

**STRATEGIC PLANNING AMONG SERVICE
SECTOR BASED SMALL AND MICRO
ENTERPRISES IN NAIROBI**

By:

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DECLARATION

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

Signed:  Date: 18/11/2008

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

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I cannot overemphasize the contribution of my immediate family members, particularly Dad, Mum, Mum Siaga, Mugambi, Nkatha and Makena for their moral, material and financial support, which was always there when I needed it. Thanks guys!

Thanks go to the individuals who contributed in kind by supporting my data collection, analysis and reporting efforts. Alloys, Charlie and Alex, thank you for your support.

DEDICATION

I dedicate this project to my wife Danika and our daughter Gabriella

This one is for you guys

EXECUTIVE SUMMARY

Strategic Planning is an integral part of the existence of any organization. According to Johnson and Scholes (2002), the process of developing strategy is one that all organizations go through. Strategic Planning as a subject matter has been increasingly adopted by organizations in Kenya. The bulk of this effort has been concentrated within large scale organizations and NGO's (Okanda 2004). The SME sector is very dynamic, with several thousand being set up in Kenya every year offering a wide variety of services and products. Equally, a large number of these SMEs collapse within 12 months of their establishment (Fielden et al 2000). This is indicative of the extremely dynamic and volatile environment that SMEs operate in.

Very little research has been done regarding strategic planning in Small and Micro Enterprises (Okanda 2004). This study therefore was done to bridge that gap by investigating the strategic planning practices of small and micro enterprises in Kenya. The research sought to answer the following questions; to what extent do SMEs undertake strategic planning and what are the challenges they face in developing and implementing their plans? Specifically, the objectives of the study were to establish the strategic planning processes undertaken by small and micro enterprises in the Service sector in Nairobi, Kenya, and to identify the challenges faced by small and micro enterprises in developing and implementing these plans.

The research was exploratory in nature, and used the IFC definition of an SME to determine what companies shall constitute the study population. The population of the study was 2,400 service center based SMEs operating in Nairobi and a sample of 10% was selected using a proportionate, stratified sampling procedure, amounting to 240 companies. Data collection was through the use of structured questionnaires and a drop and pick later method.

The research found out that SMEs in Nairobi do carry out strategic planning. The research also shows that SMEs conduct environmental analysis, but it is mostly internal.

as opposed to external analysis. The study was successful in highlighting the problems faced by SMEs in the implementation of their plans, these problems stemming mainly from internal and external environmental factors, including competitive forces, customers, industry dynamics, as well as internal resources and planning dynamics

Though very insightful, this research has only shed a little light on what is a fairly complex issue. Further research needs to be done to properly lay out the thinking and planning processes that go into setting up small businesses. Future research could also look in greater detail at the issue of the implementation of plans in small businesses.

The report is organized into 5 chapters. Chapter 1 is the introduction that highlights the key concepts in the study, providing a background on SMEs in Kenya and the prevailing situation with regard to their planning processes. The exact nature and extent of the problem under investigation in this study is also outlined, as are the objectives of the research. This chapter closes with an assessment of the significance of the study to various interest groups.

Chapter 2 is the literature review, which covers the history of strategic planning, the nature of strategic planning and strategic decisions, the process of strategic planning and development, the value of strategic planning and deeper insights into the SME sector in Kenya. Chapter 3 covers the methodology of the research, covering the research design, population and sample selection, data collection and data analysis. Chapter 4 covers the findings of the research, with chapter 5 providing the summary, conclusion and areas of future research proposed by this research. The document has a copy of the data collection instrument used in the research, as well as a detailed list of the references used to compile the literature and other sections of the research.

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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 The Concept of Strategic Planning

Strategic Planning is an integral part of the existence of any organization. According to Johnson and Scholes (2002), the process of developing strategy is one that all organizations go through, particularly in an effort to overcome significant problems, or a desire to grasp new opportunities. According to Newman et al (1989), the role of strategic planning is to set forth the mission of the company. It reflects the choice of key services the organization will perform, and the primary basis for distinctiveness in creating and delivering such services. They contend that strategy guides managers on what to do and what not to do, and serves as the rallying theme for coordinating the firm's diverse activities.

1.1.2 Strategic Planning in Small and Micro Enterprises (SMEs)

Strategic Planning as a subject matter has been increasingly adopted by organizations in Kenya. The bulk of this effort has been concentrated within large scale organizations and NGO's (Okanda 2004). The increasing turbulence of the working environment in the country coupled with the fiercely competitive nature of business locally among other factors have conspired to ensure that, especially large, businesses are constantly planning for future survival. Research shows that SMEs have similar inclinations, especially in adopting formality in terms of strategic management and operations (Okanda 2004). However, little evidence exists as to whether similar efforts are applied in the planning process for SMEs. A major gap in the literature currently available exists with regard to this subject matter.

Studies have suggested that there is a strong link between business planning and small business success (Schwenk and Sharder 1993). This planning process is all the more important since research has shown that a majority of owners of small businesses often have only a vague idea of how they will organize and manage the business (Greve 1995).

Research by Bevan et al in 1997 showed that the process of new business development is influenced by the advice sought by potential owners, and whereas the majority intend to seek advice on planning, very few appear to actually go ahead and do so

The SME sector is very dynamic, with thousands being set up in Kenya every year offering a wide variety of services and products. Equally, a large number of these SMEs collapse within 12 months of their establishment (Fielden et al 2000). This is indicative of the extremely dynamic and volatile environment that SMEs operate in

The importance of planning for small business is evidently crucial to the eventual success of the venture. Many SMEs have paid the price for not planning by, at worst, their eventual collapse, or at best limping along barely surviving for longer than necessary. As Alan Lakein, a famous motivational speaker once said, failing to plan is planning to fail. As such, the findings show that planning is central to the successful operations of any business, particularly SMEs operating in a dynamic, turbulent environment

Most of the literature around the role of strategic planning among enterprise has been limited to large organizations. Little research has been done with regard to the place and process of strategic planning among SMEs. Research by Okanda 2004 showed that SMEs employ strategic thinking in their day to day operations. Further, due to the fact that SMEs operate in a very challenging environment, they need strategic planning in order to survive. These strategic plans may not be as elaborate as those of larger firms, but there is need for an action plan to deal with environmental challenges. The extent to which this is the case among SMEs is not clear, and has not been documented

1.1.3 The SME Sector in Kenya

The importance of the Small and Micro Enterprise (SME) sector to the Kenyan economy cannot be overemphasized. The bulk of employment in Kenya is provided by the SME sector of the economy. In 1999, Kenyan SMEs employed 2.4 million people, creating 75% of all new jobs (GoK 1999). In addition, it is estimated that SMEs contribute 18% to Kenya's GDP. This is more than double that of the medium to large manufacturing sector, which stands at 7% of GDP. SMEs provide the needed goods and services, competition and innovation as well as develop skill and promote an enterprise culture necessary for private sector development (GoK 2003).

SMEs are defined in various ways, but the common definitions revolve around 2 key factors: the number of people directly employed by the organization, and the annual turnover of the organization. Various institutions in Kenya have conducted studies to determine how many such organizations exist in Kenya. Among these are the Kenya National Bureau of Statistics, The Ministry of Planning and National Development as well as the International Finance Corporation (IFC), part of the World Bank Group.

Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali development in Kenya places a strong emphasis on the role of small enterprises as a primary means of strengthening Kenya's economy. The benefits of SMEs according to the Paper include output of goods and services, creation of jobs, development of skilled and semi skilled labor, strengthening of linkages among sectors of the economy, and creation of supply and demand in the economy. Other benefits include improving participation of indigenous Kenyans in economic activity, creation of opportunities for maturity of managerial talent, support of industrialization, encouraging use of local resources and fostering quick adaptation to market forces and changes.

Kenyan SMEs contribute significantly to manufacturing, with SMEs engaged in small scale manufacturing employing more people, 307,000 in 1999, than larger manufacturing enterprises, 184,000 in 1999 (GoK 2003b). SMEs are the main suppliers of low cost products and services in the domestic economy. Also, in terms of earnings, entrepreneurs

and owners of SMEs compare favorably with employees in formal establishments across all industry categories (GoK 2003b). Xaba et al (2002) further indicates that the informal sector in Kenya grew by 16% in 2000, compared to the formal sector, which grew by 1.6% over the same period.

SMEs in Kenya are an important part of the local economy contributing significantly to wealth creation. However, the vast majority of these enterprises are in the informal sector. Many enterprises choose to stay informal in order to avoid the higher taxes and regulatory burdens that are associated with formalization (GoK 2003). Consequently, many SMEs forgo the advantages of formalization, which include reduced vulnerability to harassment and the payment of bribes, as well as better access to financial services and government contracts (GoK 2003).

In Kenya, the average SME employs 1.8 people (GoK 2003). The lower end of these organizations are often confined to subsistence and low value added activities in the urban and rural areas. Very few micro enterprises grow to employ 6 or more workers, thereby achieving "Small Enterprise" status (GoK 2003). According to the Government, Micro Enterprises rarely grow to become Small and Medium Enterprises mainly because of regulatory barriers and shortage of readily available financial services, as well as access to business and technical skills, tools, raw materials and other inputs (GoK 2003). They are also affected by absence of requisite infrastructure and lack of security of tenure for business premises.

