Table 4.6: Distributions of Firms by Age

Number of years in operation	Frequency	Percent
less than 4yrs	8	15.1
5-10 yrs	15	28.3
11-20 yrs	11	20.8
over 21 yrs	19	35.8
Total	53	100.0

In the questionnaire the respondents were requested to tick which sub-sectors they belonged to and they responded as follows: 19 percent belonged to agro-based sub-sector, 34 percent were in the engineering sub-sector, 19 percent were in the chemical sub-sector and 28 percent belonged to services sub-sector. The respondents were also asked to indicate their firm sizes. Seventy percent (70%) indicated that they had between 10-49 employees and 30 percent had employees between 50 -100. This shows that the majority of the firms in Kenya were small. These could be explained by the following reasons; small capital investment required to start a business, soft loans provided by various organizations and also Government provided loans through some few chosen banks to assist entrepreneurs. In the United Kingdom (UK) that Small businesses still comprise the great majority of all businesses with well over 99 percent (DTI 1998).

The distribution frequency of the ownership of the firms is shown in Table 4.7. Seventy six percent (76%) were owned by locals, 13 percent were owned by foreigners and 11 percent were jointly owned. The majority of the firms were owned by locals. Since the capital investment required to start such kind of business was small, this inspired the locals to start their own businesses. The reasons why we had few foreigners investing in Kenya could be due to soaring

costs of doing business, poor infrastructure, and corruption which forced foreign investors to relocate to the neighboring countries.

Table 4.7: Ownership of the firms

	Frequency	Percent
Local	40	75.5
Foreign	7	13.2
Both	6	11.3
Total	53	100.0

Regarding the target market, as shown in Table 4.8. 43 percent target local market while 57 percent target both local and export markets. This shows that most of the products are consumed locally while some few are exported.

Table 4.8: Distribution of firms by target market

Type of Market	Frequency	Percent
Local market	23	43.4
Both local and export	30	56.6
Total	53	100.0

As indicated in Table 4.9, 59 percent of the respondents said that they had less than 20 percent of market share. 21 percent had between 21 and 50 percent. 19 percent had 51-70 percent and 2 percent had more than 70 percent. The majority of the firms had less than 50 percent market share as shown in Table 4.9. This indicates heavy competition among the firms.

Table 4.9: Distribution of Firms by Market Share

Market share	Frequency	Percent
Less than 20%	31	58.5
21-50%	11	20.8
51-70%	10	18.9
More than 70%	1	1.9
Total	53	100.0

On staff turnover, Table 4.10 indicates that 60 percent of respondents had a staff turnover less than 5 percent, 11 percent had a turnover between 6-10 percent. 8 percent had between 11-20 percent turnovers while 21 percent had a turnover of more than 20 percent. The big turnover was contributed by unfavorable economic conditions in the country forced many firms to downsize and reduce the number of employees in order to reduce operational costs.

Table 4.10: Distribution of Firms by Staff Turnover

Rate of Turnover	Frequency	Percent
less than 5%	32	60.4
6-10%	6	11.3
11-20 %	4	7.5
over 20 %	11	20.8
Total	53	100.0

Table 4.11 shows the frequency distribution of the budget allocated to research and development (R&D). Seventy four percent (74%) of the firms did not invest in R&D, 13 percent had a budget between 1-5 percent. 2 percent had a budget between 6-10 percent and 11 percent had a budget of over 10 percent. Since most of the firms were small they were expected not to have enough

resources to invest on new technologies or innovation. instead they relied heavily on borrowed technologies.

Table 4.11: Distribution of Firms by Budgetary allocation to R&D

Budget allocation to R&D	Frequency	Percent
0	39	74
1- 5%	7	13
6-10	1	2
over 10	6	11
Total	53	100

On diversification, respondents were asked to indicate if they had introduced new products/services in the market by their firms. Seventy five percent (75%) said they had none while 25 percent said they had introduced diversification. This implies that since the majority of the firms were small. they are expected to have limitation of resources to diversify. Regarding. social responsibility. respondents were requested to state if they had a social responsibility policy. Sixty six percent (66%) said they had no policy and 34 percent said they had a social responsibility policy. This shows that few firms that contributed to social responsibility might be due to minimum returns.

Table 4.12: Distribution of Firms by corporate social responsibility

Corporate Social responsibilty	Frequency	Percent
No	35	66.0
Yes	18	34.0
Total	53	100.0

4.5 Firm Performance

Table 4.13 presents the firm performance measurement scale. Thirteen (13) items were used to measure the respondents' perception on firm performance. mainly on business performance and organizational effectiveness instrument. The financial performance instrument was not used because respondents did not answer the questions. The Cronbach Alpha coefficient of the scale was 0.87. Thus. the instrument suggests acceptable level of reliability.

The means and standard deviations for each item are presented and discussed below.

Table 4.13: Means and standard deviations for firm performance

Items	Mean	Standard Deviation	coefficient of variation
Our organization has been making profit	3.08	.730	0.237
Our organization has a substantial market share in the industry	2.83	.955	0.337
Our sales growth in our organization has been substantial	3.09	.861	0.279
Our organization has diversified and come up with new products	2.64	1.178	0.446
Relations between employees and management in our organization is good	3.77	.800	0.212
Our organization retains good employees over a long period	3.85	.949	0.246
Our organization products are superior in quality compared with those of competitors	3.60	1.044	0.29
The speed of making decisions in our organization is fast	3.79	.948	0.25
Our organization contributes towards social responsibility	2.91	1.197	0.411
Our organization has a good image in the industry	4.04	.831	0.206

Our organization takes care of its customers	4.19	.735	0.175
Our customers are satisfied with our products/services	4.19	.761	0.182
The overall performance of our organization over the past three years compared to our competitors has been very good	3.75	.731	0.195
Cronbach Alpha coefficient = 0.87			
Composite mean score for firm performance scale	3.52	0.902	0.256

The firm performance was measured using 13 items rated on a five scale point likert scale ranging from 1 to 5. One (1) represented 'not at all' while 5 represented to "a great extent". Since the likert scale was represented by 1.2.3.4 and 5, our midpoint was 3. The respondents were asked to rate if the organization made profit. The mean for this item was 3.08 with a standard deviation of .73. This indicates that most of the respondents feel that their firms are making moderate profit. Respondents were also asked to rate perception on whether their organization had substantial market share. A mean score of 2.83 and standard deviation of .96 was obtained. This implied that most of the respondents believed that they had small market share in the industry.

Respondents were asked to rate their perception on sales growth if it was substantial. The mean score of this item was 3.09 and the standard deviation was .86. this meant that most of the respondents felt that their sales growth was moderate. On diversification. the mean score was 2.64 and standard deviation was 1.18. This implies that most of the organizations did not diversify and standard deviation showed a wide dispersion from the midpoint implying that respondents differed widely on this item. Respondents rated the relationship between employees and management in their organization if it was good. The mean score obtained was 3.77 and standard deviation was .80. This means that the majority of the respondents believe that they have good relationship between employees and management.

On whether organization retained good employees over a long period. the rating indicated that the mean score was 3.85 and standard deviation was .95. This suggests that most of the organizations retain good employees for a long time. Respondents were asked to rate perception on whether their organization's products were superior in quality compared with those of their

competitors. A mean score of 3.60 and standard deviation of 1.04 was obtained. This implied that most respondents believed that their products were superior in quality compared to their competitors. Also respondents were requested to rate perception on the speed of making decisions and whether their organization contributes resources towards social responsibility. For decision making, the mean score obtained was 3.79 and standard deviation was .95. Most of the respondents agreed that the speed of their organizations making decisions was fast. On whether their organization contributes resources towards social responsibility, the mean for this item was 2.91 and standard deviation was 1.20. This implied that most of the organizations did not contribute towards social responsibility because of lack of resources.

On if the organization had a good image in the industry, respondents were requested to rate their perception. A mean score obtained was 4.04 and standard deviation obtained was .83. This suggests that most of the respondents agreed that they had good image in the industry. Respondents rated the extent organization takes care of its customers and a mean score of 4.19 and standard deviation of .74 was achieved. This indicated that most of the organizations take care of their customers well. Respondents were asked to rate the customer satisfaction of their products/services and overall performance over the past three years compared to their competitors. The mean score was 4.19 and 3.75 and with standard deviation of .76 and .73 respectively. This suggests that on customer satisfaction, many respondents believed that their customers were satisfied with their products/services. On overall performance, the mean obtained was 3.75 implying that their performance was above moderate. The composite mean and standard deviation were 3.52 and 0.902 respectively. The composite mean shows that the performance is slightly above average.

4.6 Strategy

Three items were used to measure the respondents' perception on strategic practices. The Cronbach Alpha coefficient of the scale was 0.60, indicating a moderate reliability. Past studies that have used this scale reported a Cronbach Alpha coefficient of 0.86 and since the instrument suggests moderately acceptable level of reliability, the results were accepted and were used for further analysis. The means and standard deviations for each item are presented and described below.

The Item was measured using five likert scales ranging from 1 to 5. 1 represented 'not at all' while 5 represented 'to a great extent'. The Item sought to establish from the respondents if the organization reacted to changes in the business environment. The mean for this item was 3.55 with a standard deviation of .82. This implied that most of the respondents believed that they reacted to changes in the business environment.

The respondents gave their views to changes in the business environment as indicated in Table 4.15. Nine percent (9%) of the respondents said they reacted to a small extent. 38 percent of the respondents felt they could respond to a moderate extent. 42 percent of the respondents indicated they would react to a great extent and 11 percent said they responded to a very great extent. This shows that most organizations do monitor changes in the environment and changed their strategies to fit to the environment.

Table 4.14: Distribution of Firms by extent of their Response to changes in the Business Environment

	Frequency	Percent
To a small extent	5	9.4
To a moderate extent	20	37.7
To great extent	22	41.5
To a very great extent	6	11.3
Total	53	100.0

Respondents were asked to rate if their organizations had strategic plans. The respondents were requested to tick yes if they had strategic plans and no if they had no strategic plans. Those with no strategy were seven in number and those with strategy were forty six.

On strategy type, this item was measured by having respondents select the appropriate strategy by ticking. The primary strategies type used by various organizations is shown in Table 4.16. 13 percent of the organizations had no written strategy. 8 percent of the organizations applied

defender type of strategy, 2 percent employed reactor type of strategy, 32 percent used a prospector type of strategy and 45 percent of the organizations used analyzer type of strategy. Gimenez et al (downloaded 25/1/03) adopted Miles and Snow's (1978) typology in their study and observed that analyzer strategies were mostly employed appearing in 44 percent of the firms while our study observed 45 percent. In the second place was the prospector strategy with 22.9 percent, followed by reactors (18.3%) and defenders (14.7) and in this study prospector strategy was in second place with 32 percent, followed by defenders (8%) and reactors (2%). The findings were the same for the analyzer and prospector strategies apart from the reactor and defender strategies which there was an interchange in the findings.

Table 4.15: Distribution of Firms according to Primary Strategy Types

Strategy Types	Frequency	Percent
None	7	13.2
Defender	4	7.5
Reactor	1	1.9
Prospector	17	32.1
Analyzer	24	45.3
Total	53	100.0

4.7 Organizational Structure

The structural practices measuring scale is as shown in Table 4.17. The respondents' perception on structural practices was measured using 7 items. The structural practices were subdivided into 3 categories which are formalization, complexity and centralization. The Cronbach Alpha coefficient of the scale achieved was 0.75, 0.62 and 0.63 respectively. During the pilot stage of the study, it was found that the 3rd item for formalization and 3rd item and 4th item for centralization elicited wide range of interpretation from the respondents and it reduced the reliability coefficient to 0.60 and 0.30 respectively. The above items were omitted in the main study and the reliability coefficient increased to 0.75 and 0.63. Past studies have reported

coefficients above 0.90 for formalization, complexity and centralization and although 0.62 and 0.63 are on the lower end, the results were accepted. Thus, the instrument was used for further analysis. The means and standard deviations for each item are presented and discussed below.

Table 4.16: Means and standard deviations for organizational structure

Items	n	Mean	Std. Deviation
Formalization			
Codified job descriptions are used by our organization.	53	3.51	1.295
Rules and procedures govern decisions and working relationships.	53	4.19	1.093
Ranges of variation are allowed within jobs in our organization.	53	3.32	.915
Cronbach Alpha coefficient = 0.75			
Composite mean score for formalization scale = 3.67			
b) Complexity			
specialists (lawyers, engineers, etc) are employed by our organization	53	2.98	1.323
Training required for our lowest level managers and each succeeding level varies	53	3.08	1.284
Cronbach Alpha coefficient = 0.62			
Composite mean score for complexity scale = 3.03			
c) Centralization			
Lines of communication and responsibilities are clear.	53	4.43	.930
Decisions are made by top managers and delegated to middle and low level managers.	53	4.28	.928
Cronbach Alpha coefficient = 0.63			
Composite mean score for centralization scale = 4.36			

The organizational structure was measured using a 5 point likert scale in all the items ranging from 1-5, 1 represents never. 2- rarely, 3- occasionally, 4- frequently and 5 always. On formalization, the respondents were requested to rate on the following. They rated if their organizations had a job description for their employees. The mean score was 3.51 and the standard deviation was 1.30. This implies that most of the respondents agreed that they had job descriptions. Although, the mean was moderately high, the standard deviation showed a wide dispersion from the midpoint implying that respondents differed widely on this item. On rules and procedures governing decisions and working relationships in their organization, a mean score of 4.19 and standard deviation of 1.09 was achieved. This means that most of the organizations have rules and procedures governing decisions and working relationship. They had to determine whether ranges of variation were allowed within jobs in their organization. A mean score of 3.32 and standard deviation of .92 was obtained. This suggests that more than half of the respondents believed that ranges of variation of jobs were allowed.

On the complexity of structure, respondents were asked to rate if specialists were employed by their organizations. The mean score and standard deviation obtained was 2.98 and 1.32 respectively. This suggests that more than half of the respondents agreed that they employed specialists. The standard deviation shows a wide dispersion from the midpoint implying that respondents differed widely on this item. The respondents were asked to give their perception on whether the level of training required for the lowest level managers and each succeeding level varied considerably. The mean score achieved was 3.08 and standard deviation was 1.28. This meant that not most of the respondents agreed on this item. On standard deviation there was a wide dispersion from the midpoint indicating that respondents differed widely on this item.