1.1.4 Key Developments among SMEs in Kenya

Past efforts to support Small enterprise in developing countries have been largely interventionist, either a government assistance program is initiated, or a government organization is set up. These approaches have not yielded much by way of results, due to poor coordination between agencies, as well as the heavy government bureaucracy. This role has now shifted, in Kenya particularly, to a facilitatory one, where the government creates infrastructure and facilities to foster an economic environment where SMEs can thrive (GoK 1999).

SMEs have developed over the years with several initiatives launched to support this crucial sector. Locally, there are several institutions that provide support to SMEs, some government owned and initiated, such as the Medium Small and Micro Enterprise Project (MSME), a project of the Ministry of Trade and Industry in conjunction with companies in the private sector. This project provides information and business development support for SMEs. Others are private institutions such as commercial banks. Various commercial banks, lead by Fina Bank, which is the only SME focused bank in the country (Fina Bank 2007) are also provide support for SMEs, in terms of funding. Other banks include Standard Chartered and Equity Bank, but Fina Bank has a decidedly specific focus as an SME bank and sells itself thus

There also are collaborative efforts between the private sector, the Government and donor organizations. Some of the major SME focused institutions include: The IFC SME Solution Center, a project of the International Finance Corporation, a World Bank subsidiary that provides financial and business development services to SMEs in Kenya. The Center also incorporates a business incubator for micro businesses.

Various Micro Finance institutions also provide financial support and advisory to SMEs. These include Faulu Kenya and K-Rep Bank among others. Development partners are also involved in the industry in various capacities, including providing financial and business development advisory and support. Some of the development partner initiatives include the Business Services Market Development housed by the British Governments DfID (Department for International Development) and the European Unions SME Program.

1.1.5 Challenges facing SMEs

Creating a business is a difficult process and is fraught with difficulty and failure. Many businesses fail within the first 12 months of trading (Fielden et al 2000). Possible influences on the success of new enterprises include effects of opening size on growth, the entry process, customers and innovation.

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Other factors that influence the formation and possible failure of SMEs include the personalities of those involved in the initiative, motivation for pursuing the venture and barriers faced during initiation. Other factors are the support received by the entrepreneur and the economic and financial difficulties they encounter. The formation is also affected by the age, gender, previous experience and family situation of the entrepreneur (Fielden et al 2000)

The Government's Economic Recovery Strategy of 2003 identifies several primary constraints facing Kenyan SMEs. These include: access to information primarily information relevant to enterprise, access to financial services, access to markets, access to land and infrastructure, access to skills and technologies, licensing and other trade regulations, taxation and customs and forward and backward business linkages (GoK 2003)

Recent research carried out in Central Kenya as part of a new program to address barriers to growth-oriented SMEs growth across Africa observed that the entrepreneurial spirit in Kenya is present but the level of business understanding among micro enterprises is very shallow. Micro and Small Enterprises are fragmented and disconnected from supply chains which hampers their operations (Techno serve 2007)

Further research shows that the operations and assets of most SMEs in Kenya are yet to be incorporated into the formal economy. As a result, the Kenyan financial sector has not yet produced attractive funding options for growth-oriented micro enterprises. Furthermore, SMEs face a legal and regulatory business environment that is not as conducive to entrepreneurship as more economically developed countries. For example processes around business registration are lengthy and legal requirements around import and export law are complicated. In addition and more specific to Kenya, government corruption creates further barriers for SMEs who have little expertise and connections to work around these issues (Techno serve 2007)

Difficulty in accessing capital is caused by financial institutions which are typically reluctant to lend to SMEs that fail to meet their high collateral requirements. This

situation is compounded by a lack of access to market information, skills and knowledge gleaned from practical experience and international best practice (Techno serve 2007)

However, Fielden et al (2000) reckon that SMEs have significant advantages over their larger corporate contemporaries. SMEs have shorter lines of communication, enabling faster decision making, thus making it easier for the company to focus attention on a clear goal. This aids motivation and the creation and maintenance of a team spirit. Being small makes it easy to respond quickly and flexibly to new opportunities.

1.2 Statement of the Problem

According to Newman et al (1989), the role of strategic planning is to set forth the mission of the company. It reflects the choice of key services the organization will perform, and the primary basis for distinctiveness in creating and delivering such services. Although it has been suggested that there are strong positive links between business planning and small business success (Schwenk and Sharder, 1993), there is an emerging view that the value of planning is context dependent, and that its benefits may differ across contexts (Mintzberg, 1994, Castrogiovanni, 1996). Research has shown that potential and current new business owners often do not know how to establish or run a new venture when they conceive their business idea. In fact, it appears that the majority of those starting-up a new enterprise often have only a vague idea of how they are going to organize the business formation and its subsequent management (Greve, 1995).

Data from the Kenya Government indicates that SMEs contribute 18% to the GDP of the Kenyan Economy, and account for up to 75% of jobs in the work force (GoK 2003). This is a significant contribution by any standards. A deeper understanding of these organizations and whether they operate under the guidance of any formal or informal strategic guidelines is warranted.

A report by the African Development Research Foundation indicates that the impediments to growth and stability of SMEs which were identified as early as 1988 are still hampering the growth of the sector. Among the impediments was the fact that SMEs do not have access to financial support and credit because of the poor quality of business

plans submitted by entrepreneurs (Maitha 1997). Other factors include the low level of managerial and technical skill in the sector caused by, among other things, poor preparation for entrepreneurship and self employment by the education system. There is thus a clear void in the sector with regard to formal training, education and planning on the part of the entrepreneur in line with the enterprise entered into. This is one of the shortfalls of SMEs.

Very little research has been done regarding strategic planning in Small and Micro Enterprises (Okanda 2004). Concentration of research on the subject matter has been limited to larger formal corporate entities. However, it has been shown that micro enterprises exhibit patterns of thinking similar to larger corporates. It has been shown that micro enterprises also employ strategic thinking in their day to day operations (Okanda 2004).

Bevan (1987) showed that the process of new business development is influenced by the advice sought by potential new business owners and, while the majority intend to seek advice on planning, only a small fraction appear to actually go ahead and do so. To date, very little research has been carried out to identify what the actual or perceived difficulties faced by potential and new business owners including the challenge of proper planning. The survey carried out by Bevan et al (1987), based on 472 small businesses is one of the few to explore such issues. The results of this study gave an indication of the barriers anticipated and experienced by individuals in the formation of a new business and of the subsequent difficulties encountered in the running of such an enterprise. This study therefore was done to bridge that gap by investigating the strategic planning practices of small and micro enterprises in Kenya.

The research sought to answer the following questions, to what extent do SMEs undertake strategic planning and what are the challenges they face in developing and implementing their plans?

1.3 Objectives of the Study

The objectives of this research were thus the following

- 1 To establish the strategic planning processes undertaken by small and micro enterprises in the Service sector in Nairobi, Kenya
- 2 To identify the challenges faced by small and micro enterprises in developing and implementing these plans

1.4 Significance of the Study

This study is important for the Government and policy makers in our local context because SMEs contribute significantly to the Kenya economy both in terms of employment and Gross Domestic Product (GDP). Policy changes in the financial sector impact negatively or positively on the GDP depending on their implementation. This being a rapidly growing sector of the economy, this paper will contribute significantly to any policy that may be developed on the sector.

The findings of this study will be important for the academic community both locally and abroad. This is because this study will shed light on the process of strategic planning, especially among a group for which such information is scant. A deeper understanding of how SMEs carry out their planning process and anticipate and prepare for environmental turbulence is important to further shaping the theory and literature around the subject matter of strategic planning as a whole.

This research will also add value to the business community, especially entrepreneurs who have or are in the process of setting up shop. Insight into the planning process undertaken by many of their peers will allow the entrepreneurs to see the potential pitfalls in their planning and to better anticipate the turbulent environment ahead.

For lending institutions such as banks, this information will be invaluable. Since many SMEs collapse within months of being set up, insights into how they do their planning, if at all, will help banks better lend to SMEs. They can offer better advice to their clients and be sure that their money is going to the right people who will be able to withstand a dynamic environment due to the soundness of their planning process.

CHAPTER TWO: LITERATURE REVIEW

2.1 The History of Strategic Planning

Johnson and Scholes (2002) document the history of strategic planning, indicating that broad scope, large scale managerial processes became more sophisticated after the Second World War, which ended in 1945. This was largely due to an increase in the number and size of firms, the expanded role of government as a buyer, seller, regulator and competitor, as well as increased international trade.

Formal strategic planning began in the 1950's in the United States of America. Literary luminaries in the field, such as Peter Drucker, Chandler, Ansoff and Andrews tackled various concepts in the field such as what the business of the firm should be, what strategy means, and what is its relationship with structure and the identification of strategy as a common thread that runs through an organizations business, defining its scope.

During the period between 1950 and 1973, there was increasing adoption of strategic planning in the US, and was characterized by relative environmental stability, abundant business opportunities, and rapidly growing companies. The challenge was how to manage companies better in the face of a raft of growth opportunities. Planning up until this point was rather extrapolative in nature, having a past orientation and involving extended budgeting.

After the publication of Ansoff et al's ground breaking work in 1976, the term strategic management gained in popularity. Since the mid 80's the more commonly used term has been strategic planning. However, strategic management implies a broader view that goes beyond planning, encompassing the realization of strategies as well as strategic control. We thus see that strategic planning is part of the wider strategic management process, which by itself produces little visible results or impact on the organization, but rather a set of plans and intentions. The acts of the organization in implementing and evaluating these plans and intentions ideally result in tangible results for the company.

The gradual shift in terminology from strategic management to strategic planning came along with an enlargement of the view. Strategic planning became complimented by the aspects of implementation and control, and thus comprises of strategic planning itself, the implementation of strategies and strategic control.

The period that followed, between 1973 and 1985 saw widespread dissatisfaction with strategic planning. This was due to increasing environmental turbulence, reduced business opportunities and increasing competition. The strategic planning of the previous period developed in a more stable environment was no longer applicable. In the 1970's, terms such as long range planning, new venture management, planning, programming, budgeting and business policy were coined and blended. Emphasis was placed on environmental forecasting and external considerations in formulating the plans.

In the subsequent period (1985 to date) strategic thinking was recast in a more acceptable and practical mould. Authors of this period included Michael Porter and Mintzberg, who recast strategic planning to entail an increase emphasis on implementation, flexibility and adaptability and increased focus. This is the basic gist of strategic planning to date.

2.2 The Nature of Strategic Planning

The nature of Strategic planning has been widely discussed by various authors and academics. Newman et al (1989), assert that strategic planning by nature sets forth the mission of the company. It reflects the choice of key services the organization will perform, and the primary basis for distinctiveness in creating and delivering such services. They contend that strategic plans guide managers on what to do and what not to do, and serve as the rallying theme for coordinating the firm's diverse activities. Johnson and Scholes (2002) contend that the process of planning strategy is universal to all organizations, particularly in an effort to overcome significant problems, or a desire to grasp new opportunities.

Grant (2002) recognized that strategic planning is an important determinant of success in most areas of human activity. A strategic plan is a pattern or theme that gives coherence to the decisions of an individual or organization. Grant also acknowledged that all types of enterprises and individuals need strategies to give them direction and purpose (Grant 2002)

Johnson and Scholes (2002) go on to say that the strategic plan outlines the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to fulfill stakeholder expectations. The subject is defined by Pearce and Robinson (1997) as the set of decisions and actions that result in formulation and implementation of plans designed to achieve the organizations objectives

Newman et al (1989) further state that strategic plans are the primary tool used by managers to guide companies through turbulent times. They further contend that the effective application of strategy is neither simplistic nor mechanistic, and as such is often one of the most difficult of any manager's tasks

Closer home, the topic of strategic planning has been discussed by some of the managers of leading blue chip companies in the country. Mr. Michael Joseph, CEO of Safaricom Kenya Ltd, the leading mobile phone company in the country, had this to say about strategy

“strategic planning involves understanding the environment in which a company is operating, and coming up with plans that ensure continued progress on key fronts such as profitability and market share... a successful strategic plan is one that is broad enough on outlook, yet specific enough on deliverables. At Safaricom... we take a long term view of our operating environment” (Rapuro, 2006)

From the foregoing discussion, we can see a trend emerging that defines the core of Strategic Planning. We can deduce, as summarized by Pearce and Robinson that strategic planning is all about the organizations large scale, future oriented plans for interacting

with the competitive environment to achieve stated objectives. It is the organization's game plan of operations, which provides a general framework for managerial decisions.

2.3 The Nature of Strategic Plans

The Nature of strategic plans is such that they involve the long term direction of the firm, are concerned with the achievement of advantage over competition, and are concerned with the scope of an organization's activity. Johnson and Scholes (2002) explain that strategic plans are of the following nature, they are complex in nature, especially in large organizations, they are made in conditions of uncertainty, they require an integrated approach to managing the organization within its cross functional and operational boundaries and they involve change, often of relationships and networks outside the organization.

Pearce and Robinson (1997) contribute to this discussion, stating that strategic plans are future oriented, based on forecasts rather than empirical historical knowledge, that they have multifunctional and/or multi-business consequences, involving various departments and functional areas, and that they require careful consideration of the external environment.

The authors go on to explain that strategic plans require the input and impetus of top management in order to succeed, due to the authority and overall perspective on the organization held by these individuals. Strategic plans also require large amounts of the firm's resources, and they affect the firm's long term prosperity, tying down the firm to a given direction for some period of time.

Strategic plans are also seen to involve the matching of available resources to the environment, building on or strengthening an organization's resources and competencies to create or capitalize on opportunities. They also require major resource changes or acquisitions, affect operational decisions, and are affected by the values and expectations of those with power and influence in and around the organization. Cognizance must be taken of these interests in the process of strategic management.

According to Thompson (1997), company's that are good at strategic thinking have certain distinct practices: Identification of key success factors in a manner better than the competitors, segmentation of the market to gain decisive competitive advantage based on rigorous competitive analysis, basing of strategy on measurement and analysis of competitive advantage, anticipation of competitive responses, exploitation of different degrees of freedom as compared to competitors and the provision of investment priorities to areas that promise greater competitive advantage

2.4 The Subject Matter of Strategy

Strategy has several issues inherent in its comprehension. These have been documented variously by several authors. Generally, the content of Strategy comprises several concepts, including environmental fit. Ansoff (1984) indicates that strategy is the positioning and relating of the firm or organization to its environment in order for its continued existence and success and securing it from surprises. Thus, strategy inherently considers the environment of the organization, and how the organization fits into it.

Strategy considers key success factors, which is the activity of matching stakeholder needs and expectations to maintain a fit in a turbulent environment. In addition, competitive Advantage is central to strategy. Ohmae (1982) contends that competitive advantage involves 3 C's; Customers, Competitors and the Corporation. Other considerations are core competencies which are distinct skills that yield competitive advantage for the firm and strategic capabilities which, according to Stalk et al (1992), are processes that enable the firm become an effective competitor in the market. Kay (1993) goes on to state that these must be capable of exploitation and must be appropriate for the context and operations of the firm.

Strategy also involves leveraging resources. Hamel and Prahalad (1990) emphasize that strategic resources must be managed in order to achieve ambitious objectives. Productivity can be improved by gaining the same output from fewer resources, achieving more output with given resources.

2.5 The functions of strategy

According to Newman et al (1989), strategy serves three primary functions. It summarizes the way a company decides to relate to its environment, providing the basic direction of business as well as covers issues such as which market segments to serve and what contributions to make in them. Additionally, it sets out the internal operating design to support the external mission of the organization. It is an inward look at how the company should conduct business in order to perform effectively in its role. Finally, it helps to build an integrated action, providing an appropriate fit between the mission and internal operating design, setting priorities for the organization, dealing with timing of major moves and providing targets for the organizations to hit.

The same authors contend that strategy formulation is highly selective in order to be reasonably realistic. They give the characteristics of strategy as the following: a predetermined, longer term course taken by the firm, not a knee-jerk reactionary position, an emphasis on the quality, nature and fixture of the business, a long range plan that sets the direction and tone of shorter range plans. They also state that strategy is characterized by a feasible assessment of deployment of resources and achievement of superiority over competitors, and is disseminated and understood by all members of the organization.

Strategy, according to Newman et al (1989) should contain the following components: a domain or the area of business the organization wants to be in, involving the choice of an attractive industry and a few niches that the company wishes to serve; a differential advantage which makes the organization more attractive to competitors in the same domain, strategic thrusts which are timed correctly, with action points put in place and delivered, and expected target results which have widespread acceptability among the organizations stakeholders.

Newman et al (1989) also provides the framework for strategy formulation is that, first, the organization should first look for opportunities and threats in their general operating environment. Next, the firm should design the strategy for taking advantage of the

opportunities and minimizing the threats, using critical judgment and analysis. The firm should then build an organization to support the strategy. This needs to be strong and combine the activities into departments. Finally, the firm must then guide and oversee the execution of this strategy.

2.6 The Process of development of Strategic Plans

Pearce and Robinson (1998) indicate that the process of Strategy Development involves a series of tasks. The first is to formulate the mission of the company, including broad based statements about its purpose. This is followed by the second step of developing a company profile that reflects internal conditions and capabilities of the firm. After that, the firm should assess the external environment, including competitive and general contextual factors. Following this is an analysis of the company options by matching resources with the external environment.

Having done this, the firm must identify the best options by looking at each in light of the fore stated mission. Then, the firm must select a set of long term objectives and grand strategies to achieve the best option selected in the previous step. This is followed by developing of annual objectives and short term strategies compatible with the set of long term objectives and grand strategies. The next step is then to implement the strategic choices by means of budgetary resource allocations, matching of tasks, people, structures, technologies and reward systems being the emphasis. Finally the firm must evaluate the success of the strategic process as an input for future decision making.