Centralization type of structure was represented by two items. Item one intends to establish if organizations had clear lines of communication and responsibilities. The mean score and standard deviation obtained was 4.43 and .93 respectively. This implies that most of the respondents agreed on this item. Second item sought to find out if decisions are made by top managers and delegated to middle and low level managers. A mean score and standard deviation obtained was 4.28 and .93 respectively. This suggests that most of the respondents agreed on this item. The Composite mean score for centralization scale was 4.36, for formalization was 3.67

and for complexity were 3.03. This show that most organizations employ centralization type of structure, formalization was employed moderately and few organizations used complexity.

4.8 Organizational culture

The measuring scale for organizational culture is as shown in Table 4.18. The perception of the respondents' on organizational culture was measured using 24 items. The types of organizational culture practiced were subdivided into 4 categories which are power orientation, role orientation, Task orientation and person orientation. The Cronbach Alpha coefficient of the scale achieved was 0.77, 0.80, 0.75 and 0.81 respectively. During the pilot stage of the study, it was found that two items for role orientation and two items for Task orientation elicited wide range of interpretation from the respondents and it reduced the reliability coefficient to 0.30 and 0.49 respectively. The four items were omitted on the main study and the reliability coefficient was increased to 0.80 and 0.75 respectively. Brown (1998) used this instrument and noted that it was successful although reliability was not indicated. These suggest acceptable reliability of the instrument. The means and standard deviations for each item are presented and described below.

The organizational culture was measured using a 5 point likert scale in all the items ranging from 1-5, where 1 represented definitely false, 2- mostly false, 3- don't know, 4- mostly true and 5 definitely true. Seven (7) items were used to measure power orientation. Respondents were asked to rate on the following items, if there was an atmosphere of trust in their organization, whether employees tended to manipulate situations for their own personal advantage, whether there were cliques which looked after themselves, whether politics was a way of life for many people in the organization and if an advancement was more a matter of who you know than what you know.

The mean score obtained for the above items was 1.81, 1.87, 1.92, 1.85, 2.04 and the standard deviation was 1.04, 1.18, 1.25, 1.23 and 1.39 respectively. This implies that most of the respondents felt that there was no atmosphere of trust in their organizations. They agreed that there were no manipulation situations for their own personal advantage in the organization; they also noted that there were no cliques who look after themselves, respondents agreed that they didn't engage in politics in their organizations and also agreed that advancement was not a

matter of who you know but was done on merit. Also respondents were asked to state whether important people here were always addressed as sir or madam. A mean score of 3.38 and standard deviation of 1.60 was achieved. This meant that important people were addressed as sir or madam. The standard deviation shows a wide dispersion from the midpoint implying that respondents differed widely on this item.

On role orientation, the respondents were asked to state their perception on whether people were expected to report violations of the rules, whether work was well organized and progressed systematically over time and whether most people understood and obeyed rules in their place of work. The mean score obtained for the three items was more than 4.00 and standard deviation obtained was between 0.91 and 1.14. It is interesting to note that majority agreed that they were expected to report violation of rules, work was organized well and most people obeyed rules. They had to determine whether there was a lot of argument regarding the interpretation of rules in their organization and if systems of control over people's work were generally effective. A mean score of 3.94 and 3.98 and standard deviation of 1.25 and 1.17 was obtained. This implies that most the respondents believed that systems of control over people were effective and they also believed that there was a lot of argument regarding the interpretation of rules.

Task orientation was measured using 5 items. Item one was to establish if people were encouraged to express their own personalities in their place of work. The mean score achieved was 3.81 and standard deviation was 1.36. This means that employees were encouraged to express their own personalities. Respondents were asked to rate their perception on whether People with different opinions (Mavericks) were tolerated in their place of work. A mean score and standard deviation achieved was 3.26 and 1.51 respectively. Some respondents agreed that people with different opinions were tolerated, while at the same time respondents differed widely on this item. Respondents had to rate whether people were able to retain a sense of their own individuality. The mean score and standard deviation obtained was 3.70 and 1.34 respectively. This implies that most respondents agreed that people retain a sense of their own individuality. Respondents were requested to rate if organization encouraged people to develop and mature. A mean score of 4.25 and standard deviation of 1.16 was obtained. This meant that most of the organizations supported their employees to develop and mature. Respondents had also to

determine if people were not criticized for their personal style. A mean score obtained was 3.53 and standard deviation of 1.48. This indicated that moderate respondents agreed that people were not criticized for their personal style.

The person orientation was measured using 7 items. Respondents were asked to give their perception on the following items; item one sought to establish if People were generally helpful and considerate of others, item two asked if formal rules and procedures encouraged team work, item three intended to find out if most people were good team players. item five asked if People who worked well in teams were usually rewarded. item six sought to determine if 'Lend a helping hand' was a good description of how their organization works and item seven sought to establish if everyone in the organization has a strong sense of being in a team. The mean for the above items is between 3.87 and 4.15 and the standard deviation is between 1.02 and 1.30. This implies that most of the respondents agreed on the above items. Item three seeks to establish if 'Loners' do not tend to be promoted in the organization. The mean obtained was 3.23 and standard deviation was 1.55. This suggests that moderate respondents believe 'Loners' do not tend to be promoted in the organization. The standard deviation indicates that there was a wide dispersion from the midpoint implying that respondents differed widely on this item.

The Composite mean score for power orientation was 2.17, for role orientation was 4.13, for Task orientation was 3.71 and person orientation was 3.95. This implies that role orientation is most dominant type of culture. followed by person orientation. thirdly Task orientation and few employ power orientation type of culture. Mahinda (2002) did a research between organizational culture and Human Resource practice in the Kenyan manufacturing Industry and found Task culture to be dominant. followed by role culture. and thirdly person culture but noted that none practiced power culture. Therefore, we can say the predominant types of cultures are role cultures. person culture and Task cultures.

Table 4.17a: Means and standard deviations for organizational culture (Power)

Items	n	Mean	Std. Deviation
Power orientation There is an atmosphere of trust in this organization.	53	1.81	1.039
Important people here are always addressed as sir or madam.	53	3.38	1.596
There is much criticism of policies and practices	53	2.32	1.283
People here tend to manipulate situations for their own personal advantage.	53	1.87	1.177
There are cliques here which look after themselves.	53	1.92	1.253
Politics is a way of life for many people in this organization.	53	1.85	1.231
Advancement is more a matter of who you know than what you know.	53	2.04	1.386
Cronbach Alpha coefficient = 0.77 Composite mean score for power orientation = 2.17			

Table 4.17b: Means and standard deviations for organizational culture (Role)

Items	n	Mean	Std. Deviation
Role orientation People are expected to report violations of the rules.	53	4.04	1.143
Work is well organized and progresses systematically over time.	53	4.25	.939
Most people understand and obey rules here.	53	4.42	.908
There is a lot of argument regarding the interpretation of rules in this organization (R).	53	3.94	1.247
Systems of control over people's work are generally effective.	53	3.98	1.168
Cronbach Alpha coefficient = 0.80			

Composite mean score for role orientation scale = 4.13			

Table 4.17c: Means and standard deviations for organizational culture (Task)

Task orientation People here are encouraged to express their own personalities in their work.	53	3.81	1.360
People with different opinions (Mavericks) are tolerated here.	53	3.26	1.508
People here are able to retain a sense of their own individuality.	53	3.70	1.339
The organization encourages people to develop and mature.	53	4.25	1.159
People here are not criticized for their personal style.	53	3.53	1.475
Cronbach Alpha coefficient = 0.75 Composite mean score for Task orientation scale = 3.71			

Table 4.17d: Means and standard deviations for organizational culture (Person)

Person orientation People here are generally helpful and considerate of others.	53	4.08	1.053
Formal rules and procedures encourage team work.	53	4.08	1.207
Most people here are good team players.	53	4.08	1.207
"Loners" do not tend to be promoted in the organization.	53	3.23	1.552
People who work well in teams are usually rewarded.	53	3.87	1.301
"Lend a helping hand" is a good description of how this organization works.	53	4.13	1.020
Everyone here has a strong sense of being in a team.	53	4.15	1.133
Cronbach Alpha coefficient = 0.81 Composite mean score for person orientation scale = 3.95 (R) Reversed scored			

4.9 Leadership styles

The leadership style measuring scale is as shown in Table 4.19. The leadership style is categorized into two areas namely transformational leadership style and transactional leadership style. Transformational leadership is subdivided into four elements known as intellectual stimulation, inspirational motivation, idealized influence (attributed), individualized consideration and idealized influence (behavioral) which was measured using 20 items. The transactional leadership is subdivided into 3 categories which are contingent reward, management by exception (active) and management by exception (passive). The three items were measured using 8 items. The Cronbach Alpha coefficient of the scale achieved was 0.95 for transformational, and 0.62 for transactional leadership. Past studies have reported coefficient of 0.73 for transformational and 0.697 for transactional (Hashim et al-download/F6/4/04). Although 0.62 is on the lower end, the results were accepted. Thus, the instrument was used for further analysis. The means and standard deviations for each item are presented in the next page.

Table 4.18a : Means and standard deviations for Transformational leadership

Items	n	Mean	Std. Deviation
Intellectual stimulation Reexamines critical assumptions to ensure appropriate question.	53	3.40	1.115
Seeks differing perspectives when solving problems.	53	3.81	1.039
Gets me to look at problems from many different angles.	53	3.77	1.187
Suggests new ways of looking at how we do our jobs.	53	3.92	1.089
Inspirational motivation Talks optimistically about the future.	53	3.91	1.148
Talks enthusiastically about what needs to be accomplished.	53	4.08	.958
Articulates a compelling vision of the future.	53	3.85	1.116
Expresses his/her confidence that we will achieve our goals.	53	4.09	1.097
Idealized influence (Attributed) Instills pride in being associated with him/her.	53	3.53	1.295
Goes beyond own self-interest for the good of the group.	53	3.83	1.122
His/her actions build my respect for him/her.	53	3.98	1.201
Displays a sense of power and confidence.	53	4.13	1.177
Individualized consideration Spends time teaching and coaching.	53	3.17	1.252
Treats me as an individual rather than just a member of a group.	53	3.40	1.378
Treat each of us as individuals with different needs, abilities, and aspirations.	53	3.60	1.276
Focuses on me for developing my strengths.	53	3.47	1.295

Idealized influence (Behavioral) Talks to us about his/her most important values and beliefs.	53	3.11	1.251
Specifies the importance of having a strong sense of purpose.	53	3.74	1.273
Considers the moral and ethical consequences of his/her decisions.	53	3.49	1.250
Emphasizes the importance of having a collective sense of mission.	53	3.91	1.260
Cronbach Alpha coefficient = 0.95 Composite mean score for Transformational leadership scale = 3.71			

Table 4.18b: Means and standard deviations for Transactional leadership

Items	n	Mean	Std. Deviation
Contingent reward Makes clear what I can expect to receive, if any performance meets designated standards	53	3.43	1.380
Expresses his/her satisfaction when I do a good job	53	3.96	1..270
Management by exception (active) Focuses attention on irregularities, mistakes, exception and deviations from standards	53	3.55	1.153
Spends his/her time looking to "put out fires"	53	2.55	1.153
Keeps track of my mistakes	53	2.62	1.289
Directs his/her attention toward failure to meet standards	53	2.75	1.357
Management by exception (Passive)			

Things have to go wrong for him/her to take action	53	2.40	1.261
Shows he/she is a firm believer in "if it isn't broke, don't fix it"	52	2.12	1.166
Cronbach Alpha coefficient = 0.62 Composite mean score for Transactional leadership scale = 2.94			

The leadership styles was measured using a point 5 likert scale in all the items ranging from 1-5, 1 represents not at all, 2- rarely, 3- occasionally, 4- frequently and 5 -always. The midpoint for the likert scale is 3.0. The mean and the standard deviations for each item are discussed below as per the respondents' perception.

Respondents were requested to rate if their boss reexamined critical assumptions to ensure appropriate questions. A mean score of 3.40 and standard deviation of 1.12 were obtained. This implies that moderate respondents agreed to the statement. Respondents were asked to rate if their bosses differing perspectives when solving problems, if they look at problems from different angles, if they suggest new ways of doing their jobs, if they talk optimistically about their future, if they talk enthusiastically on what needs to be accomplished, if they articulate compelling vision of the future and if they express confidence on achieving goals. The mean score obtained for the above items was 3.81, 3.77, 3.92, 3.91, 4.08, 3.85 and 4.09 respectively and standard deviation obtained was 1.04, 1.19, 1.09, 1.15, 0.96, 1.12 and 1.08 respectively. This suggests that most of the respondents agreed with the statements above.

On the following items, respondents sought to determine if their bosses spend time looking to 'put out fires', if he/she keeps track of her/his mistakes, if there is direct attention towards failure to meet standards, or if things have to go wrong before action is taken and if he/she is a firm believer in 'if it isn't broke, don't fix it". The mean score and standard deviation obtained was 2.55, 2.62, 2.75, 2.40, 2.12, and 1.15, 1.29, 1.39, 1.26 and 1.17 respectively. This means that few respondents agreed with the statements above.

Respondents were also asked to rate their perception if it instills pride in being associated with him/her and to find out whether their boss spends time teaching and coaching. if he/she treats them as an individually rather than just a member of a group. if he/she focuses on developing their strengths, if he/she talks to them about his/her most important values and believes, if he/she considers the moral and ethical consequences of his/her decisions or if he/she makes clear what i can receive if i made the performance and focuses attention on irregularities and mistakes. A mean score obtained was 3.53, 3.17, 3.40, 3.47, 3.11, 3.49, 3.43 and 3.55 and standard deviation obtained was 1.30, 1.25, 1.38. 1.30, 1.25, 1.25, 1.38 and 1.15 respectively. This implies that moderate number of respondents agreed with the questions raised above.

Respondents sought to determine if the boss went beyond own self-interest for the good of the group. sought to establish if his/her actions built respect for employees. To find out if it displays a sense of power and confidence. They also sought to establish whether the boss treats each of them as individuals with different needs. abilities and aspirations, if specifies the importance of having a strong sense of purpose , if he/she emphasizes the importance of having a collective sense of mission and if he/she expresses satisfaction when a good job is done. The mean for the above items range from 3.60 - 4.13. and standard deviation range from 1.12 - 1.28. This shows that most of the respondents agreed with the above statements.