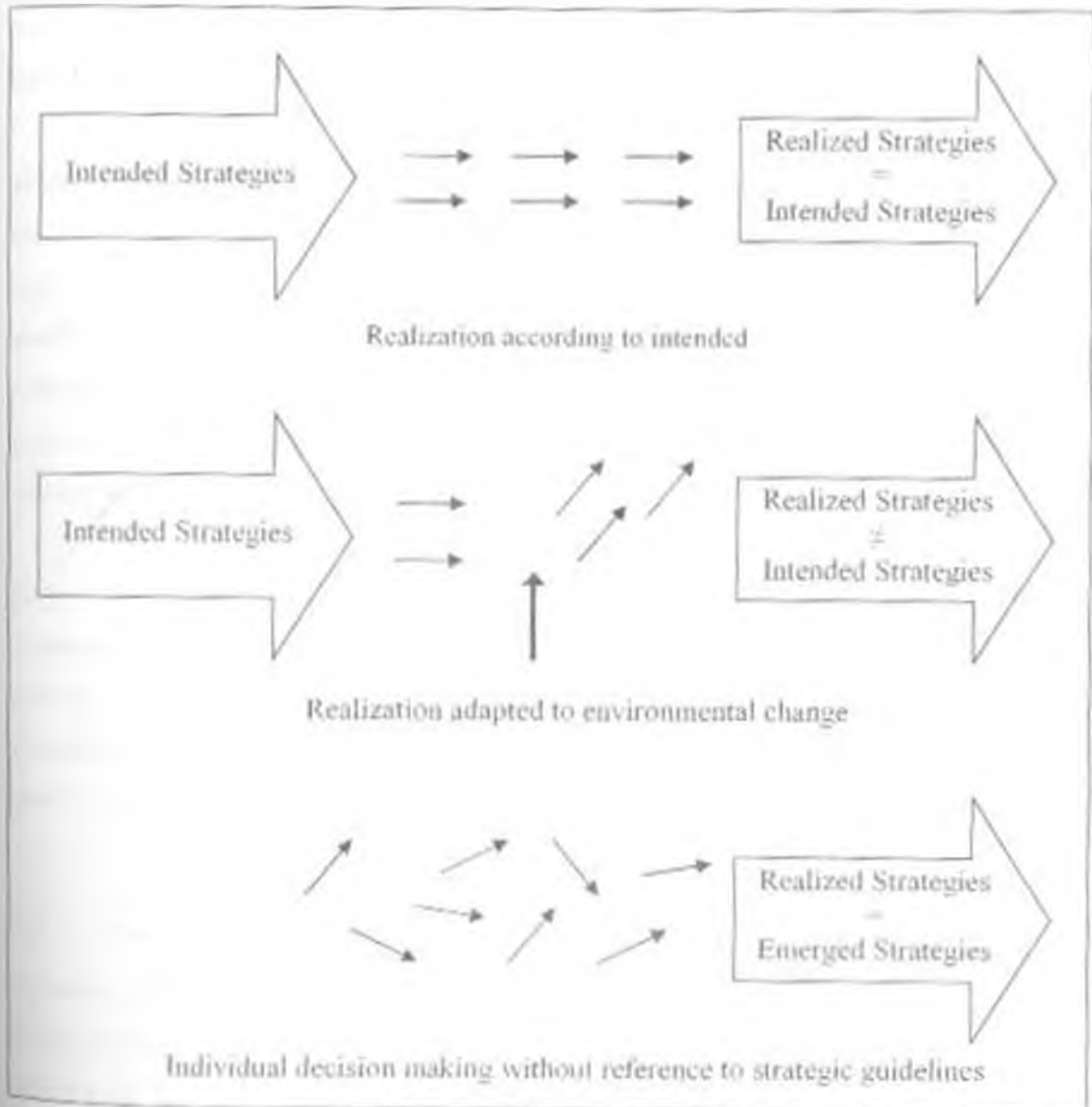
Generally, as a management discipline, Pearce and Robinson contend that strategic management must involve the managerial activities of planning, directing, organizing and controlling of the firms actions and decisions by management.

The long term accomplishment of a company's overriding goals is enabled through the construction and careful maintenance of success potentials (Grunig and Kuhn 2006). Strategic planning is thus not only concerned with optimizing success during the planning period itself, it also focuses on the investments and efforts required to ensure preservation

of success potentials and build new ones as well. This guarantees success during and beyond the planning period.

Strategic Planning can be related to intended vis a vis realized strategies. The diagram below illustrates the relationship between intended and realized strategies.

Figure 1: Intended and Realized Strategies



Source: Grunig and Kuhn 2006

Intended strategy has the following characteristics. It presents long term guidelines for the organization, it is relevant for the company as a whole or for important parts of it, it is normally determined by management, it should guarantee permanent accomplishment of the companies overriding goals and objectives and it is a systematic process. Intended strategies are thus managerial guidelines or statements which serve decision making and subsequent action by providing points of reference. They are intended to ensure coordination in a situation where a number of managers are acting at different places and times (Grunig and Kuhn 2006). Most literature to this effect is tailored for the large corporate organizations, but the principles can and do apply to smaller organizations.

Kiliko (2000) observed that strategic planning should incorporate the following aspects, the mission statement, objectives and objective setting, planning which includes purpose horizons, mix of plans developed, participation and formality in planning, and internal analysis. Also, strategic planning should include written strategic plans and the levels of formulation, the role of top management and the Board of Directors in the planning process, environmental scanning, competitor analysis, industry analysis and finally market analysis.

Kiliko (2000) further observed that strategic planning should have the following characteristics in order for it to be complete; it must be flexible and adaptive, it must address implementation issues, it should be focused, instrumental in developing a competitive edge, enhance creativity and strategic thinking and should incorporate both analytical and behavioral features.

2.7 The Value of Strategic Planning

Strategic Planning adds value to any firm. Pearce and Robinson argue that the formulation of strategic plans is essentially an overarching activity, ideally meant to involve all levels of the organization. As such, all members and stakeholders in the organization should be involved in this. The importance of this, according to the authors, is the following:

It enhances the firm's ability to foresee and forestall problems. Group based strategic decisions are also likely to be drawn from the best alternatives, since group interaction generates a greater range of options for strategy. Further to that, involvement of employees inspires understanding of the bigger picture and improves motivation. Participation in the process clarifies difference in roles, reducing interdepartmental gaps and overlaps. This also serves to reduce resistance to change among stakeholders.

Despite these advantages, the authors identify various risks of a broad based approach to strategic planning. These include the fact that it could result in a time consuming process, impacting negatively on operational effectiveness. This approach may also result in shirking of individual responsibility for decisions, especially if the formulators of strategic plans are not intimately involved in its implementation. The involvement of subordinates in the process may lead to creation of expectation which may or may not be adequately met.

2.8 The SME Sector in Kenya

2.8.1 Definitions of SMEs

Definitions of SMEs differ, a number of different theories have emerged. Generally, most theoretical definitions revolve around two primary factors: the Number of employees the organization has, and the amount of annual turnover in the business.

According to the IFC, an SME is defined as an organization that employs between 5 and 150 employees and/or has a turnover of between KShs. 8 million and KShs. 50 million (IFC 2005). Banking institutions such as Fina Bank, which is primarily an SME bank (Fina Bank, 2007), break SMEs into two primary sub divisions; Small Enterprises (SE's) and Medium Enterprises (ME's). SE's are organizations that have less than 100 employees with annual turnover of between KShs. 1 million and 50 million. ME's are organizations with over 100 employees and over KShs. 50 million in annual turnover. Different banks have different definitions of Small and Medium Enterprises.

The Government of Kenya has a slightly different definition of SMEs. They define them as enterprises in the formal and informal sectors of the economy which employ between 1 and 50 employees (GoK 1999). This definition does not cover turnover or any other financial considerations and also excludes enterprises in the agricultural sector. Further, the Government defines enterprises with 1 to 5 employees as micro enterprises, and those with 6 to 49 employees as small enterprises (GoK 2001).

Xaba et al (2002) provides different groupings of informal workers. These include the self employed (in own account activities and family business), paid workers in informal enterprises, unpaid workers in family businesses, casual workers without fixed employers, sub contract workers linked to informal enterprises and sub contract workers linked to formal enterprises.

Statistics on SMEs in Kenya are scanty at best. Various institutions that are involved in the sector have varied statistics. According to an IFC report there are 43,271 enterprises in Kenya, as of 2005. Out of these, 77% or 33,355 enterprises are in the private sector. Again out of these, only 66% or 22,014 enterprises fit the IFC criteria of the definition of SMEs. These organizations are further categorized according to the IFC into various sub categories including nature of registration, duration of existence, number of employees and annual turnover.

The Kenya National Bureau of Statistics (KNBS) has a different set of statistics on SMEs. The Government commissioned a study in 1999 to look at the prevalence of SMEs in the country. This study was named the National Baseline Survey of Micro and Small Enterprises in Kenya. According to this study, there are 1.289 million SMEs in Kenya.