The transformational leadership style was measured using the questionnaire based on intellectual stimulation. inspirational motivation. idealized influence (Attributed), individualized consideration and idealized influence (Behavioral). The composite mean for the above items were 3.73. 3.98. 3.87. 3.41 and 3.56 respectively. The commonly leadership style employed is inspirational motivation, followed by idealized influence (Attributed). thirdly intellectual stimulation. fourth idealized influence (Behavioral), and lastly individualized consideration. For transactional leadership style, the composite mean for contingent reward was 3.70. management by exception (active) was 2.87 and management by exception (passive) was 2.26. This implies that for transactional leadership style. contingent reward was predominant. followed by management by exception (active) and lastly management by exception (passive). The composite mean for transformational leadership style was 3.71, while transactional were 2.94. This shows that transformational leadership style is widely employed.

4.10 Chapter Summary

The descriptive were analyzed and presented using frequency tables, means, percentages and standard deviations. Cronbach alpha coefficients were computed to measure internal consistency of measurement items in the various questionnaires. The profiles of the respondents and the organizations were presented. The Cronbach alpha coefficient of reliability ranged from 0.60 to 0.87 for all the scales which falls within the acceptable level, hence the instrument is reliable. The means and standard deviations for each item were presented and explained. The descriptive data results were acceptable, leading to testing of the hypotheses in Chapter Five.

CHAPTER FIVE
HYPOTHESES TESTING

5.1 Introduction

The aim of this chapter was to test hypotheses of the study. Nine hypotheses were developed for the linkages among the various variables depicted in the conceptual framework that provided the foundation for this study. These variables comprises of strategy, structure, organizational culture, leadership and performance.

Interval scale was used to collect the data. Pearson's product moment correlation, linear and multiple regression techniques were used. The results of the tests of hypotheses are presented in sections 5.2 to 5.7.

5.2 Strategy and performance of SMEs

The first objective of this study was to determine the relationship between strategy and performance of SME's. The following hypothesis was informed by this objective, the pertinent literature and the conceptual framework.

Hypothesis 1:

HO: There is no relationship between strategy and performance of SMEs

H1: There is a relationship between strategy and performance of SMEs

Data used to test this hypothesis were obtained by asking respondents to rate the extent to which their organization reacts to changes in the business environment using a five point likert scale ranging from 1 (not at all) to 5 (a great extent).

Pearson's product moment correlation statistical technique was used to test the significance of the relationship strategy and firm performance. To test the hypothesis, simple regression equation was used. The equation was set-up as shown below.

Model 1

$P = \alpha + \beta_1 X_1 + e$

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Strategy, denoted as X_1

α – Constant term

β – Beta coefficients

ε – Error term

Regression results were substituted into the above equation as follows:

$P = 2.345 + 0.661.X_1$

The results are presented in Table 5.1. As evident from the table, the relationship is positive and significant ($r = 0.543$, $p < 0.01$).

Table 5.1: Results of the correlation analysis for the linear relationship between strategy, structure, organizational culture, leadership and performance

Variables	Pearson correlation coefficients (r)
Strategy and firm performance	.543(**)
Strategy and organizational structure	.471(**)
Strategy and Organizational Culture	.385(**)
Strategy and leadership	.400(**)
Structure and firm performance	.544(**)
Structure and organizational leadership	.666(**)
Organizational Culture and firm performance	.310(*)
Organizational Culture and structure	.545(**)
Organizational Culture and leadership	584(**)
Leadership and firm performance	.387(**)

** Significant at the 0.01 level (2-tailed). * Significant at the 0.05 level (2-tailed).

The regression results presented in Table 5.2 show that 29.5 percent of the variation in performance is explained by strategy ($R^2 = 29.5$, $p < 0.01$). However, the model did not explain

70.5 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model.

A simple regression analysis was used to determine the relationship between strategy and firms performance. The values of F and t were significant ($F = 21.363$, $t=4.622$, $p < 0.01$) The F ratio implies that the effect of strategy on performance regression of performance (P) on X_1 (strategy) is statistically significant at less than the 0.05 level of significance. The t value implies that the coefficient of the model parameter is statistically significant (strategy, $\beta_1=0.661$, $p < 0.05$).

Based on the above findings, it is noted that the relationship between strategy and performance of SMEs is positive and significant; hence, the null hypothesis that there is no relationship between strategy and performance of SMEs was rejected.

Table 5.2: Regression results for the effect of strategy on performance of SMEs

Model	Std Error	Unstandardized coefficients	Standardized Coefficients					
		Beta	Beta	t	p-value	r	R^2	F
constant	0.521	2.345		4.505	.000			
strategy	0.143	.661	.543	4.622*	.000	.543	.295	21.363*

Dependent Variable: Performance, * $p < 0.01$

3 Institutional factors and performance of SMEs

The institutional factors are composed of organizational culture, organizational leadership and structure. The second objective of this study was to establish the relationship between organizational leadership and performance; organizational culture and performance; and structure and performance. Three hypotheses were drawn from the above objective and the conceptual framework. These hypotheses were tested one at a time as explained below.

5.3.1 Organizational leadership and performance of SMEs

The theoretical and empirical findings support that organizational leadership had a positive relationship with performance of SMEs. Therefore, it would be expected that leadership and performance of SMEs would have a positive and significant relationship. To test the hypothesis, simple regression equation was used. The equation was set-up as shown below.

Model 2a

$P = \alpha + \beta_2 X_2 + \varepsilon$

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Leadership, denoted as X_2

α – Constant term

β_2 – Beta coefficients

ε – Error term

Regression results were substituted into the above equation as follows:

$P = 0.001 + 0.391.X_2$

Pearson's product moment correlation statistical technique was used to test the significance of organizational leadership and firm performance.

Hypothesis two, which is presented below, captured the relationship between organizational leadership and organizational performance.

Hypothesis 2a:

HO: There is no relationship between organizational leadership and performance of SMEs

H1: There is a relationship between organizational leadership and performance of SMEs

The results are presented in Table 5.1. As shown in the table, the relationship is positive and significant ($r = 0.387$, $p < 0.01$). The regression analysis results presented in Table 5.3 show that 15 percent of the variation in performance is explained by organizational leadership ($R^2 = 0.150$, $p < 0.01$). The values of F and t were significant ($F = 8.83$, $t = 2.97$, $p < 0.01$). The F ratio implies that the regression of performance (P) on X_2 (leadership) is statistically significant at less than the 0.05 level of significance. The t values imply that the coefficient of the model parameter is statistically significant (leadership, $\beta_3 = 0.391$, $p < 0.05$). Since the relationship is positive and significant, the null hypothesis is rejected and hence, we accept the alternative hypothesis that there is a positive relationship between leadership and performance of SMEs.

Table 5.3: Regression results for leadership and performance of SMEs

Model	Std Error	Unstandardized coefficients	Standardized Coefficients					
		Beta	Beta	t	p-value	R^2	r	F
(Constant)	0.130	0.001		.007	.994	.150	.387	
Leadership	0.132	.391	.387	2.971*	.005			8.826*

Dependent Variable: Performance, * $p < 0.01$

5.3.2 Organizational culture and performance of SMEs

From the literature and empirical findings of previous studies. there was evidence that organizational culture had a positive relationship with performance of SME's. It was therefore expected that organizational culture and performance of SME's would have a positive and significant relationship; hence, it was hypothesized as follows:

Hypothesis 2b:

HO: There is no relationship between organizational culture and performance of SME's

H1: There is a relationship between organizational culture of SMEs and their performance.

The following regression model was set up to guide in data collection and testing of hypothesis 2b.

Model 2b

$P = \alpha + \beta_3 X_3 + \varepsilon$

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Culture, denoted as X_3

α – Constant term

β_3 – Beta coefficients

e – Error term

Regression results were substituted into the above equation as follows:

$P = 0.310.X_3$

In Table 5.2. the regression results were presented indicating a positive and significant relationship existed between organizational culture and performance of SME's ($r = 0.310$, $p < 0.05$). The regression analysis results shown in table 5.4 indicate that. 10 percent of the variation in performance is explained by organizational culture ($R^2 = 0.096$, $p < 0.05$). The values of F and

were significant ($F = 5.43$, $t = 2.33$, $p < 0.05$). The F ratio implies that the regression of performance (P) on X_3 (organizational culture) is statistically significant at less than the 0.05 level of significance. The t value implies that the coefficient of the model parameter is statistically significant (culture, $\beta_3=0.310$, $p < 0.05$).

Based on the above findings, it was noted that there was a positive and significant relationship between organizational culture and performance and we conclude that the null hypothesis is not substantiated and hence, we accept the alternative hypothesis that there is a positive relationship between organizational culture and performance of SMEs.

Table 5.4: Regression results for the effect of organizational culture on performance of SMEs

Model	Std Error	Unstandardized Coefficients	Standardized Coefficients	t	p-value	r	R^2	F
		Beta	Beta					
Constant	0.132	.000		.000	1.000			
Culture	0.133	.310	.310	2.329*	.024	.310	.096	5.425*

Dependent Variable: Performance. * $p < 0.05$

5.3.3 Organizational structure and performance of SMEs

From the research findings of previous studies done in other countries, there is evidence that organizational structure has a positive relationship with performance of SMEs. It was therefore expected that organizational structure and performance of SMEs would have a positive and significant relationship among SMEs in Kenya: hence, it was hypothesized as follows.

Hypothesis 2c

HO: There is no relationship between organizational structure and performance of SMEs

H1: There is a relationship between organizational structure and performance of SMEs

The following regression model was set up to guide in data collection and testing of hypothesis 2c.

Model 2c

$P = \alpha + \beta_4 X_4 + \varepsilon$

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Structure, denoted as X_4

α – Constant term

β_4 – Beta coefficients

e – Error term

Regression results were substituted into the above equation as follows

$P = 0.544.X_4$

Pearson's product results are presented in table 5.1. As shown in the table there is a positive and significant relationship between organizational structure and performance of SME's ($r = 0.544$, $p < 0.01$). The regression analysis results presented in Table 5.5 show that 29.6 percent of the variation in performance is explained by organizational structure ($R^2 = 0.296$, $p < 0.01$). However, the model did not explain 70.4 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model. The values of F and t were significant ($F = 21.434$, $t=4.630$, $p < 0.01$). The F ratio implies that the regression of performance (P) on X_4 (structure) is statistically significant. The t value implies that the coefficient of the model parameter is statistically significant (structure ($\beta_3=0.544$, $p < 0.05$).

From the above findings, we can conclude that the null hypothesis is not substantiated and is thus rejected. The alternative hypothesis is accepted that there is a positive relationship between organizational structure and performance of SMEs.

Table 5.5: **Regression results for the effect of structure on performance of SMEs**

Model	Std Error	Unstandardized coefficients	Standardized Coefficients	t	p-value	r	R^2	F
		Beta	Beta					
constant	0.116	.000		.000	1.000	.544	.296	
structure	0.117	.544	.544	4.630*	.000			21.434*

Dependent Variable: Performance. * $p < 0.01$

5.4 Joint Effect of Strategy, Institutional Factors and Performance of SMEs

From the literature and empirical findings of previous studies, there is evidence that each individual variable (strategy, institutional factors) has a positive relationship with performance of SMEs. It was therefore expected that the joint effect of strategy and institutional factors on the performance of SMEs would have a positive and significant relationship; hence, it was hypothesized as follows:

Hypothesis 3:

H0: There is no joint effect of strategy, structure, organizational culture and leadership on performance of SMEs.

H1: There is a joint effect of strategy, structure, organizational culture and leadership on performance of SMEs.

The following regression model was set up to guide in testing of hypothesis 3.

Model 3

$P = \alpha - \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

The expressions of the variables are as indicated below.

Dependent variable:

Performance is denoted as P

Independent variable:

Strategy, denoted as X_1

Moderating variables:

Leadership. denoted as X_2

Culture. denoted as X_3

Structure, denoted as X_4

α – Constant term

β – Beta coefficients

ε – Error term

The equation was substituted with the resultsis:

$P = 1.627 + 0.462.X_1 + 0.002.X_2 + 0.058\ X_3 + 0.406\ X_4$

The regression results presented in table 5.6 indicate that 41 percent of the variation in performance of SMEs is explained by the joint effect of strategy and institutional factors (R^2 = 0.409. $p < 0.05$). However, the model did not explain 59 percent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model. The value of F was significant ($F = 8.142$, $p < 0.01$), this implies that the regression of performance (P) on X_1 (strategy), X_2 (leadership), X_3 (culture) and X_4 (structure) is statistically significant. The value of t for strategy was significant ($t = 2.930$, $p < 0.05$) and for leadership, culture and structure were not significant ($t = 0.013$. 0.402. 2.496 $p > 0.05$) as shown in Table 5.6. The t values imply that most of the coefficients of the model parameters were not statistically significant. Also shown in Table 5.6 is the Beta coefficients for independent variables (leadership, culture, structure) were not statistically significant ($\beta_2 = 0.002$, $\beta_3 = -0.058$, $\beta_4 = 0.406$, $p > 0.05$, respectively), while, strategy was statistically significant ($\beta_1 = 0.462$. $p < 0.05$).

Based on the above findings, the null hypothesis is not rejected and we accept that there was no joint effect of strategy, structure, organizational culture and leadership on performance of SMEs.

Table 5.6: Regression results for joint effect of strategy, institutional factors on performance of SMEs

Model	Unstandardized coefficients		Standardized Coefficients	t	p-value	r	R^2	F
	Beta	Std Error	Beta					
nstant)	1.627	.569		2.857	.006			
ucture	0.406	.163	.402	2.496*	.016			
rategy	0.462	.158	.378	2.930*	.005	.640	.409	8.142*
ılture	0.058	.145	.058	.402	.690			
adership	0.002	.002	.002	.013	.990			

Dependent Variable: Performance, * $p < 0.05$

5.5 Strength of the relationship between strategy and performance of SMEs depends on institutional factors

Moderated multiple regression analyses were used to test the extent to which Leadership, organizational culture and structure moderate the relationships between strategy and firm performance. In this study we adopted the recommendation by Stone & Hollenbeck (1988) that Linear-by-linear interaction terms were created by multiplying the proposed moderators and the independent variables be used for testing moderating effects. After entering the proposed main effects into the equation. the multiplicative terms were added. The regression weights for the multiplicative terms were then examined for significance.

To test this hypothesis a moderated multiple regression equation shown below were used.

Model 1

$P = \alpha + \beta_1 X_1 + \varepsilon$

Model 4(a)

$P = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_5 X_1 X_2$, where

P = the dependent variable (SMEs performance)

X_1 = the independent variable (strategy)

X_2 = the moderator variable (leadership)

X_1X_2 = the interaction between strategy and leadership

β = Beta coefficients

The results in Table 5.8 were substituted in the above equation as follows:

$P = 2.345 + 0.661.X_1$

$P = 1.860 + 0.554.X_1 + 1.233.X_2 + 0.311.X_1.X_2$

The analysis for the moderator variables are broken into three hypotheses 4a, 4b and 4c which are presented below.

5.5.1 Hypothesis 4a

H0: The strength of the relationship between strategy and performance of SMEs does not depend on leadership.

H1: The strength of the relationship between strategy and performance of SMEs depends on leadership.

Hypothesis 4a was tested using the moderated multiple regression analysis as specified in the equation shown above. In the regression model, firm performance was used as the dependent variable, strategy as the independent variable and leadership as moderating variable. Regression results of the tests are presented in Tables 5.7 and 5.8. Table 5.7 indicates that the combination of the predictors (strategy and leadership) explains up to 39.1 per cent ($R^2 = 0.391$, $p < 0.05$) of the variation in the dependent variable (performance) is significant. However, the model did not explain 60.9 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model

To establish the moderating effect of leadership on the relationship between strategy and firm performance, the moderated multiple regression was used to determine the interaction effects.

The results are presented in Table 5.8. The values of F and t were significant (F = 10.27, t=3.691, 2.523, 2.176, $p < 0.05$). The F ratio implies that the regression of performance (P) on X_1 (strategy) and X_2 (leadership), is statistically significant or the equation ($P = 1.860 + 0.554.X_1 - 1.233.X_2 + 0.311.X_1.X_2$) is statistically significant at less than the 0.05 level of significance. The t values imply that the coefficients of the model parameters are statistically significant (strategy β_1=0.554, leadership, $\beta 2 = 1.233$ and interaction term. $\beta_5 = 0.311$, $p < 0.05$).

Based on the findings above, it is noted that leadership has a significant moderating effect on the relationship between strategy and firm performance. We, therefore, reject the null hypothesis and accept the alternative hypothesis that the strength of the relationship between strategy and performance of SMEs depends on leadership.

Table 5.7: Regression results on relationship between strategy and performance of SMEs and with leadership as moderator.

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. Change
1	.543	.295	.281	.84770056	.295	21.363*	1	51	.000
2	.625	.391	.353	.81233500	.391	10.266*	3	48	.000

* $P < 0.01$

Predictors: (Constant), strategy

Predictors: (Constant), strategy, strategy × leadership, leadership

Table 5.8: **Regression results for the moderating effect of leadership on the relationship between strategy and performance**

Model	Variables	Std Error	Unstandardized coefficient	Standardized coefficients	t	p-value
			Beta	Beta		
1	constant	.521	2.345		4.505*	.000
	strategy	.143	0.661*	.543	4.622*	.000
2	constant	.546	1.860		3.404*	.001
	strategy	.150	0.554*	.454	3.691*	.001
	leadership	.489	1.233*	1.221	2.523*	.015
	Strategy × leadership	.143	0.311*	1.044	2.176*	.034

Dependent variable: Performance; * $P < 0.05$.

Key: Model 1: without moderator (only strategy and performance), Model 2: with moderator (strategy, leadership and performance)

5.5.2 Hypothesis 4b

H0: The strength of the relationship between strategy and performance of SMEs does not depend on organizational culture.

H1: The strength of the relationship between strategy and performance of SMEs depends on organizational culture.

To establish the moderating effect of organizational culture on the relationship between strategy and firm performance a moderate multiple regression was used to determine the interaction effects. The moderated multiple regression equation is shown below.

$P = \alpha + \beta_1 X_1 + \beta_3 X_3 + \beta_6 X_1 X_3$, where

P = dependent variable (performance)

X_1 = the independent variable (strategy)

X_3 = the moderator variable (culture)

X_1X_3 = the interaction between strategy and culture

β = Beta coefficients

The results were substituted in the above equation as follows:

$P = 2.101 + 0.601.X_1 + 0.415.X_3 + 0.096X_1.X_3$

Hypothesis 4b was tested using the moderated multiple regression analysis as specified in the equation shown above. In the regression model, firm performance was used as the dependent variable, strategy as the independent variable and culture as moderating variable.

To test this hypothesis, data for strategy was regressed on performance data. The regression result for the above hypothesis is presented in Tables 5.9 and 5.10. Table 5.9 indicates that the combination of the predictors (independent variable and the moderator) explains up to 31.2 percent (R^2 =0.312, $p < 0.01$) of the variation in the dependent variable which is significant at 0.05. However, the model did not explain 68.8 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model. The values of F were found to be significant ($F = 7.420$, $p< 0.01$) and this implies that the regression of performance (P) on X_1 (strategy) and X_3 (culture), is statistically significant. The values of t for the moderator were found not to be significant ($t = 0.821, -0.606$, $p > 0.05$). This implies that the coefficients of the model parameters are not statistically significant. Also shown in table 5.10 are the Beta coefficients for independent variable (strategy, β_1=0.601) is statistically significant, while moderating variable (culture, $\beta_3 = 0.415$) and interaction term ($\beta_6 = -0.096$) at 0.05 level is not statistically significant. Based on the above findings, it is noted that organizational culture does not moderate the relationship between strategy and firm performance. Thus the null hypothesis is not rejected.

Table 5.9: Regression results on relationship between strategy and performance of SMEs and with culture as moderator

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. Change
1	.543	.295	.281	.84770056	.295	21.363*	1	51	.000
2	.559	.312	.270	.85424154	.312	7.420*	3	49	.000

Predictors: (Constant), strategy Predictors: (Constant), Culture, strategy × culture, strategy

* P<0.01

Key: Model 1: without moderator (only strategy and performance)

Model 2: with moderator (strategy, culture and performance)

Table 5.10: Regression results for the moderating effect of organizational culture on the relationship between strategy and performance

Model	Variables	Std Error	Unstandardized coefficient Beta	Standardized coefficients Beta	t	p-value
1	constant	.521	2.345		4.505*	.000
	strategy	.143	.661*	.543	4.622*	.000
2	constant	.571	2.101		3.678*	.001
	strategy	.156	.601*	.494	3.843*	.000
	culture	.506	.415	.415	.821	.416
	Strategy × culture	.158	.096	.304	.606	.547

Dependent variable: Performance. * P < 0.05

Key: Model 1: without moderator

Model 2: with moderator

5.3 Hypothesis 4c

0: The strength of the relationship between strategy and performance of SMEs does not epend on organizational structure.

1: The strength of the relationship between strategy and performance of SMEs depends on rganizational structure.

o test this hypothesis a moderated multiple regression equation shown below was used.

lodel 1

$' = \alpha + \beta_1 X_1 + \varepsilon$

lodel 4(c)

$' = \alpha + \beta_1 X_1 + \beta_4 X_4 + \beta_7 X_1 X_4$ where

' = the dependent variable (SMEs performance)

X_1 = the independent variable (strategy)

X_4 = the moderator variable (structure)

X_1X_4 = the interaction between strategy and structure

β = Beta coefficients

The results in Table 5.12 were substituted in the equation presented below.

$P = 2.345 + 0.661.X_1$

$P = 1.505 + 0.446.X_1 + 1.018.X_4 + 0.204.X_1.X_4$

Hypothesis 4c was tested using the moderated multiple regression analysis as specified in the equation shown above. In the regression model, firm performance was used as the dependent variable, strategy as the independent variable and structure as moderating variable. Regression results of the tests are presented in Tables 5.11 and 5.12. Table 5.11 indicates that the combination of the predictors explains up to 43.2 per cent ($R^2 = 0.432$, $p < 0.01$) of the variation in the dependent variable (performance) which is significant. However, the model did not explain 56.8 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model.

To establish the moderating effect of structure on the relationship between strategy and firm performance. the moderated multiple regression was used to determine the interaction effects. The values of F were significant ($F = 12.412$, $p < 0.05$). The F ratio implies that the regression of performance (P) on X_1 (strategy) and X_4 (structure), is statistically significant or the equation ($P = 1.505 + 0.446.X1 + 1.018.X4 + 0.204.X1.X4$ is statistically significant. The values of t were significant ($t = 3.003, 2.418$) apart from the t value of the interaction term (1.608) which was not significant. This implies that the coefficients of the model parameters are not statistically significant (strategy, $\beta_1 = 0.446$, structure, $\beta_4 = 1.018$, $p < 0.05$ and interaction term, $\beta_7 = 0.204$, $p > 0.05$).

Based on the above findings. it is noted that structure does not moderate the relationship between strategy and firm performance. Thus, the null hypothesis is not rejected.

Table 5.11: Regression results on relationship between organizational structure and performance of SMEs and with structure as moderator

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. Change
1	.543	.295	.281	.84770056	.295	21.363*	1	51	.000
2	.657	.432	.397	.77652666	.432	12.412*	3	49	.000

Dependent Variable: Performance * $P < 0.01$

Predictors: (Constant), structure

Predictors: (Constant), structure, strategy × structure, strategy

Key: Model 1: without moderator (only strategy and performance)

Model 2: with moderator (strategy, structure and performance)

Table 5.12: Regression results for the moderating effect of organizational structure on the relationship between strategy and performance

Model	Variables	Std Error	Unstandardized coefficients Beta	Standardized coefficients Beta	t	p-value
1	constant	.521	2.345		4.505*	.000
	strategy	.143	.661*	.543	4.622*	.000
2	constant	.540	1.505		2.785*	.008
	strategy	.149	.446*	.367	3.003*	.004
	structure	.421	1.018*	1.018	2.418*	.019
	Strategy × structure	.127	.204	.670	1.608	.114

Dependent variable: Performance, * $P < 0.05$

Key: Model 1: without moderator Model 2: with moderator

5.6 The strength of the relationship between strategy and performance depends on leadership, organizational culture and structure

Previous researchers appear not to have studied the joint effect of leadership, structure and organizational culture on the strength of the relationship between strategy and performance of SMEs. This observation leads to the following non-directional hypothesis:

Hypothesis 5:

HO: The strength of the relationship between strategy and performance does not depend on leadership, organizational culture and structure.

H1: The strength of the relationship between strategy and performance depends on the effect of leadership, organizational culture and structure.

To test this hypothesis a moderated multiple regression equation shown below were used.

Model 5

$P = \alpha - \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_1X_2 + \beta_6X_1X_3 + \beta_7X_1X_4$

P = the dependent variable (SMEs performance)

X_1 = the independent variable (strategy)

X_2 = the moderator variable (leadership)

X_3 = the moderator variable (culture)

X_4 = the moderator variable (structure)

X_1X_2 = the interaction between strategy and leadership

X_1X_3 = the interaction between strategy and culture

X_1X_4 = the interaction between strategy and structure

β = Beta coefficients

The equation was substituted with the results obtained from table 5.14.

Model 1

$P = 2.345 + 0.661.X1$

Model 5

$P = 2.345 + 0.485.X1 + 1.249.X2 + 0.372.X1.X2 + 1.949.X3 + 0.547.X1.X3 + 1.597.X4 + 0.336.X1.X4$

Combination of the predictors (i.e. independent variable and the moderators) explains up to 51.8% of the variance in performance ($R^2 = 0.518$, $p < 0.10$) as shown in Table 5.13. However, the model did not explain 48.2 per cent of the variation in performance, implying that there are other factors associated with performance which were not captured in the regression model.

To determine the moderating effect of institutional factors on the relationship between strategy and firm performance, a moderated multiple regression was used. The results are presented in table 5.14 as shown below. The only the moderating effect of culture and structure on the relationship between strategy and performance was significant ($\beta = 1.949$, $\beta = 1.597$, $p < 0.05$, respectively), while the moderating effect of leadership was not significant ($\beta = 1.249$, $p > 0.05$). Also, the combined effect of strategy and leadership and strategy and structure were not significant ($\beta = 0.372$, $\beta = 0.336$, $p > 0.05$, respectively).

As shown in the Table. the values of F were significant ($F = 6.755$. $p < 0.01$). The F ratio implies that the regression of performance (P) on X_1 (strategy), X_2 (leadership), X_3 (culture) and X_4 (structure), is statistically significant. The values of t (for leadership as a moderator and structure. leadership as interaction term) were not significant as shown in the Table 5.14.

Based on the above findings, the institutional factors do not moderate the relationship between strategy and firm performance. Thus, the null hypothesis is not rejected.

Table 5.13: Regression results on relationship between strategy and performance of SMEs and with institutional factors as moderators

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. Change
1	.543	.295	.281	.84770056	.295	21.363*	1	51	.000
2	.720	.518	.441	.75474282	.518	6.755*	7	44	.000

Predictors: (Constant), strategy , * $p < 0.01$

Predictors: (Constant), Strategy x Culture, Strategy, Strategy x Structure, Strategy x Leadership, Structure, Leadership, Culture

Table 5.14: Regression results for the moderating effect of leadership, culture and structure on strategy and performance

Model	Variables	Std Error	Unstandardized coefficients Beta	Standardized coefficients Beta	t	p-value
1	constant	.521	2.345		4.505000	1.000
	strategy	.143	.661*	.543	4.622*	.000
2	constant	.533	1.634*	.397	3.290*	.002
	strategy	.147	.485*	.367	3.003*	.004
	structure	.739	1.597*	1.582	2.161*	.036
	culture	.766	1.949*	1.949	2.543*	.015
	leadership	.758	1.249	1.237	1.649	.106
	Strategy × leadership	.214	.372	1.251	1.736	.089
	Strategy × structure	.204	.336	1.092	1.646	.107
	Strategy × culture	.226	.547	1.729*	2.420*	.020

Dependent variable: Performance. * $P < 0.05$

Key: Model 1: without moderator (strategy and performance)

Model 2: with moderator (strategy. structure, culture. leadership and performance)

5.7 Summary

The hypotheses were tested and the results were presented in Tables 5.1 to Table 5.14. The interpretations of the relationships among various variables of the study were presented. Parametric analytical techniques (Pearson's product moment correlation, simple and multiple regression analysis) were used because the data collection scales were interval.