2.8.2 Challenges facing SMEs

Creating a business is a difficult process and is fraught with difficulty and failure. Many businesses fail within the 1st 12 months of trading (Fielden et al 2000). Possible

influences on the success of new enterprises include effects of opening size on growth, the entry process, customers and innovation

Other factors that influence the formation and possible failure of SMEs include the personalities of those involved in the initiative, motivation for pursuing the venture and barriers faced during initiation. Other factors are the support received by the entrepreneur and the economic and financial difficulties they encounter. The formation is also affected by the age, gender, previous experience and family situation of the entrepreneur (Fielden et al 2000)

The Government's Economic Recovery Strategy of 2003 identifies several primary constraints facing Kenyan SMEs. These include access to information primarily information relevant to enterprise, access to financial services, access to markets, access to land and infrastructure, access to skills and technologies, licensing and other trade regulations, taxation and customs and forward and backward business linkages (GOK 2003)

2.9 Strategic Planning among SMEs

Very little research has been done regarding strategic planning in Micro Enterprises (Okanda 2004). Concentration of research on the subject matter has been limited to larger formal corporate entities. However, it has been shown that micro enterprises exhibit patterns of thinking similar to larger corporates. It has been shown that micro enterprises also employ strategic thinking in their day to day operations (Okanda 2004)

Regarding micro enterprises, research by Okanda (2004) showed that the main reason for starting a business among Micro Enterprise owners in a certain area of Nairobi was employment. As a result, there is a tendency for ME's to engage primarily in subsistence activities to survive. This affects how the entrepreneur is able to identify and exploit opportunities as well as deal with threats in the immediate environment.

The research by Okanda (2004) also showed that there is a common misconception that most micro enterprise owners are uneducated, or are forced to start businesses by unexpected external circumstances, such as retrenchment. However, Okanda (2004) demonstrated that even well educated people are voluntarily dropping out of employment to start businesses. ME owners are often actually highly intelligent individuals capable of, and able to formulate their own strategies to help them survive a hostile, dynamic business environment, despite their limited resources. They are not idlers, but rather productive individuals capable of contributing positively to economic growth (Okanda 2004)

Research shows that micro enterprises are for the most part individually owned and run, and do not have elaborate formal reporting standards and relationships (Okanda 2004). There is little role differentiation in the organization, with the owner acting as employee and owner at the same time.

Due the fact that micro enterprises operate in a very challenging environment, they need strategy all the more in order to survive. Their strategies may not be as elaborate as those of larger firms, but there does exist some sort of action plan to deal with environmental challenges. Okanda (2004) observed that the patterns in those actions indicate the strategies micro enterprises employ to survive.

In summary from this literature review, we can surmise that strategic planning typically involves assessment of two main issues, the internal operating environment and the external operating environment of the organization. The internal environment involves the way that the organization is structured in terms of people structure and resources, and the direction it chooses to take in terms of its vision, mission and objectives. The external environment includes the operating environment of the organization in terms of the regulatory, legal and technological concerns, as well as the customer and competitive environment. An organization must consider all these issues and factor them into its strategic plan in order to be successful.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was exploratory in nature. This is because it sought to uncover a subject matter that has not been well described or explored in the past. Past research by Okanda (2004) and Bevan et al (1987) have attempted to study the planning processes and motivations of SMEs, but they have acknowledged that a significant gap exists in this regard. Since very little formal documentation and research has been done in this area, the research design preferred was exploratory.

3.2 Population of the study

This study used the IFC definition of an SME to determine what companies would constitute the study population. Furthermore, to qualify as an SME for this study, a company had to have been formally registered as a company, either a sole proprietor, limited company or partnership, been operational for at least 6 months prior to conducting the study, have less than 50 employees, and be in the private sector, actively engaged in providing a service either to other businesses or directly to consumers. Service based organizations provide a crucial input to the economy and are registering a strong growth making it important to consider this particular section of the SME sector.

3.2 Sampling Procedure

According to the IFC, there are 22,014 SMEs in Kenya. Of these, about 56% are in Nairobi, a total of 12,327. Out of these 40% are in the service sector, a total of 4,903. Again out of these, 61% are in the private sector and 80% of those have 50 employees and less, a total of about 2,400. Thus the population of the study was 2,400 SMEs.

The IFC also identifies the following as the main areas of service based organizations, Finance and related, Marketing, Information Technology and Business Management. The sample was broken down according to these areas of service. The proposed sample was 240 companies, approximately 10% of the population, selected using a proportionate, stratified sampling procedure to get a feel of the issues in the industry.

The selection of a 10% sample was based on the fact that SMEs in the service sector are generally relatively homogenous in terms of their structure and operations. Studies by Fielden et al 2000 and Okanda 2004 used similarly small samples for the same reason. Thus a well distributed sample of 10% was considered representative of the entire population. Thus the sample was broken down as follows:

Table 1: Sample Structure

Category	Population	Sample Structure	Sample size
Finance	729	30%	72
Marketing	699	29%	70
Business Management	516	22%	52
IT	456	19%	46
Total	2,400	100%	240

3.3 Data Collection

Data collection was through the use of structured questionnaires, employing a drop and pick later method. The questionnaire was targeted at the proprietors and/or primary sponsors of these organizations in order to establish the extent to which the questions of this research apply to them.

3.4 Data Analysis

After data had been collected, the questionnaires were put together and 'cleaned' to deal with any inconsistencies or problems with the responses. Once done, the data was keyed into SPSS, a statistical data analysis application for analysis. Having completed the data entry, the software was used to extract analyzed data in tabular format for further analysis. This analysis yielded frequencies and percentages of occurrence, and further analysis was done using weighted averages and statistical tests of significance. A report was then prepared with the details of the findings, and incorporated into the final document of the research report. The recommendations, summary and conclusion were then extracted and added to the final report.

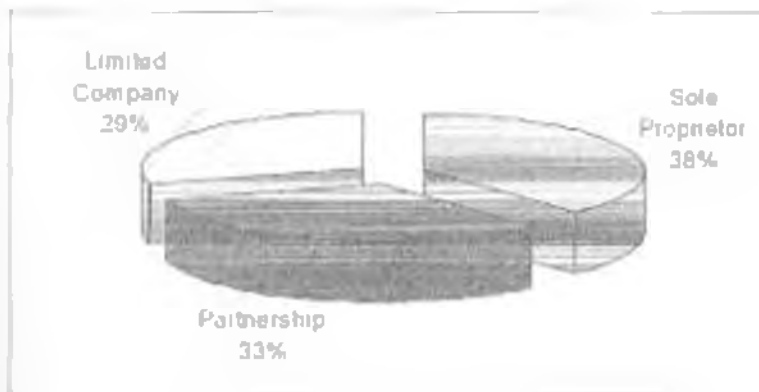
CHAPTER FOUR: RESEARCH FINDINGS

The research study covered small and micro enterprises in the services sector in Nairobi. The sample selected was 240 businesses in Nairobi, and the data collected covered 3 main areas, bio data on the organization, data on the strategic planning processes undertaken by the businesses, and data on the problems faced in implementing the plans.

4.1 Bio Data of Respondent Organizations

Respondents were business owners and sponsors, who have direct, working knowledge of the strategic planning processes undertaken by the company during its inception and subsequent operation. The bio data collected on these respondents is outlined below.

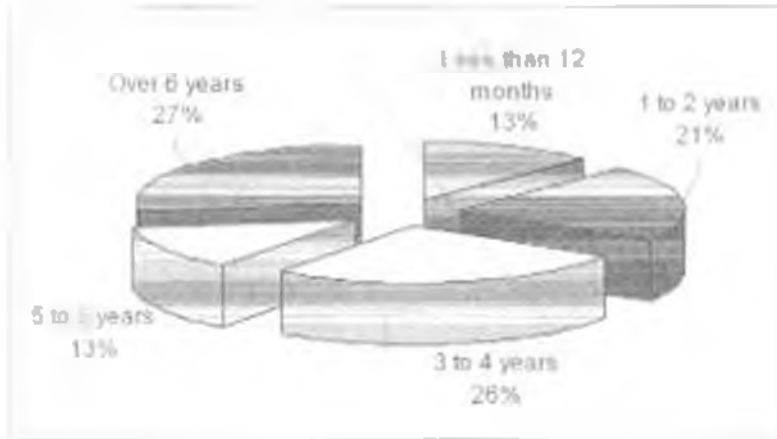
Figure 2: Form of Business



Source: Primary Data

The largest share of the respondents were sole proprietors (38%) followed by partnerships (33%) with the remaining 29% being limited companies. This shows that most small businesses are sole proprietors; individuals running businesses that may or may not employ other people, but are basically owned by one individual.

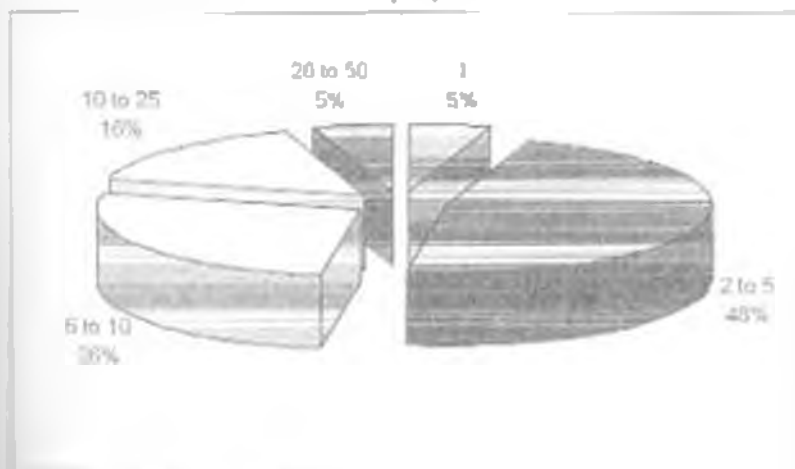
Figure 3: Duration of operation



Source: Primary Data

With regard to the duration of operation, most companies had been in operation for over 6 years (27%), followed by those that have been in operation for 3 to 4 years (26%). Looking at the bigger picture, the findings show that most companies (approximately 60%) have been in existence for less than 4 years. We also see that the overwhelming majority (87%) have been in existence for at least one year. The findings show thus that many small businesses in the city are not new, they have actually been around for a considerable duration of time. They thus have some experience in operating in a fairly turbulent environment.