The findings of the study indicated that there was not significant positive relationship between joint effect of institutional factors and strategy on performance of SMEs. The specific results showed that the strength of the relationship between strategy and performance of SMEs depends on organizational culture, organizational structure, and the joint effect of institutional factors were not significant. Also the findings of the study show that there were significant positive relationship between strategy and performance, leadership and performance, organizational culture and performance, structure and performance and the moderating effect of leadership on the relationship between strategy and firm performance was significant.

CHAPTER SIX

SUMMARY, DISCUSSION AND CONCLUSIONS

.1 Introduction

The central thrust of this study was to establish the influence of organizational strategy and nstitutional factors on performance of small and medium enterprises (SMEs) in Kenya. To meet he objective of the study. nine hypotheses were tested and the findings presented in chapter five.

This chapter summarizes the research arguments. discusses the findings including its consistency or contrast with past empirical findings and areas for further research. This chapter also gave conclusion. recommendation and limitation of the study.

6.2 Summary of Findings

Table 6.1 provides the summary of the findings of the study. From the literature review. it is apparent that most of the research was done in the Western World and most researchers have recommended that further research be done in different countries and in different sectors. Also, a study focusing on the joint influence of structure, organizational culture and leadership on the relationship between strategy and performance of SMEs and the joint effect of strategy, culture, structure and leadership on performance of SME's appear to have not been done . Most of this research was done mainly on large firms in developed countries while little research has been done on SMEs particularly in developing countries such as Kenya. Therefore. this study sought to answer the following broad questions.

What is the joint effect of institutional factors and strategy on performance of SMEs?

What is the influence of each of the institutional factors on the relationship between strategy and performance of SMEs?

What is the joint effect of institutional factors on the relationship between strategy and performance of SMEs?

A summary of the research objectives and corresponding hypotheses as well as results of the tests of hypotheses and their interpretations are presented in table 6.1.

Table 6.1: Summary of Tests of the Hypotheses and Results

Objectives	Hypotheses	Results	Remarks on hypotheses
1. To determine the relationship between strategy and performance of SMEs.	H1: There is a relationship between Strategy and performance of SMEs.	r =0.543, R^2 =0.295, F = 21.363, t = 4.622. β =0.543, p <0.01	Accepted
2. To establish the relationship between institutional factors and performance of SMEs.	H2(a): There is a relationship between organizational culture and Performance of SMEs.	r =0.310, R^2 = 0.096, F = 5.43, t = 2.33, β =0.310, p < 0.05	Accepted
	H2(b): There is a relationship between Leadership and performance of SMEs.	r =0.387, R^2 = 0.150, F = 8.83, t = 2.97, β =0.391, p < 0.05	Accepted
	H2(c): There is a relationship between Structure and Performance of SMEs.	r =0.544. R^2 = 0.296. F = 21.434, t = 4.63, β =0.544,p < 0.01	Accepted
3 To determine the joint effect of institutional factors and strategy on performance of SMEs.	H3: Firm strategy, structure. organizational culture and leadership jointly influence Performance of SMEs.	R^2 = 0.409. r =0.640. F = 8.142,β=0.462. β=0.406. p< 0.05 culture β= 0.058. leadership β= 0.002 , p > 0.05	Rejected

4 To establish the influence of each of the institutional factors on the relationship between strategy and performance of SMEs.	H4(a): The strength of the relationship between strategy and performance of SME depends on leadership.	R^2 =0.625, r =0.391, F = 10.27, t = 3.691, 2.523, 2.176 β= 0.554, 1.233, 0.311 $p < 0.05$	Accepted
	H4(b): The strength of the relationship between Strategy and performance of SME depends on organizational culture.	R^2 =0.312, r =0.559, F = 7.42, strategy β 0.601 $p > 0.10$, culture β=0.415, interaction term β= 0.096 $p > 0.05$	Rejected
	H4(c): The strength of the relationship between strategy and performance of SME depends on structure.	R^2 =0.432, r =0.657, F = 12.412, $p > 0.10$, strategy β = 0.446, structure β=1.018 $p < 0.05$, interaction term β= 0.204 $p > 0.05$	Rejected
5 To establish the joint effect of institutional factors on the relationship between strategy and performance of SMEs.	H5: The strength of the relationship Between strategy and performance of SME depends on organizational Culture, leadership and structure	R^2 =0.518, r =0.720, F = 6.755, strategy β = 0.485, structure β =1.597, culture β= 1.949, ($p < 0.05$) . leadership β=1.249, interaction for structure β 0.336. leadership 0.372 $p > 0.05$	Rejected

6.3 Discussion of the research findings

The aim of the discussion is to indicate why the findings are the way they are and if they were consistent with or contrary to the previous empirical findings. The discussion and presentation is guided by the objectives of the study which were stated as:

(i) To determine the relationship between strategy and performance of SMEs.

(ii) To establish the relationship between each organizational institutional factor and performance of SMEs.

(iii) To determine the joint effect of organizational institutional factors and strategy on performance of SMEs.

(iv) To establish the influence of each of the institutional factors on the relationship between strategy and performance of SMEs.

(v) To establish the joint effect of institutional factors on the relationship between strategy and performance of SMEs.

6.3.1 Strategy and performance of SMEs

The first objective of this study was to establish the relationship between strategy and performance of SMEs in Kenya. The hypothesis was tested and the results were as shown in Table 6.1. The Pearson's product moment correlation coefficient for the relationship between strategy and firm performance indicated positive and moderate relationship ($r = 0.543$, $p < 0.01$). The simple regression results presented in Table 6.1 showed that 29.5 percent of the variation in performance can be explained by strategy ($R^2 = 29.5$. $p < 0.01$). The values of F and t were found to be significant ($F = 21.363$, $t = 4.622$, $p < 0.01$). Also the Beta coefficient for independent variable (strategy, $\beta_1 = 0.661$. $p < 0.05$) is statistically significant.

Based on the above findings, we can say the relationship between strategy and performance of SME's is positive and significant. The existing literature does not reveal a straightforward answer concerning the relationship between strategy and performance but some of the previous studies have found a positive relationship (Hofer, 1976; Armstrong, 1982; Bracker & Pearson, 1986; Shrader & Schwenk, 1993).

In this study Miles and Snow (1978) typology was used to check which type of strategy is being employed by the Kenyan SMEs. Our findings shows that analyzer strategy was mostly employed

appearing in 45 percent of the firms. In the second place was prospector strategy with 32 percent, followed by defenders (8%) and reactors (2%). Those who did not use strategic plans were 13 percent. The above findings are close with what Gimenez et al (downloaded 25/1/03) found in their study by adopting Miles and Snow's (1978) typology.

The findings show that 87 percent of Kenyan SMEs employ strategic plans in their businesses, contrary to the findings of the research conducted by Pearce and Robinson (1984), and supported by Sexton & Van Aucken (1985), that small and medium sized enterprises (SMEs) barely plan their strategies because of lack of resources, even when their need for strategic decision making increases dramatically after reaching some initial market success (Robinson and Pearce, 1986). This revelation requires further investigation to confirm the results.

6.3.2 Organizational culture and performance of SMEs

The second objective of this study was to determine the relationship between each organizational institutional factor and performance of SMEs. The results of organizational culture and performance of SMEs in Kenya from the hypothesis test are shown in Table 6.1. The Pearson product moment correlation coefficient shows a positive and weak relationship exists between organizational culture and performance of SME's ($r = 0.310$, $p < 0.05$). The regression analysis results shown in Table 5.2 indicate that, 10 percent of the variation in performance can be explained by organizational culture ($R^2 = 0.96$). The relationship between organizational culture and performance of SMEs is positive and significant.

Bernard (1995) examined the relationship between organizational culture and organizational performance and found no relationship. Karathanos (1998) noted that a strong organizational culture enables the smooth flow of information and nurtures harmony among its members. While, Lakhe and Mohanty (1994) also suggested that improvements in work culture and internal communication thus improves customer's satisfaction (internal and external), which is essential for market growth and profitability in the long term. In a study undertaken by Sluti et al. (1995), it was shown that a strong corporate culture could improve quality, operational and business performance.

In this study Brown's (1998) instrument was used to check which type of organizational culture was employed by the Kenyan SMEs. The Composite mean score for power orientation was 2.17, for role orientation was 4.13, for task orientation was 3.71 and person orientation was 3.95. This implies that role orientation was most dominant type of culture, followed by person orientation, thirdly task orientation and few employed power orientation type of culture. Therefore, we can say the predominant types of culture are role culture, person culture and task cultures.

6.3.3 Leadership and performance of SMEs

The other relationship tested was to establish the relationship between leadership and performance of SMEs in Kenya. The results of the Pearson product moment correlation coefficient is shown in chapter four which indicates that a positive and moderately weak relationship exists between organizational leadership and performance of SME's ($r = 0.387$, $p < 0.01$). The regression analysis results presented in Table 5.3 show that, 15 percent of the variation in performance can be explained by organizational leadership ($R^2 = 0.150$). Hence, the relationship between leadership and performance of SMEs is positive and significant. Previous studies for example, Barling, Weber and Kelloway (1996), Hart and Quinn (1993), Howell and Avolio, (1993), Day and Lord (1988), Darling and Thomas (1999) and Fiedler (1996) reported a positive relationship between leadership and performance which mainly depended on the leader's style, abilities, and background and on the control and influence of the situation.

It looks like the Kenyan firms recognize that leadership style plays an important role in business success. It is interesting to note that the leadership styles employed by Kenyan firms are transformational and transactional as shown by the composite means. The composite mean for transformational leadership style was 3.71, while transactional were 2.94. This shows that transformational leadership style is widely employed. Quoting Doherty and Danychuk, (1996), Bass pointed out that transformational leadership is the augmentation and extension of transactional leadership. They state that "all leaders are transactional, to some extent, exchanging rewards for performance, but some leaders are also transformational, going beyond simple leader-subordinate exchange relations". Therefore, SMEs employ transformational followed by transactional style.

6.3.4 Structure and performance of SMEs

The study also intended to find out if there was a relationship between structure and performance of SMEs in Kenya. The Pearson's product moment correlation coefficient shown in chapter four indicates that a positive and moderate relationship exists between organizational structure and performance of SME's ($r = 0.544$, $p < 0.01$). The regression analysis results presented in Table 5.4 show that 29.6 percent of the variation in performance can be explained by organizational structure ($R^2 = 0.296$). The relationship between organizational structure and performance of Kenyan SME's is positive and significant. This is confirmed by many researchers such as Habib and Victor (1991), Barth (1999) and Randolph, Sapienza & Watson (1991) noted that structure has a more powerful influence on performance.

From this study, the type of structure used widely by SMEs was centralization, followed by formalization and lastly complexity. The Composite mean score for centralization scale was 4.36, for formalization 3.67 and for complexity 3.03 out of a maximum score of 5. This shows that most organizations have centralized structure, moderate formalization and low complex structure.

6.3.5 Joint Effect of Strategy and Institutional Factors on Performance of SMEs.

The third objective of the study was to establish the joint effect of strategy and institutional factors on Performance of Kenyan SMEs. Previous studies have shown a positive and significant relationship between strategy and performance, leadership and performance, culture and performance and structure and performance. From these findings, it was expected that the joint effect of the strategy and institutional variables on the performance of SMEs would be greater than the sum of the correlation coefficients for strategy and institutional factors. However, this was not supported by the results of this study.

The regression results presented in Table 5.5 indicate that 41 percent of the variation in performance of SMEs can be explained by the joint effect of strategy and institutional factors ($R^2 = 0.409$). It is interesting to note that the relationship between the joined variables and performance is positive and moderate. There were only two variables, strategy ($\beta = 0.378$, $p < 0.01$) and structure $\beta = 0.402$, $p < 0.05$) which were statistically significant as shown in Table 5.5.

Organizational culture and leadership variables (culture, β =-0.058, $p > 0.10$, leadership, β = 0.002, $p > 0.10$) were not statistically significant. Thus, it was concluded that strategy, structure, organizational culture and leadership had a weak and insignificant relationship with performance of SMEs.

6.3.6 Strategy, Performance, and Leadership.

The fourth objective of this study was to determine if the strength of the relationship between strategy and performance of SMEs depends on institutional factors. One of the hypotheses tested was to determine if the strength of the relationship between strategy and performance of SMEs depends on leadership. The regression results for the test of this relationship are presented in Tables 5.7 and 5.8. The results show that the relationship between strategy and performance is moderated by leadership. Linear combination of the predictors explain 39.1 percent of the variance in performance of SME's (R^2 =0.391, $p < 0.05$). The Beta coefficients for strategy and leadership ($\beta_1 = 0.554$, $\beta_2 = 01.233$, $p < 0.05$) were statistically significant. Hence, the strength of the relationship between strategy and performance is moderated by leadership.

The results presented in Table 5.7 and 5.8 supports what the following previous researchers' found. O'Regan and Ghobadian (2004) did a research on "Leadership and Strategy: Making it Happen" and their study objective was to answer the question: what is the real link between leadership, strategy and performance of SMEs. Their findings showed that there was a positive relationship among strategy, leadership and performance. Berkeley (1988) also noted that empirical research supports the preposition that leadership and strategy are positively related to performance.

6.3.7 Strategy, Performance, and organizational culture

Hypothesis 4b sought to establish whether or not the strength of relationship between strategy and performance of SMEs depended on organizational culture. This hypothesis was tested using multiple regressions. The results for the test of this relationship are presented in Tables 5.9 and 5.10. The results show that the relationship between strategy and performance is not moderated by organizational culture. Linear combination of the predictors explain 31.2 percent of the variance in performance of SMEs (R^2 =0.312, $p < 0.01$). The Beta coefficients for strategy,

organizational culture and interaction term ($\beta_1 = 0.601$, $p < 0.05$, $\beta_3 = 0.415$, $\beta_6 = 0.096$, $p > 0.05$, respectively) were statistically insignificant. Hence, the null hypothesis that the strength of the relationship between strategy and performance is not moderated by organizational culture was not rejected.

These findings are contrary to the results of the previous studies. For example, Lorsch (1986), conducted research on 12 successful companies and found that all these companies had a culture which supported the strategy they pursued. Olson et al (2005) also conducted a research on export planning and performance of small firms and found that culture which supported formal planning had a better export performance. Bates, Amundson, Schroeder and Morris (1995) in their study also found a statistically significant relationship. Therefore, further research is required to test this hypothesis.

6.3.8 Strategy, organizational structure and Performance

The hypothesis tested also was to determine if the strength of the relationship between strategy and performance of SMEs depends on organizational structure. From the theoretical findings, it was expected that there would be a positive influence by organizational structure on the strength of the relationship between strategy and performance of SMEs but that was not so.

The results for the test of this relationship are presented in Tables 5.13 and 5.14. The results show that relationship between strategy and performance is not moderated by organizational structure. Linear combination of the predictors explain up to 51.8 percent of the variance in performance ((R^2 =0.518, $p > 0.01$. The Beta coefficients for strategy, organizational structure and interaction term ($\beta_1 = 0.446$, $\beta_4 = 1.018$, $p < 0.05$, $\beta_7 = 0.204$, $p > 0.05$, respectively) were statistically insignificant. Based on the above findings, it is noted that structure does not moderate the relationship between strategy and firm performance. Thus, the null hypothesis is not rejected.

Covin and Slevin (1989) in their research on strategic posture, environmental hostility, organization structure, competitive tactics and financial performance among small manufacturing

firms found that the regression equations did not explain large portions of variance in performance. Therefore, our results support what the previous researcher's found.

6.3.9 Strategy, institutional factors and performance

The fifth objective of this study was to determine whether or not the strength of the relationship between strategy and performance of SMEs depended on leadership, organizational culture and structure. The regression results are presented in Table 5.14. The results show that the joint model of the predictors, comprising organizational culture, leadership and organizational structure explain up to 51.8 percent of the variance in performance (R^2 =0.518). However, when the factors are combined in the same model, it is noted that the beta coefficient variables are not significant except for organizational culture (β =0.547, $p < 0.05$). Thus the magnitude of the coefficient of co-determination appears to be largely due to the interaction among the three moderator variables, with organizational culture making a substantial contribution.

6.4 Conclusions

The findings show that 87 percent of Kenyan SMEs employ strategic plans in their businesses, contrary to the findings of the research conducted by Pearce and Robinson (1984), but supportive of findings by Sexton & Van Aucken (1985), that small and medium sized enterprises (SMEs) barely plan their strategies because of lack of resources, even when their need for strategic decision making increases dramatically after reaching some initial market success (Robinson and Pearce, 1986). This revelation requires further investigation to confirm the results.

The relationship between organizational culture and performance of SMEs is positive and significant: supportive of findings by Kotter and Heskett (1992) and Sluti et al (1995). The findings therefore emphasized the role of culture in improving the performance of SMEs. The results therefore imply that SMEs should adopt an organizational culture that is aligned to the strategy of their organization.

The results of this study agree with the findings in previous studies indicating significant positive relationships between leadership and performance and structure and performance. The dominant leadership style was found to be transformational with a means score of 3.71 while transactional

scored 2.94. The implication of these findings is that SMEs combine both styles of leadership and this is desirable as one focuses on inspiration and motivation while the other focuses on rewards which are valued by employees. Regarding structure and performance, the dominant structure is centralization as SMEs are managed by the owners. This implies that few of these firms operate with formal systems such as use of job descriptions, shared decision making and rules and procedures.

The results show that the relationship between strategy and performance is moderated by leadership. This implies that the managers of a firm play a key role in drawing the organizational strategy and disseminating the vision, mission and the objectives. SMEs in particular should have effective leaders for them to achieve their performance targets and compete in a turbulent environment.

For scholars, this study is expected to extend the frontiers of knowledge and they will find it useful for teaching and a basis for further research. Similarly, this study is expected to help the Government to come up with a policy framework to support the small and medium enterprises to improve their performance. The findings of this research will also be useful for SMEs to make better strategic decisions, put the right structures in place, change their cultures and implement leadership styles which will enable them make profit and become customer focused in a competitive environment.

6.5 Recommendations

Although the study addressed important objectives and hypotheses, there are some areas which require further investigations particularly the joint effect of strategy, institutional factors on performance of SMEs in Kenya. There is also need to carry out research on the moderating effect of organizational culture on relationship between strategy and performance and the moderating effect of structure on the relationship between strategy and performance of SMEs. Similarly, there is need to examine the combined effect of the three moderating variables on the relationship between strategy and performance of SME's.

The results of this study provide some useful lessons to SMEs managers and policy makers alike about the influence of strategy and institutional factors on performance. In terms of practical implications, this study contributes to an exposition on the importance of organizational buy-in and commitment to strategic planning, appropriate organizational culture, leadership style and structure.

The ultimate practical implication is that for any business to survive and make profit in a turbulent environment, SMEs must engage in the process of putting in place the strategic plans and aligning the strategies to the institutional factors. The implications for policy makers is that they need to come up with a policy framework to support the small and medium enterprises to enhance the quality of their strategies and institutional factors so that SME's can survive and improve their performance in a competitive environment.

6.6 Limitations of the study

The study experienced limitations mainly on non disclosure of financial performance measures by respondents. However, this was overcome by the use of perceptual data. Covin and Slevin (1989) observed that subjective measures of performance were often chosen over objective data because SME's are notorious for their inability and unwillingness to provide desired information and even if they gave the financial data it would be impossible to confirm the accuracy of the data. Scarcity of local literature limited comparability of the results of the study, but this was overcome by reviewing relevant literature from other countries. However, despite the above limitations the study objectives were achieved.

6.7 Suggestions for Future Research

The study's focus was partly to test hypotheses relating to the joint effect of strategy, structure, organizational culture and leadership on performance of SME (H3), and further to test whether the strength of the relationship between strategy and performance depends on leadership of SME (H4 a), the strength of the relationship between strategy and performance depends on organizational culture of SME (H4b), the strength of the relationship between strategy and performance depends on structure of SME (H4c), the strength of the relationship between strategy and performance depends on the joint effect of leadership, structure and organizational

culture of SME (H4c). The results obtained in this study relating to the above listed hypotheses were inconclusive. Therefore, it is recommended that future research be done to confirm these results.

6.8 Summary

This chapter presents the summary, discussion and conclusions of the study. In addition, limitation of the study and areas for future research was presented as well. A summary of tests of hypotheses was presented in Table 6.1. The findings of the study indicate significant positive relationships between strategy and performance; between structure and performance; between culture and performance; between leadership and performance. Likewise, the moderating effect of leadership on the relationship between strategy and performance of SMEs was also found to be significantly positive.

There were insignificant positive relationships relating to the following: the joint effect of institutional factors and strategy on performance of SMEs; the moderating effect of organizational culture on the relationship between strategy and performance; moderating effect of structure on the relationship between strategy and performance and the joint effect of institutional factors on the relationship between strategy and performance of SMEs.

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Appendix A: **Cronbach Alpha Reliability Coefficients**

Variable	Cronbach Alpha Coefficients
Performanc	0.87
Strategy	0.60
Organizational Culture	
Power Orientation	0.766
Role Orientation	0.798
Task Orientation	0.758
Person Orientation	0.805
Leadership Styles	
Transformational	0.959
Transactional	0.62
Structure	
Formalization	0.752
Centralization	0.627
Complexity	0.624

Appendix B: Pearson's Product Moment Correlation Matrix for interval scale

		Performance	Structure	strategy	Culture	Leadership
Performance	Pearson Correlation	1	.544(**)	.543(**)	.310(*)	.387(**)
	Sig. (2-tailed)		.000	.000	.024	.005
	N	53	53	53	53	52
Structure	Pearson Correlation	.544(**)	1	.471(**)	.545(**)	666(**)
	Sig. (2-tailed)	.000	.	.000	.000	.000
	N	53	53	53	53	52
strategy	Pearson Correlation	.543(**)	.471(**)	1	.385(**)	.400(**)
	Sig. (2-tailed)	.000	.000		.004	.003
	N	53	53	53	53	52
Culture	Pearson Correlation	.310(*)	.545(**)	.385(**)	1	.584(**)
	Sig. (2-tailed)	.024	000	.004		.000
	N	53	53	53	53	52
Leadership	Pearson Correlation	.387(**)	.666(**)	.400(**)	.584(**)	1
	Sig. (2-tailed)	.005	.000	.003	.000	
	N	52	52	52	52	52

** Correlation is significant at the 0.01 level (2-tailed).

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

Appendix C: Regression Results

H1: Results on relationship between strategy and performance of SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.543 (a)	.295	.281	.84770056	.295	21.363	1	51	.000

Model Summary

Predictors: (Constant), strategy

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.352	1	15.352	21.363	.000(a)
	Residual	36.648	51	.719		
	Total	52.000	52			

Predictors: (Constant), strategy

Dependent Variable: Performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.345	.521		4.505	.000	-3.390	1.300
	strategy	.661	.143	.543	4.622	000	.374	.948

Dependent Variable: Performance

H2a: Results on relationship between organizational culture and performance of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.310 (a)	.096	.078	.95998688	.096	5.425	1	51	.024

Predictors: (Constant), Culture

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.000	1	5.000	5.425	.024(a)
	Residual	47.000	51	.922		
	Total	52.000	52			

Predictors: (Constant), Culture

Dependent Variable Performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.000	.132		.000	1.000	-.265	.265
	Culture	.310	.133	.310	2.329	.024	.043	.577

Coefficients (a)

Dependent Variable: Performance

H2b: Results on relationship between leadership and performance of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.387 (a)	.150	.133	.94016788	.150	8.826	1	50	005

Predictors: (Constant), Leadership

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.802	1	7.802	8.826	.005(a)
	Residual	44.196	50	.884		
	Total	51.998	51			

Predictors: (Constant), Leadership

Dependent Variable: Performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.001	.130		.007	.994	-.263	.261
	Leadership	.391	.132	.387	2.971	.005	.127	.656

Dependent Variable: Performance

H2c: Results on relationship between structure and performance of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.544(a)	.296	.282	.84728945	.296	21.434	1	51	.000

Predictors: (Constant), Structure

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.387	1	15.387	21.434	.000(a)
	Residual	36.613	51	.718		
	Total	52.000	52			

Predictors: (Constant), Structure

Dependent Variable: Performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.000	.116		.000	1.000	-.234	.234
	Structural practices	.544	.117	.544	4.630	.000	.308	.780

Dependent Variable: Performance

H3: Results on a joint effect of strategy, institutional factors on performance of SMEs.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.640(a)	.409	.359	.80840145	.409	8.142	4	47	.000

Predictors: (Constant), Leadership, Strategy, Culture, Structure

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.282	4	5.321	8.142	.000(a)
	Residual	30.715	47	.654		
	Total	51.998	51			

Predictors: (Constant), Leadership, Strategy, Culture, Structure

Dependent Variable: Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
Beta		B	Std. Error				Lower Bound	Upper Bound
	(Constant)	1.627	.569		2.857	.006	-2.773	482
	Structure	.406	.163	402	2.496	.016	.079	.733
	Strategy	.462	.158	.378	2.930	.005	.145	.779
	Culture	.058	.145	.058	.402	.690	-.349	.233
	Leadership	.002	.163	.002	.013	.990	-.325	.329

Dependent Variable: Performance

H4a: Results on strength of the relationship between strategy and performance depends on leadership.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	625(a)	.391	.353	.81233500	.391	10.266	3	48	.000

Model Summary

Predictors: (Constant), Strategy x Leadership, Strategy, Leadership

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.323	3	6.774	10.266	.000(a)
	Residual	31.675	48	.660		
	Total	51.998	51			

Predictors: (Constant), Strategy x Leadership, Strategy, Leadership

Dependent Variable: Performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant)	1.860	.546		3.404	.001	-2.958	.761
	Strategy	.554	.150	454	3.691	.001	.252	.856
	Leadership	1.233	.489	1.221	2.523	.015	.250	2.215
	Strategy x Leadership	.311	.143	1.044	2.176	034	-.597	.024

Dependent Variable: Performance

H4b: Results on strength of the relationship between strategy and performance depends on organizational culture.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.559(a)	.312	.270	.85424154	.312	7.420	3	49	.000

Model Summary

Predictors: (Constant), Strategy x Culture, Strategy, Culture

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	16.243	3	5.414	7.420	.000(a)
	Residual	35.757	49	.730		
	Total	52.000	52			

Predictors: (Constant), Strategy x Culture, Strategy, Culture

Dependent Variable: Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.101	.571		3.678	.001	-3.249	.953
	Strategy	.601	.156	.494	3.843	.000	.287	.915
	Culture	.415	.506	.415	.821	.416	-.601	1.431
	Strategy x Culture	.096	.158	.304	.606	.547	-.415	.222

Dependent Variable: Performance

H4c: Results on strength of the relationship between strategy and performance depends on structure.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig F Change
1	.657(a)	.432	.397	.77652666	.432	12.412	3	49	.000

Predictors: (Constant), Strategy x Structure. Strategy, Structure

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.453	3	7.484	12.412	.000(a)
	Residual	29.547	49	.603		
	Total	52.000	52			

Predictors: (Constant), Strategy x Structure. Strategy, Structure

Dependent Variable: Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.505	.540		2.785	.008	-2.591	.419
	Strategy	.446	.149	.367	3.003	.004	.148	.745
	Structure	1.018	.421	1.018	2.418	.019	.172	1.864
	Strategy x Structure	.204	.127	-.670	1.608	.114	-.458	.051

Coefficients(a)

Dependent Variable: Performance

H5: Results on strength of the relationship between strategy and performance depends on institutional factors.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.720(a)	.518	.441	.75474282	.518	6.755	7	44	.000

Model Summary

Predictors: (Constant), Strategy x Culture, Strategy, Strategy x Structure, Strategy x Leadership, Structure, Leadership, Culture

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.934	7	3.848	6.755	000(a)
	Residual	25.064	44	.570		
	Total	51.998	51			

Predictors: (Constant), Strategy x Culture, Strategy, Strategy x Structure, Strategy x Leadership, Structure practices, Leadership, Culture

Dependent Variable: Performance

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.634	.533		3.066	.004	-2.708	.560
	Strategy	.485	.147	.397	3.290	.002	.188	.782
	Structure	1.597	.739	1.582	2.161	.036	.108	3.086
	Culture	1.949	.766	1.949	2.543	.015	-3.493	.405
	Leadership	1.249	.758	1.237	1.649	.106	-.277	2.776
	Strategy x Leadership	.372	.214	1.251	1.736	.089	- 804	.060
	Strategy x Structure	.336	.204	1.092	1.646	.107	-.747	.075
	Strategy x Culture	.547	.226	1.729	2.420	.020	091	1.003