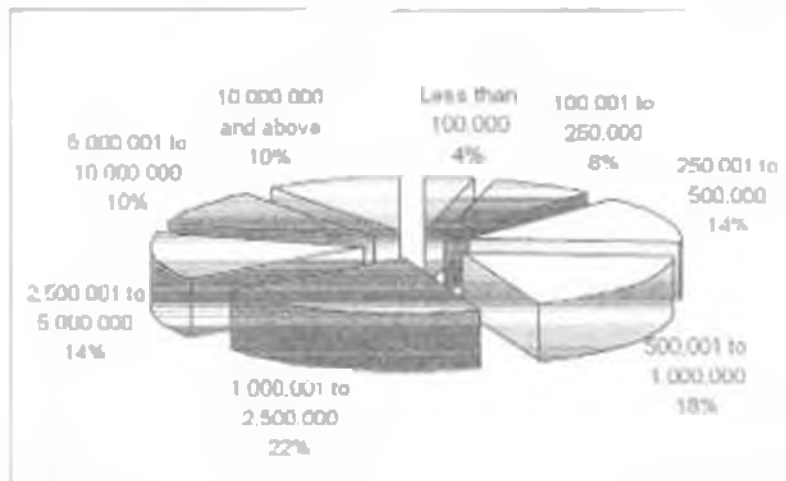
Figure 4: Number of employees



Source: Primary Data

Looking at the number of employees, the findings show that most enterprises in Nairobi have 5 or less employees (53%). According to the IFC, enterprises with 5 employees or less are classified as micro enterprises. Thus, majority of enterprises in the city are actually micro enterprises by definition.

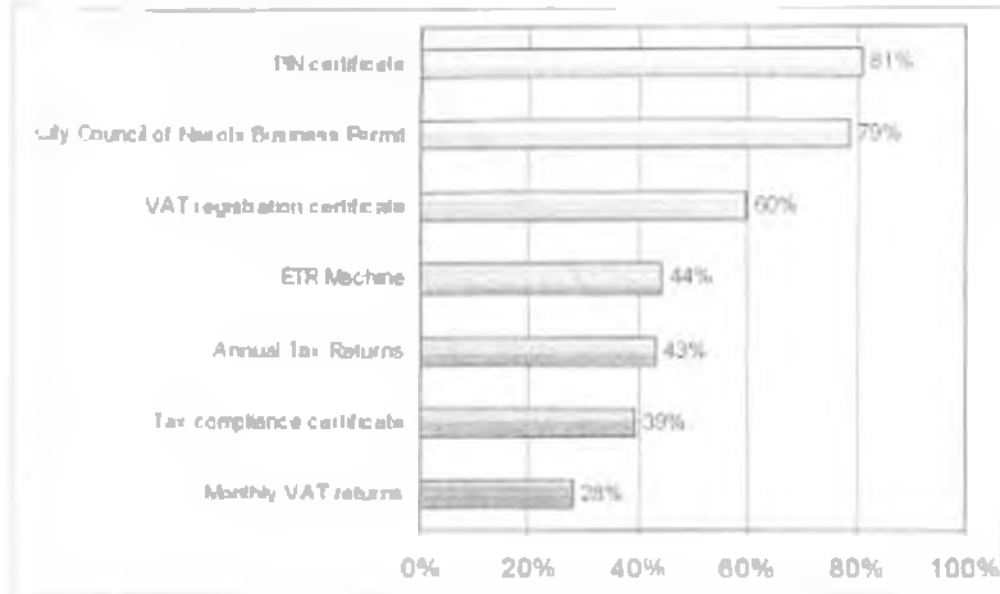
Figure 5: Annual Turnover



Source: Primary data

Annual turnover is also part of the definition of small and micro enterprises according to the IFC. In this case, the findings show that the highest number of companies have an annual turnover of between KShs 1 million and KShs 2.5 million (22%). This is followed by the KShs 500,000 to KShs 1 million category. It is interesting to note that the overwhelming majority (90%) have a turnover of less than KShs 10 million. Thus, in terms of turnover, most companies are truly micro in nature.

Figure 6: Level of Regulatory compliance



Source: Primary data

In terms of compliance with regulatory requirements, the findings show a relatively high level of compliance. 81% of SMEs have a PIN certificate, while 79% have a business permit from the City Council of Nairobi. In terms of tax compliance, whereas 60% of the SMEs are registered for Value Added Tax (VAT), only 44% have an Electronic Tax Register (ETR) machine, which is mandatory for all companies that are registered for VAT. Furthermore, only 28% actually file their monthly VAT tax returns, which is also a legal requirement. Thus, the findings show that the levels of operational compliance are high, but tax compliance is relatively low.

4.2 Strategic Planning Processes of SMEs

As indicated earlier, strategic planning processes involve the formulation of the mission, vision and objectives of the firm, as well as broad statements about its purpose. This is followed by the development of a company profile, then an assessment of the external environment. Thus, the extent to which firms do carry out these activities indicates the extent to which they actually do conduct strategic planning.

Formality in this process is also a key factor, which in this case is determined by whether or not the SMEs have written down their plans and strategic planning documents. The findings show the following

Table 2: Extent of Formal Strategic planning

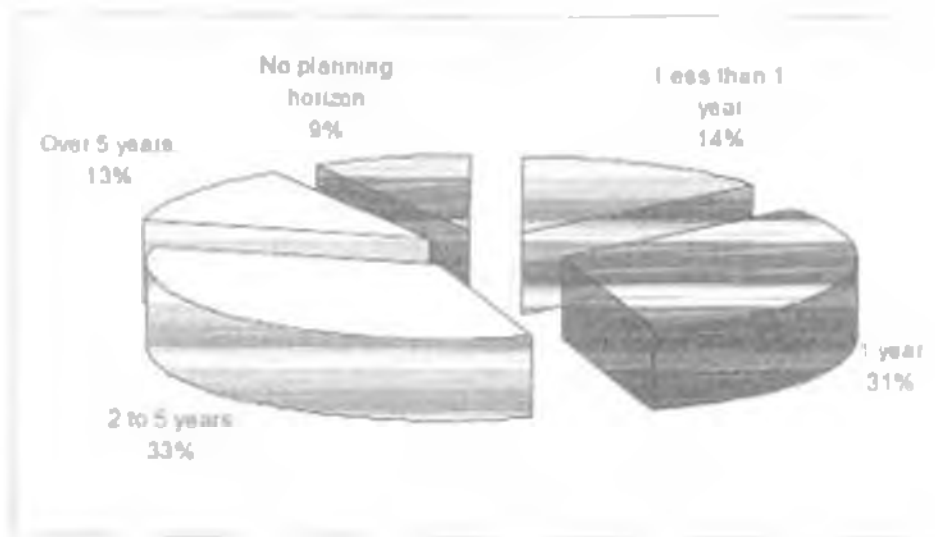
Strategic Planning Elements and Documents	Percentage of respondents who:		
	Don't have one	Have one but not on paper	Have one on paper
Vision Statement	27.50	22.50	50.00
Mission Statement	25.00	23.75	51.25
Company Profile	16.25	17.50	66.25
Company goals and objectives	11.25	31.25	57.50
Business Plan	22.50	23.75	53.75
Formalized Organization Structure	32.50	27.50	40.00
Short term Strategic plan (1 year)	23.75	23.75	52.50
Medium term Strategic Plan (2 to 5 years)	46.25	26.25	27.50
Long term Strategic plan (more than 6 years)	60.25	32.05	7.70

Source: Primary Data

Respondents were asked to indicate whether they have the major elements of strategic planning in place in their organizations. The findings show that the large proportion organizations (50%) have a written down vision statement, mission statement (51.25%), company profile (66.25%), company goals and objectives (57.50%) and business plan (53.75%). The data shows that majority of SMEs (at least 50%) have written down strategic planning documents. This indicates a relatively high level of formality in their strategic planning processes.

With regard to forward thinking strategic planning, SMEs tend to do a little poorly. Whereas 52.5% of SMEs have a written down short term (1 year) strategic plan, only 27.5% have written down their medium term (2 to 5 year) plan, and even less (7.7%) have a written down long term (6 or more year) strategic plan. This implies that SMEs have a relatively short term view of their planning processes, but do approach their short term planning with a relatively high level of formality.

Figure 7: Planning Horizon



Source: Primary data

The contention that SMEs have a short term perspective on their planning processes is further emphasized by the above figure. The findings show that 45% of respondents have a 1 year or shorter planning horizon. About 33% have a 2 to 5 year planning horizon. It is significant that 9% do not have a planning horizon at all. This just shows the relatively short term perspective that SMEs take toward strategic planning.