Dependent Variable: Performance

Appendix D: Factor Analysis

Factor analysis on leadership styles

Communalities

	Initial	Extraction
critical assumptions	1.000	.266
solving problems.	1.000	.334
problems_diff angles	1.000	.511
looking_job diff	1.000	.523
bright future	1.000	.657
Talks enthusiastically	1.000	.605
Vision	1.000	.563
Confidence	1.000	.711
Instills pride	1.000	.426
self-interest	1.000	.637
Respect	1.000	.735
power_confidence	1.000	.737
teaching_coaching	1.000	.518
individual_member	1.000	.346
Treats_differently	1.000	.633
devel_strengths	1.000	.581
values_beliefs	1.000	.456
strong sense_purpose	1.000	.785
moral_ethical decis	1.000	.488
Mission	1.000	.708
Performance	1.000	.489
satisfaction_job	1.000	.626
mistakes_standards	1.000	.001
put out fires	1.000	.022
track_mistakes	1.000	.107
failure_standards	1.000	.018
wrong_action	1.000	.137
fix_broken	1.000	.256

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.873	45.976	45.976	12.873	45.976	45.976
2	3.106	11.092	57.069			
3	1.570	5.606	62.675			
4	1.387	4.953	67.628			
5	1.298	4.636	72.264			
6	1.148	4.100	76.364			
7	.919	3.284	79.647			
8	.816	2.915	82.563			
9	.623	2.224	84.786			
10	.584	2.085	86.871			
11	.514	1.835	88.706			
12	.420	1.501	90.207			
13	.407	1.455	91.661			
14	.375	1.341	93.002			
15	.271	.967	93.970			
16	.269	.962	94.932			
17	.246	.879	95.811			
18	.232	.829	96.640			
19	.192	.686	97.326			
20	.166	.592	97.918			
21	.146	.520	98.438			
22	.122	.437	98.875			
23	.090	.322	99.197			
24	.074	.266	99.463			
25	.051	.183	99.646			
26	.042	.151	99.797			
27	.035	.126	99.923			
28	.021	.077	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix(a)

	Component
	1
critical assumptions	.516
solving problems	.578
problems_diff angles	.715
looking_job diff	.723
bright future	.811
Talks enthusiastically	.778
Vision	.751
Confidence	.843
Instills pride	.653
self-interest	.798
Respect	.857
power_confidence	.859
teaching_coaching	.720
individual_member	.588
Treats_differently	.795
devel_strengths	.762
values_beliefs	.675
strong sense_purpose	.886
moral_ethical decis	.699
Mission	.842
Performance	.699
satisfaction_job	.791
mistakes_standards	.036
put out fires	-.147
track_mistakes	-.327
failure_standards	-.133
wrong_action	-.370
fix_broken	-.506

Extraction Method: Principal Component Analysis.

a 1 components extracted.

Rotated Component Matrix(a)

a Only one component was extracted. The solution cannot be rotated.

Factor Analysis on firm performance

Communalities

	Initial	Extraction
profit	1.000	.085
mkt share	1.000	.231
sales growth	1.000	.340
diversified prod	1.000	.454
empl_mgmt relat	1.000	.508
empl ret_long	1.000	.285
products_superior	1.000	.544
decision_fast	1.000	.465
social resp	1.000	.280
good image	1.000	.668
care_customers	1.000	.528
customers satisfied	1.000	.471
overall performance	1.000	.466

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.323	40.947	40.947	5.323	40.947	40.947
2	1.716	13.201	54.148			
3	1.271	9.780	63.928			
4	.918	7.065	70.993			
5	.802	6.168	77.161			
6	.716	5.505	82.665			
7	.528	4.063	86.728			
8	.484	3.723	90.451			
9	.377	2.899	93.350			
10	.336	2.587	95.937			
11	.257	1.976	97.913			
12	.191	1.469	99.382			
13	.080	.618	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix(a)

	Component
	1
profit	.291
mkt share	.480
sales growth	.583
diversified prod	.674
empl_mgnt relat	.713
empl ret_long	.533
products_superior	.738
decision_fast	682
social resp	.529
good image	.817
care_customers	.726
customers satisfied	.686
overall performance	.683

Extraction Method: Principal Component Analysis.

a 1 components extracted.

Rotated Component Matrix(a)

a. Only one component was extracted. The solution cannot be rotated

Factor Analysis on organizational structure

Communalities

	Initial	Extraction
job description	1.000	.551
proc_govern dec	1.000	.730
variation_jobs	1.000	.323
specialists	1.000	.467
training	1.000	.457
lines_comm	1.000	.562
dec_top mgnt	1.000	.240

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.330	47.570	47.570	3.330	47.570	47.570
2	1.010	14.432	62.002			
3	.856	12.232	74.234			
4	.566	8.092	82.326			
5	.523	7.469	89.795			
6	.445	6.355	96.150			
7	.270	3.850	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix(a)

	Component
	1
job description	.743
proc_govern dec	.854
variation_jobs	.568
specialists	.683
training	.676
lines_comm	.750
deci_top mgnt	490

Extraction Method: Principal Component Analysis.

a 1 components extracted.

Rotated Component Matrix(a)

a Only one component was extracted. The solution cannot be rotated.

Factor Analysis on organizational culture

Communalities

	Initial	Extraction
trust	1.000	.239
salutation	1.000	.006
criticism_policies	1.000	.444
manipulate_self	1.000	.722
cliques_themselves	1.000	.747
politics	1.000	.321
advancement	1.000	.495
report violations	1.000	.357
Work organized	1.000	.542
obey rules	1.000	.391
interpretation_rules	1.000	.306
Systems control	1.000	425
express personalities	1.000	408
different opinions	1.000	.089
own individuality	1.000	.089
develop_mature	1.000	.628
personal style_crit	1.000	.025
People helpful	1.000	.709
Formal rules	1.000	.815
team players	1.000	.768
Loners_promoted	1.000	.108
reward	1 000	471
Lend help	1.000	.463
strong team	1.000	.686

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.254	42.724	42.724	10.254	42.724	42.724
2	2.441	10.170	52.894			
3	1.575	6.564	59.458			
4	1.422	5.927	65.385			
5	1.103	4.598	69.982			
6	1.001	4.171	74.153			
7	.927	3.861	78.014			
8	.854	3.559	81.573			
9	.771	3.214	84.788			
10	.646	2.690	87.477			
11	.492	2.049	89.526			
12	.434	1.810	91.337			
13	.384	1.601	92.938			
14	.321	1.337	94.274			
15	.258	1.077	95.351			
16	.245	1.020	96.372			
17	.189	.788	97.160			
18	.169	.705	97.865			
19	.129	.537	98.403			
20	.126	.524	98.927			
21	.107	.445	99.372			
22	.070	.290	99.662			
23	.050	.207	99.869			
24	.031	.131	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix(a)

	Component
	1
trust	-.489
salutation	.080
criticism_policies	-.666
manipulate_self	-.850
cliques_themselves	-.864
politics	-.567
advancement	-.703
report violations	.598
Work organized	.736
obey rules	.626
interpretation_rules	-.553
Systems control	.652
express personalities	.638
different opinions	.298
own individuality	.298
develop_mature	.793
personal style_crit	.158
People helpful	.842
Formal rules	.903
team players	.876
Loners_promoted	-.329
reward	.686
Lend_help	.680
strong team	.828

Extraction Method: Principal Component Analysis

a. 1 components extracted.

Appendix E: Sample Size for Given Population Size

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: Sekaran (2006). Research methods for Business. A Skill Building Approach.

Appendix F: Operational Definition of the Variables

VARIABLES	MEASURES/INDICATORS	MEASURES/INDICATORS
Financial Performance	Subjective Indicators	Objective Indicators
Return on assets (ROA)		Net income total assets sales turnover for the last three years operating expenses for the last three years
Return on sales (ROS)		Net income (before interest – tax) sales corporate tax payments for the last three years interests paid for the last three years total sales for the last three years
Profit		Sales turnover-expenditure

Business Performance	Subjective Indicators	Objective Indicators
Market share		size market share for the last three years in percentage
Sales growth		sales growth for the last three years in percentage
New product development	- perception of management support from R&D	- number of products developed in the last three years - percentage of budget allocated to R&D
Diversification		- introduction of new products for the last three years which are not related to the current products
ORGANIZATIONAL EFFECTIVENESS		
Employee satisfaction	- job satisfaction - relation between employees and management	- number of staff turnover in the last three years

Product Service quality	- poor / good quality - many of the products are defective - speed of decision making - products/service perceived to be superior compared with those of competitors	
Social responsibility	- presence of social responsibility policy	- percentage of budget allocated to social responsibility
Image	perception of organizational image compared to competitors	
Customer care	extend to which firms cares for its customers	
ORGANIZATIONAL ATTRIBUTES		
Size		Number of employees
Age		Number of years the firm has been operational
Ownership		foreign, local, joint

STRATEGY	MEASUREMENT INDICATORS
Defender	focus on efficiency focus on narrow market domains emphasis on market protection emphasis on low prices do not search outside their

	domains for new opportunities
Prospector	focus on broad market continually search for market opportunities less concern with current products/services and markets strong concern for product/service and market innovation usually are not efficient
Analyser	maintains limited line of products/services focuses on efficiency and productivity when market is stable watch their competitors for new ideas and adopt when market is unstable
Reactor	lack of consistent product/service market orientation lack of pro-activeness in terms of product/service and market development risk averse, forced by environmental pressures to make adjustments
STRUCTURE	MEASUREMENT INDICATORS
Formalization	- codified job description - rules and procedures govern decisions and working relationships - tasks are comparatively simple and repetitive - ranges of variation within jobs
Complexity	job specialization training varies according to grade degree of differentiation
Centralization	lines of communication and responsibilities are clear

	decision is made by top managers or delegated to middle and low level managers fewer innovative ideas effective in stable, noncomplex environments
Organizational Culture	Measurement Indicators
Power orientation	there is trust in the organization senior officers addressed as sir or madam staff are free to criticize policies and procedures people tend to manipulate situations for their own cliques look after themselves politics is a way of life - you must know somebody for Promotion
Role orientation	violation of rules to be reported work is organized well Rules are obeyed Flexible organization Argument regarding the Interpretation of rules systems of control are effective
Task (Individuality) orientation	individuals are encouraged to express their own personalities people with different opinions (mavericks) are tolerated sense of individuality few stereotypical men and women people are developed to maturity no criticism for personal style personal image is less important
Person (Cooperation)	people are helpful

Orientation	and considerate formal rules encourage team work good team players good workers in teams are rewarded strong sense of being in a team
Leadership style	Measurement Indicators
Transformational leadership	
Intellectual stimulation	reexamine critical assumptions to ensure appropriate question seeks differing perspectives when solving problems problems are looked at from different angles suggests new ways of doing job
Inspirational motivation	talks optimistically about the future talks enthusiastically about what should be accomplished articulates the- future vision has confidence in achieving goals
Idealized Influence (Attributed)	instills pride in being associated with him or her goes beyond own self-interest for the good of the group his/her actions build my respect for him/her displays a sense of power and confidence
Individualized consideration	spends time teaching and coaching staff treats staff as an individual rather than just a member of the group focuses on developing staff strengths
Idealized influence (Behavioral)	talks to staff about his/her values and beliefs - specifies the importance of having a strong sense of purpose - considers the moral and ethical consequences of his/her decisions

	- emphasizes the importance of having a collective sense of Mission
Transactional leadership	
Contingent Reward	makes clear what staff can expect to receive, if staff performance meet required standards expresses his/her satisfaction when staff do a good job
Management-by-Exception (Active)	focuses attention on irregularities, mistakes, exception, and deviations from standards spends his/her time looking to "put out fires" keeps track of staff mistakes directs his/her attention towards failure to meet standards
Management-by-Exception (Passive)	things have to go wrong for him/her to take actions shows he/she is a firm believer in "if it isn't broke, don't fix it".

Appendix G: Sampling frame for SMEs in Kenya

Agro – based firms

1. BAT Kenya Development Ltd
2. Glacier Products Ltd
3. Afya Enterprises Ltd
4. Pelbumbs
5. Gold star
6. Golden Grains Ltd.
7. Kenwheat Industries Ltd
8. Kenya Flour Millers Ltd
9. National Unga Industries
10. Nice Maize Millers
11. Subaru Kenya Ltd
12. Ideal Manufacturing Company
13. Kirloskar
84. Shah Food Grinding Mill
85. Swastic Food Products
86. Aurora Baking Co.Ltd
87. Californian Cookies
88. Kenya Sweets Ltd
89. Patco Industries Ltd.
90. Wrigley Co.(E.A) Ltd.
91. Ambica Food Ltd.
92. Aromatic Foods Ltd.
93. Dorman & Co.Ltd.
94. Mitchel Cotts
95. Belfast Millers Ltd.
96. Joaliz Mills

Sigma Feeds Ltd

Gilbeys (E.A.) Ltd

Kenya Wine Agencies Ltd.

Weetabix – Hom (Weetabix) Ltd.

Premier Oil Mills Ltd

Primer Cookies Ltd

Premier Food Industries

Proctor & Allan (E.A.) Ltd.