The strategic planning process also involves an analysis of the internal and external environments of the organization. Respondents were asked to rate the extent to which they carried out an analysis of their internal and external environment prior to starting their business on a scale of 1 to 5. These responses were then tallied and a weighted mean taken. The interpretation of this data is that the higher the score, the greater the extent to which that factor was considered by the business owner. This analysis is outlined below.

Table 3: Analysis of Internal factors prior to starting business

Internal Environment:	Weighted Mean
Your Weaknesses	2.81
Threats to the business	3.24
Assessment of Resource availability	3.36
Your Strengths	3.72
Opportunities in the market	3.95

Source: Primary Data

Table 4: Analysis of External factors prior to starting business

External Environment:	Weighted Mean
Social and Cultural Environment	2.35
Political Environment	2.41
Industry Analysis	3.10
Technological Analysis	3.15
Competitor Analysis	3.35
Customer Analysis	3.36

Source: Primary Data

Looking at the data in the above tables, the findings show that with regard to the internal environment, SMEs did the most analysis on the opportunities in the market (with a score of 3.95). This was followed by strengths (3.72), assessment of resource availability (3.36) and threats to the business (3.24). The least effort was put into assessing the company's internal weaknesses (2.84).

A look at the external environment reveals similar trends. The findings show that SMEs focus a lot on their customers, with customer analysis scoring the highest (3.36), followed by competitor analysis (3.35) and technological analysis next at 3.15. The least effort is put into analyzing the social and cultural environment (2.35) and political environment (2.41). Industry analysis scores 3.10, relatively low.

Table 5: Analysis of Internal Factors during the running of the business

Internal Environment:	Weighted Mean
Your Weaknesses	3.15
Assessment of Resource availability	3.36
Threats to the business	3.51
Your Strengths	3.84
Opportunities in the market	3.89

Source: Primary Data

Table 6: Analysis of External Factors during the running of the business

External Environment:	Weighted Mean
Social and Cultural Environment	2.44
Political Environment	2.44
Technological Analysis	3.11
Industry Analysis	3.19
Competitor Analysis	3.38
Customer Analysis	3.44

Source: Primary Data

Looking at the analysis done after starting the business and during the running of the business, the findings show similar trends. Analysis of the opportunities also takes a primary role, scoring 3.89, followed by analysis of internal strengths (3.84) and threats to the business (3.51). Assessment of weaknesses again gets a relatively low score (3.15) indicating that perhaps SMEs do not consider their weaknesses enough.

The external environment analysis is very similar to that done prior to starting out. The most emphasis is placed on customer analysis (3.44) followed by competitor analysis (3.38), industry analysis (3.19) and technological analysis (3.11). The least effort was placed on social and cultural factor analysis and political environmental analysis (2.44 each).

Table 7: Summary of analysis of Internal and External Environmental factors

	Weighted Mean		% change
	Prior to starting up	During operation	
Internal Environment:	3.42	3.55	3.80
External Environment:	2.95	3.00	1.57

Source: Primary Data

In summary, the findings show that comparatively, there has been improvement in terms of analysis of internal and external factors as indicated in the above table. Compared to the period prior to starting the business, business owners are doing more analysis of their internal and external factors now that they are running their businesses. There has been an improvement of 3.8% for analysis of internal environment and 1.57% for analysis of external environment. It also appears that more emphasis is placed on the internal factors (3.42 prior and 3.55 during), as opposed to external factors (2.95 prior and 3.00 during), indicating that SMEs have a more inward looking perspective of their environmental analysis.

Table 8: Frequency of gathering information from the External Environment

	Weighted Mean
Customers	2.80
Competitors	2.32
Industry	2.76
Politics as it affects your business	1.28
Cultural dynamics as they affect your business	1.15
Technological advances with regard to your business	2.55

Source: Primary data

Looking at the frequency at which SMEs formally collect information from and on their environment, the findings show similar trends to the analysis of their internal and external environments. Formality in this process is defined by the frequency with which information is collected. Again, customers take centre stage, scoring the highest (2.80),

followed by Industry analysis (2.76), technological advances (2.55) and then competitors (2.32). The least effort was placed on analysis of cultural dynamics (1.15) and politics (1.28). This shows that SMEs do not appear to place much emphasis on these two factors.

4.3 Problems in implementing plans

With regard to the implementation of plans by SMEs respondents were asked to rate the extent to which they faced problems in their internal and external environment while implementing their plans on a scale of 1 to 5. This information was tallied and a weighted mean assigned to each factor. The interpretation of this data is that the lower the score, the more problematic the issue.

Table 9: Problems in the Internal Environment;

Resources	Weighted Mean
Human Resources turnover is too high	3.11
We cannot find the right people	3.23
We are not able to access finances	3.25
We do not have the right equipment	3.66
We do not have the right premises	3.69
Planning	
New ideas come up that distract us from original goals	2.99
The plan was not clear in the first place	3.30
We keep changing our vision, mission and objectives	3.31
We are unable to evaluate our progress	3.44
We do not have access to the right information	3.51
Our internal structures are proving to be weak	3.61

Source: Primary Data

Looking at the internal environment, the findings show that generally, internal factors are divided into two broad categories, Resources, which include Human Resource (HR), finance, equipment and premises, and planning, which covers planning, evaluation and structure. Where resources are concerned, HR seems to be the biggest problem, with HR turnover scoring lowest (3.11) and inability to find the right people coming next (3.23).

Issues concerning equipment and premises are the least problematic, with scores of 3.66 and 3.69 respectively

With regard to planning, the findings show that the biggest problem is that SMEs are easily distracted from their original goals (2.99). Lack of clarity in planning is also a relatively big problem (3.30) as is changes in the vision, mission and objectives of the company (3.31). Least problematic is the issue of internal structure (3.61), access to information (3.51) and progress evaluation (3.44)

Table 10: Problems in the External Environment

	Weighted Mean
Customers	
We have a high customer turnover	2.90
We do not have access to the right markets	3.48
We get a lot of negative feedback from the customers	3.83
Competitors	
Competition in the industry is too fierce	2.45
Our competitors play dirty	2.90
Our business linkages are weak	3.36
Our products and services are not innovative enough	3.58
We have trouble keeping up with the best practice in the market	3.65
Industry	
Taxation is excessive	2.38
Industry standards are very high	2.67
The country's political situation is unfavorable	2.99
We have problems with licensing	3.23
We have trouble with regulatory compliance	3.41
We do not have access to the right technology	3.55
We lack the right technology	3.61
Socio-cultural factors work against us	3.64

Source: Primary Data

Looking at the external environment, the findings show that it is divided into three main areas: Customers, which covers customer turnover, access to markets and feedback, competitors, which covers competition, business linkages, best practice and products and services, and industry, which covers taxation, industry standards, country politics, licensing and regulatory compliance, technology and socio-cultural factors

The data shows that with regard to customers, the biggest problem is customer turnover (2.90). The least problematic factor is negative feedback, which appears to be little, scoring 3.83, and access to markets (3.48). Looking at competition, the biggest problem appears to be fierce (2.45) and unfair (2.90) competition. Least problematic is keeping up with best practice in the market (3.65) and innovativeness of products (3.58). Weak business linkages also appear to be less of a problem, scoring 3.36. Industry issues are also pertinent, with the biggest problem being excess taxation (2.38), high industry standards (2.67), and an unfavorable political situation (2.99). The least problematic issues include socio-cultural factors (3.64), access to technology (3.55) and regulatory compliance (3.41) and licensing (3.23).

Table 11: Summary of internal and external environmental problems

Environment	Category	Weighted Mean	Category Average
Internal Environment	Resources	3.39	3.37
	Planning	3.36	
External Environment	Customers	3.40	3.26
	Competitors	3.19	
	Industry	3.18	

Source: Primary Data

Looking at the summary of the problems with implementation, the findings show that the external environment is more problematic than the internal environment (3.26 compared to 3.37). The biggest issues in the external environment are the Industry, followed by competitors then customers. The biggest issues in the internal environment are planning, then resources.

With regard to statistical significance, inferential statistics or statistical induction comprises the use of statistics to make inferences concerning some unknown aspect of a population. Inferential statistics are based on the assumption that sampling is random. The Chi Square test is an inferential statistical test of significance. The result gives an indication of the significance of a certain statistic. A result is called statistically significant if it is unlikely to have occurred by chance.

Generally with the Chi Square test, statistically significant results are indicated by a Significance Score of below 0.05. That means that any score above 0.05 is not statistically significant and is likely to indicate completely random occurrence. A significance score of less than 0.05 is statistically significant and unlikely to be a random, chance occurrence. The lower the Chi square score, the higher the significance score and subsequently, the more statistically significant the statistic. The more significant the statistic, the more likely that it is

Looking at statistical significance of the internal versus the external factors, the data shows the following

Table 12: Statistical Significance Scores

Statistical significance	Chi Square Score	Significance Score
Internal Factors	11.8	0.077
External Factors	14.7	0.067

Source: Primary Data

This data indicates slight differences between the various internal and external implementation problems. However, these differences are not significantly different from each other. Collectively, they show a general trend, but the finer findings are not significantly different. This means that while there are several problems with the implementation of the plan, these problems are pretty similar in terms of intensity and effect in the eyes of the entrepreneurs.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study sought to establish the strategic planning processes undertaken by small and micro enterprises in the service sector in Nairobi, as well as identify the challenges faced by small and micro enterprises in developing and implementing these plans. The findings of the research can be summarized as follows:

5.1 Demographics and Bio Data

The demographics of the respondents were as follows. The largest share of the respondents was sole proprietors; that is individuals running businesses that may or may not employ other people, but are basically owned by one individual. With regard to the duration of operation, the findings show thus that many small businesses in the city are not new, they have actually been around for a considerable duration of time.

Looking at the number of employees, the findings show that most enterprises in Nairobi have 5 or less employees and are actually micro enterprises by definition. We also see that the biggest number of companies have an annual turnover of less than KShs. 10 million. Thus, in terms of turnover, most companies are truly micro in nature. In terms of compliance with regulatory requirements, the findings show that the levels of operational compliance are high, but tax compliance is relatively low.

5.2 Strategic Planning Processes

The process of strategic planning involves several stages. The organization needs to do an analysis of its internal strengths and capabilities, and then look at the opportunities and threats to the business in its general operating environment. After that, there is the formulation of the mission, vision and objectives of the firm, as well as broad statements about its purpose. This is followed by the development of a company profile, then an assessment of the external environment.

The research shows that SMEs do conduct strategic planning by adopting traditional strategic planning processes used by larger organizations. This is demonstrated by the fact that SMEs have taken the time to think through their business ideas and go through the process of developing strategic planning documents, which include having a vision, mission, company profile, business plan and company objectives. This also includes a formal organization structure and short, medium and long term strategic plans.

There is a relatively high level of formality in the strategic planning processes undertaken by SMEs demonstrated by the fact that majority of SMEs have written down strategic planning documents. However, with regard to forward thinking strategic planning, SMEs tend to do a little poorly. They have a relatively short term view of their planning processes, but do approach their short term planning with a relatively high level of formality.

The strategic planning process also involves an analysis of the internal and external environment of the organization. The research shows that SMEs do conduct an analysis of their internal and external environment, though more to the internal as opposed to the external environment. The outlook of SMEs tends to be more inward as opposed to outward with regard to analysis of the organizations environment. The research also shows that SMEs have demonstrated a greater focus on this analysis during the running of the business as compared to prior to starting the business. Running a business appears

to force business owners to refine their strategic plans and scrutinize their internal and external environments much better.

5.3 Problems implementing the plans

Regarding the problems of implementation strategic planning must address implementation issues in order for it to be effective. Generally, implementation problems affect 2 categories of the organizations operations: the internal environment, and the external environment. The internal environmental problems cover two main areas: resources and planning, while the external environmental problems cover customers, competitors, and the general industry.

Looking at the internal environment, the findings show that generally, internal factors are divided into two broad categories, Resources, which include HR, finance, equipment and premises, and planning, which covers planning, evaluation and structure. Where resources are concerned, HR seems to be the biggest problem while issues concerning equipment and premises are the least problematic. With regard to planning, the findings show that the biggest problem is that SMEs are easily distracted from their original goals. Lack of clarity in planning is also a problem as are changes in the vision, mission and objectives of the company.

Where the external environment is concerned, the findings show that it is divided into three main areas: Customers, which covers customer turnover, access to markets and feedback, competitors, which covers competition, business linkages, best practice and products and services, and industry, which covers taxation, industry standards, country politics, licensing and regulatory compliance, technology and socio-cultural factors. The data shows that with regard to customers, the biggest problem is customer turnover, whereas looking at competition, the biggest problem appears to be fierce and unfair competition. Industry issues are also pertinent, with the biggest problem being excess taxation, high industry standards, and an unfavorable political situation.

5.4 Conclusion and areas for further research

In conclusion, the research was able to achieve its objectives. The research shows that SMEs in Nairobi do carry out strategic planning. The research also shows that SMEs conduct environmental analysis, but it is mostly internal as opposed to external analysis. The study was successful in highlighting the problems faced by SMEs in the implementation of their plans, these problems stemming mainly from internal and external environmental factors, including competitive forces, customers, industry dynamics, as well as internal resources and planning dynamics.

Though very insightful, this research has only shed a little light on what is a fairly complex issue, the mind set, motivation and movements of the entrepreneur in setting up business. Further research needs to be done to properly lay out the thinking and planning processes that go into setting up small businesses. Small business is fraught with difficulty and failure, and research into the planning processes that have succeeded in the past would do a lot to stem these problems.

Future research could also look in greater detail at the issue of the implementation of plans in small businesses. The exact nature and process of implementation problems faced by small business should be highlighted in detail so as to reduce the failure rate among SMEs. Also, an assessment of the extent to which planning is directly or indirectly responsible for the success or failure of small businesses is an area worth investigating in future.

This research has hopefully opened the door to a lot more research on the oft ignored area of SMEs, which is a significant contributor to the Kenyan economy. SMEs are frequently misunderstood, underestimated and under-funded and as a result often under perform. This is a situation that should no longer prevail. Research on what they do and how they operate will ensure that the playing field is leveled for them and that they are able to succeed and thrive in their environments.

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APPENDIX

Respondent Questionnaire

Kindly fill in the following questionnaire and give us your thoughts. Please respond by ticking in the appropriate box

PART A: BIO DATA

1 What is the legal form of your business?

- Sole Proprietor
- Partnership
- Limited Company
- Other (Please specify)

2 How long has your company been in operation?

- Less than 12 months
- 1 to 2 years
- 3 to 4 years
- 5 to 6 years
- Over 6 years

3 How many full time employees does the company have (including directors and owners)?

- 1
- 2 to 5
- 6 to 10
- 10 to 25
- 26 to 50

4 What is your annual turnover in KShs?

- Less than 100,000
- 100,001 to 250,000

- 250,001 to 500,000
- 500,001 to 1,000,000
- 1,000,001 to 2,500,000
- 2,500,001 to 5,000,000
- 5,000,001 to 10,000,000
- 10,000,000 and above

5 Which of the following does your organization have? (please tick all that apply)

- VAT registration certificate
- City Council Single Business Permit
- PIN certificate
- Tax compliance certificate
- Annual Tax returns
- Monthly VAT returns

PART B: STRATEGIC PLANNING PROCESSES

6 Which of the following does your organization have?

	Don't have one	I have one but not on paper	Have one on paper
Vision Statement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mission Statement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company Profile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company goals and objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formalized Organization Structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short term Strategic plan (1 year)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Medium term Strategic Plan (2 to 5 years)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long term Strategic plan (more than 6 years)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

years)			
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7. What is your business planning horizon?

- Less than 1 year
- 1 year
- 2 to 5 years
- Over 5 years
- We do not have a planning horizon

8. To what extent did you carry out an analysis of the following factors in your internal and external environment *prior* to starting your business? Please give a rating on a scale of 1 to 5 (where 5 is to a very great extent and 1 is not at all)

Internal Environment	5	4	3	2	1
Your Strengths	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your Weaknesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Opportunities in the market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Threats to the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Assessment of Resource availability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

External Environment	5	4	3	2	1
Political Environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competitor Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social and Cultural environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technological environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industry Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. To what extent do you carry out analysis on the following factors in your internal and external environment now that you are in business? Please give a rating on a scale of 1 to 5 (where 5 is to a very great extent and 1 is not at all)

Internal Environment	5	4	3	2	1
Your Strengths	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your Weaknesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Opportunities in the market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Threats to the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Assessment of Resource availability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

External Environment	5	4	3	2	1
Political Environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competitor Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social and Cultural environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technological environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industry Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10 How many times in a year do you *formally* collect information on/from the following?

	1	2	3	4	5	6
Your Customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your Competitors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your Industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Politics as affects your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cultural dynamics as affect your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Technological advances with regard to your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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PART C: PROBLEMS IMPLEMENTING PLANS

11 What problems have you faced in the course of implementing your business plan (state on a scale of 1 to 5 the extent to which you agree or disagree by ticking the appropriate box, where 1 means strongly agree, and 5 means strongly disagree)

Internal Environment	1	2	3	4	5
<u>Resources</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Human Resources turnover is too high	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We cannot find the right people	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We are not able to access finances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We do not have the right equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We do not have the right premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Planning</u>	1	2	3	4	5
The plan was not clear in the first place	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We keep changing our vision, mission and objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New ideas come up that distract us from our original goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We are unable to evaluate our progress	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We do not have access to the right information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our internal structures are proving to be weak	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
External Environment	1	2	3	4	5
<u>Customers</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We have a high customer turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We get a lot of negative feedback from the customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We do not have access to the right markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Competitors</u>	1	2	3	4	5
Competition in the industry is too fierce	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Our products and services are not innovative enough	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We have trouble keeping up with best practice in the market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our competitors play dirty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our business linkages are weak	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industry	1	2	3	4	5
We have trouble with regulatory compliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industry standards are very high	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxation is excessive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We do not have access to the right technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We have problems with licensing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for your time and consideration