All Africa Timber Industries

Antique Restorations& Reprc

Dodhia Packaging Ltd

Galaxy Food Industry

Golden Biscuits Ltd

Kenya Spicers&Packers Ltd

97. Westlands Printers Ltd

98. Kenya Distillers Ltd.

99. Kenya Industrial Plastick

100. Meat Processors Ltd

101. Alpha Fine Foods Ltd.

102. Kenya Orchards Ltd

103. Muarate Food Ltd.

104. Delamere Estates Ltd

105. Belfast Millers Ltd

106. Distinct Garment Factory

107. East African Seed Co Ltd

108. Home Millers

109. Nairobi Flour Mills Ltd

110. Pembe Flour Mills Ltd

Chemical Firms

28. Smart Paints

29. Plastic & Rubber Ltd

30. Japan Business Machine

31. Impala Glass Industries

32. Dera Chemical

33. Lenses & Frames Ltd

34. Alpha Medical Manufacturers

35. Bobmil Industries Ltd

36. Elephant Soap Industries Ltd

111. Plastic Products (K) Ltd

112. Emco Glassworks Ltd

113. Ellams Products

114. Mareba Enterprises Ltd

115. East Africa Optical Co.Ltd

116. Alankar Industries Ltd

117. Bloplast Ltd

118. Brake Fluids Ltd

119. Elys Chemical Industries Ltd

Engineering Firms

38. Keutaz Industries Ltd.

39. Fine Knit (K) Ltd

40. Bids Socks Lt

121. Summit Textiles Ltd.

122. Ahmed Brothers Ltd

123. Metal Grown Ltd

41. Amalgamated Alloys Ltd
42. Specialized Towel Manufacturers Ltd
43. Brother Shirts Factory
44. Jomo Kenyatta Foundation
45. Kenya Literature Bureau
46. Oxford University Press
47. Regal Press (K) Ltd
48. Twiga Stationery & Printers Ltd
49. Agro Manufacturing Co Ltd
50. Sound Communication System Ltd
51. Hydraulic Meters & Equipment Ltd
52. Ashut Engineers Ltd
53. Kenafric Diaries Manufactories Ltd
54. Bhachu Idustries Ltd
55. Bi-am Steel Products Ltd

124. Modern Kniting Mills Ltd.
125. Kenya Eng. Industries Ltd
126. Printwell Industries
127. E.A. Metal Work
128. Sigma Engineering Co.Ltd
129. Pajero Company
130. Kenya Lighting Industries
131. Nairobi Power Engineers Ltd
132. Brother Knitwear Factory Ltd
133. United Bible Society (Africa) Regional Centre
134. Thika Cloth Mills Ltd.
135. Associated Gasket MFG Ltd
136. Bhachu Engineering Works Ltd
137. Bhogal Const Ltd
138. Brush Manufacturing Ltd

56. Choda Fabricators Ltd
57. City Radiators Ltd
58. Elite Tools Ltd
59. Fine Printers Ltd
60. Gurdev Eng&Construction
61. Insteel Ltd
62. J.F.Mccloy Ltd
63. Jaimen Mechanical Works
64. Mechanical Engineering Work
65. Mann MFG Co Ltd
66. Nehar Singh&Co Ltd
67. Napro Industries Ltd
68. New World Industries Ltd
69. Oriental Construction Co Ltd
139. City Engineers Works Ltd
140. Wanainchi Clothing Ltd
141. Express Moparts Ind Ltd
142. Hari Singh &Company
143. Highland Industrial Garage Ltd
144. Jagat Singh&Co Ltd
145. Jagjiwan Hirji&Bros
146. Metco Ltd
147. Master Platters Ltd
148. Midco Textiles (EA) Ltd
149. Nasa Products Ltd
150. N.K.Brothers Ltd
151. Onkar Engineering Works Ltd
152. Pantech Kenya Ltd

Service Firms

70. Roy Parcel
71. Karen Blixen Coffee Garden Restaurant & Cottage
72. Kwality Hotel
73. Sunlink MFI
74. OIKO Credit MF
75. Micro Africa Ltd
76. Holiday Inn
77. Savanah Coffe Lounge
78. Karibu Hotel
79. Cedars Restorant
80. Royal Club
81. SMEP
82. Sunlink
83. Elite Microfinance
153. Impala Hotel
154. Kivi Milimani Hotel
155. Skynet Worlwide express ltd
156. Jitegemea Trust
157. Micro Kenya Ltd MFI
158. Kenya Gatsby Trust
159. Lenana Mount Hotel
160. Seasons Restorant
161. Sagrets Hotel
162. Public Service Club
163. Kenyan Women Trust
164. ECLOF
165. Jamii Bora
166. Pride ltd

Source: List of registered firms by ministry of trade, Kenya Hotel and Restaurant Guide (2007) and directory of Kenya Industrial Development Research Institute (KIRDI, 1997).

Appendix H: Letter of introduction to firms

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

DOCTORAL STUDIES PROGRAMME

Dear Sir/Madam,

Request for Data

I would be grateful if you would complete the attached questionnaire for me. I am a doctoral student at the University of Nairobi doing a research on Organizational strategy, structure, culture, leadership and performance in Small and Medium Enterprise (SMEs) in Kenya. Currently, there has been very little research undertaken in the field of Strategic Management in the areas of strategy, structure, organizational culture, leadership and performance in Small and Medium Enterprise (SMEs) in Kenya.

Therefore, your participation by way of answering the questionnaire is extremely important as the findings of this study will enhance our knowledge in improving the performance of firms in Kenya. Your organization has been selected to participate in this study through a random sample of firms in the manufacturing and service industry in Kenya. I request you to respond to the questions frankly and honestly. The information given to me about your organization will be treated confidentially and will be strictly used for academic purposes only. The findings of my study can be sent to you upon your request.

Once again, I would be grateful if you could complete the questionnaire. I shall appreciate your assistance in carrying out this study.

Yours sincerely,

Paul Y. Kandie (Mr.)

Tel: 0722 728082; 020 2010056

Appendix I: Survey Questionnaire

This questionnaire has 6 sections as follows: Section 1, Section 2, Section 3, Section 4, section 5 and Section 6. The filling of the questionnaire is expected to take you a few minutes to complete.

SECTION A:

About Yourself

Please circle the most appropriate information about yourself

1 Job status: Top management [ ]
Senior Manager [ ]

2. Your highest level of education

Diploma	[ ]
College degree	[ ]
Masters degree	[ ]
PHD degree	[ ]

Others (specify) _____

3. Number of years worked in the organization

1 – 3	[ ]
4 – 6	[ ]
7 – 9	[ ]
10 and above	[ ]

4. Your gender: male [ ] female [ ]

5. Your age (years)

Less than 30	[ ]

31 – 40 [ ]

41 – 50 [ ]

More than 50 [ ]

About Your Organization

6. Name of the organization _____

7. The organization has been operational for how many years in Kenya.

Less than 4 years [ ]

5 - 10years [ ]

11 - 20 years [ ]

More than 21 years [ ]

8. Your organization is a manufacturing sub-sectors or service sector

Agro-based [ ]

Engineering [ ]

Chemical [ ]

Hotel [ ]

Other (specify) _____

9. Number of employees

10 – 49 [ ]

50 – 100 [ ]

10. Ownership of organization

Locally owned [ ]

Foreign owned [ ]

Other (specify) _____

11. Target market

Export	[ ]
Local	[ ]
Both	[ ]

12. Annual sales turnover for the last three years

2004	_____
2005	_____
2006	_____
2007	_____

13. Annual net profits for the last three years

2004	_____
2005	_____
2006	_____
2007	_____

14. Annual expenditure for the last three years

2004	_____
2005	_____
2006	_____
2007	_____

15. Estimate your market share.

Less than 20%	[ ]
21%-50%	[ ]
51%-70%	[ ]
More than 70%	[ ]

16. What is the Percentage of budget allocated to research and development

_____

17. Is there any diversification of production and services introduced in the market for the last three years?

Yes [ ]

No [ ]

18. What is the rate of staff turnover in percentage in your company _____

19. Does your company have a corporate social responsibility policy?

Yes [ ]

No [ ]

SECTION B: About Performance

The questionnaire is rated on a five point likert scale ranging from not at all. to a great extent. Please tick the response that is most appropriate to your organization.

No.	Statements	Not at all	To a small extent	To a Moderate extend	To great extent	To a very great extent
20	Our organization has been making profit					
21	Our organization has a substantial market share in the industry					
22	Our sales growth in our organization has been substantial					
23	Our organization has diversified and come up with new products					

24	Relations between employees and management in our organization is good					
25	Our organization retains good employees over a long period					
26	Our organization products are superior in quality compared with those of competitors					
27	The speed of making decisions in our organization is fast					
28	Our organization contributes towards social responsibility					
29	Our organization has a good image in the industry					
30	Our organization takes care of its customers					
31	Our customers are satisfied with our products/services					
32	The overall performance of our organization over the past three years compared to our competitors has been very good					

SECTION C: Strategy

Please tick the one applicable to your Organization.

33 How fast does your organization react to the changes in the business environment.

Not at all	( )
To a small extent	( )
To a moderate extend	( )
To great extent	( )
To a very great extent	( )

34. Do you have Strategic Plans?

Yes	( )
No	( )

35. Listed below are definitions of few primary strategies (Defender, Prospector. Analyzer and Reactor) utilized by organizations. Please tick the one that best describes your organization's strategy.

(i). This type of organization stresses on efficiency and focuses on a narrow market niche. They emphasize protection of their market domains with higher facility products, superior service or lower prices. Often. this type of organization is not at the forefront of developments in the industry. [ ]

(ii). This type of organization typically operates within a broad product market domain that undergoes periodic redefinition. The association values being 'first in' in new product and market areas even if not all of these efforts prove to be highly profitable. The organization responds rapidly to early signals concerning areas of opportunity and these responses often lead to a new round of competitive actions. However. this type of organization may not maintain market strength in all of the areas it enters, usually are not efficient. [ ]

(iii) This type of organization attempts to maintain a stable, limited line of products or services, while at the same time moving out quickly to follow a carefully selected set of the more promising new developments in the industry. They are able to focus on efficiency and productivity when the market is stable and in turbulent environment they usually watch their competitors for new ideas and then rapidly adopt them. [ ]

(iv) This type of organization does not appear to have a consistent product-market orientation. The organization is usually not as aggressive in maintaining established products, services and markets as some of its competitors, nor is it willing to take risks as some of its competitors. Rather, the organization responds in those areas where it is forced to by environmental pressures. [ ]

SECTION D: Organizational Structure

The questions below provide various indicators of structure in the organization. Please tick the most appropriate response to your organization. The response ranges as follows:
Never, Rarely, Occasionally, Frequently and Always.

No.	Statements	Never	Rarely	Occasionally	Frequently	Always
	a) Formalization					
36	Codified job descriptions are used by our organization.					
37	Rules and procedures govern decisions and working relationships.					
38	Ranges of variation are allowed within jobs in our organization.					
	b) Complexity					
39	Specialists (lawyers, engineers, economists, information systems experts, etc) are employed by our organization to either make or assist in making decisions.					
40	The level of training required for our lowest level managers and each succeeding level varies considerably					
	c) Centralization					
41	Lines of communication and responsibilities are clear.					
42	Decisions are made by top managers and delegated to middle and low level managers.					

SECTION E: Organizational Culture

The questionnaire is rated on a four point likert scale ranging from definitely true, mostly true, mostly false and definitely false.

Please tick the most appropriate response to your organization.

No.	Orientation and Statements	Definitely True	Mostly True	Don't know	Mostly False	Definitely False
	a) Power orientation.					
43.	There is an atmosphere of trust in this organization.					
44.	Important people here are always addressed as sir or madam.					
45.	There is much criticism of policies and practices					
46.	People here tend to manipulate situations for their own personal advantage.					
47.	There are cliques here which look after themselves.					
48.	Politics is a way of life for many people in this organization.					
49.	Advancement is more a matter of who you know than what you know.					
	b) Role orientation					
50.	People are expected to report violations of the rules.					
51.	Work is well organized and progresses systematically					

	over time.					
52.	Most people understand and obey rules here.					
53.	There is a lot of argument regarding the interpretation of rules in this organization.					
54.	Systems of control over people's work are generally effective.					
	c) Task (Individuality) Orientation					
55.	People here are encouraged to express their own personalities in their work.					
56.	People with different opinions (Mavericks) are tolerated here.					
57.	People here are able to retain a sense of their own individuality.					
58.	The organization encourages people to develop and mature.					
59.	People here are not criticized for their personal style.					
	d) Person (Cooperation) orientation					
60.	People here are generally					

	helpful and considerate of others.					
61.	Formal rules and procedures encourage team work.					
62.	Most people here are good team players.					
63.	'Loners' do not tend to be promoted in the organization.					
64.	People who work well in teams are usually rewarded.					
65.	'Lend a helping hand' is a good description of how this organization works.					
66.	Everyone here has a strong sense of being in a team.					

SECTION F: Leadership Styles

The Questions below refer to the leadership style of your immediate manager/supervisor. Rate him or her according to how they behave towards you or others or in a given situation. The questionnaire is rated on a five point likert scale ranging from not at all. rarely. occasionally, frequently and always.

Please tick the most appropriate response to your manager's leadership style.

Transformation Leadership Style		Not at all	Rarely	Occasionally	Frequently	Always
a)	**Intellectual Stimulation**					
67.	Reexamines critical assumptions to ensure appropriate question.					
68.	Seeks differing perspectives					

	when solving problems.					
69.	Gets me to look at problems from many different angles.					
70.	Suggests new ways of looking at how we do our jobs.					
b) Inspirational Motivation						
71.	Talks optimistically about the future.					
72.	Talks enthusiastically about what needs to be accomplished.					
73.	Articulates a compelling vision of the future.					
74.	Expresses his/her confidence that we will achieve our goals.					
c) Idealized Influence (Attributed)						
75.	Instills pride in being associated with him/her.					
76.	Goes beyond own self-interest for the good of the group.					
77.	His/her actions build my respect for him/her.					
78.	Displays a sense of power and confidence.					
d) Individualized Consideration						
79.	Spends time teaching and coaching.					
80.	Treats me as an individual rather than just a member of a group.					
81.	Treat each of us as individuals with different needs, abilities,					

	and aspirations.					
82.	Focuses on me for developing my strengths.					
e)	**Idealized Influence (Behavioral)**					
83.	Talks to us about his/her most important values and beliefs.					
84.	Specifics the importance of having a strong sense of purpose.					
85.	Considers the moral and ethical consequences of his/her decisions.					
86.	Emphasizes the importance of having a collective sense of mission.					
	Transactional Leadership Style	**Not at all**	**Rarely**	**Occasionally**	**Frequent**	**Always**
a)	**Contigent Reward**					
87.	Makes clear what I can expect to receive, if any performance meets designated standards					
88.	Expresses his/her satisfaction when I do a good job					
b)	**Management – by Exception (Active)**					
89.	Focuses attention on irregularities, mistakes, exception and deviations from standards					
90.	Spends his/her time looking to "put out fires"					
91.	Keeps track of my mistakes					
92.	Directs his/her attention toward failure to meet standards					

c)	**Management – by Exception (Passive)**					
93.	Things have to go wrong for him/her to take action					
94.	Shows he/she is a firm believer in "if it isn't broke, don't fix it"					

I kindly appreciate your time and cooperation in completing this questionnaire.

Please if you are interested to receive a summary of the research findings you can indicate your email and postal address below.

Thank you very much