

**THE EFFECT OF FORMAL STRATEGIC MANAGEMENT ON  
ORGANIZATIONAL PERFORMANCE: A STUDY OF  
SELECTED MEDIUM SIZED MANUFACTURING  
ENTERPRISES IN NAIROBI, KENYA**

BY

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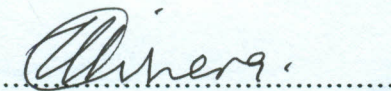
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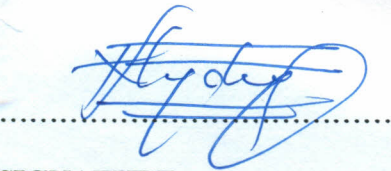


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**DEDICATION**

I wish to dedicate this work, first and foremost, to the Almighty God, through Jesus Christ, for giving me good health and the ability to do the work;

My husband, Dr. Hezekiah Gichunge, for his understanding, support and love;

Our three children, Dr. Peter Munene, Samuel Muthomi and Daniel Mutuma for being with me during my long hours of struggle while doing this work. To my mother, Martha Muguna and my father, David Muguna for parental love and support.

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## ABBREVIATIONS/ACRONYMS

BPO	Business Process Outsourcing
CEO	Chief Executive Officer
FSM-	Formal Strategic Management
GDP	Gross Domestic Product
ILO	International Labour Organization
KIRDI	Kenya Industrial Research and Development Institute
MDG's	Millennium Development Goals
MTP	Medium Term Plan
MEs	Medium Enterprises
OLS	Ordinary Least Squares
RBA	Retirement Benefit Authority
RoK	Republic of Kenya
SAGA	Semi Autonomous Government Agency
SMEs	Small and Micro Enterprises
SPSS	Statistical Package for Social Sciences
SWOT	Strength, Weaknesses, Opportunities and Threats
W.B.P	World Bank Policy

## ABSTRACT

Knowledge of formal strategic management has increased greatly over the last four decades. Most of this knowledge has however been accumulated in the context of more developed countries. Research on formal strategic management in the less developed world is limited but increasing, and concentrates on large private and public sector enterprises. The environment in which the Kenyan Medium Enterprises (MEs) sector exists is very competitive. Medium Enterprises need adjustment efforts that require reassessment of performance for improved management. With increasing challenges in the business environment, ME sector managers must have the capability to adapt and restructure the enterprises to address constraints facing them. They need to adopt formal strategic management.

This study examined the effect of formal strategic management on organizational performance of medium sized manufacturing enterprises in Nairobi, Kenya. It examined the extent to which formal strategic management is adopted by medium sized manufacturing enterprises in Kenya and investigated the effect of various administrative/legal factors on the extent to which formal strategic management are adopted. It also determined the relationship between level of competition and adoption of formal strategic management and investigated the effect of administrative/ legal factors on organizational performance. Finally the study assessed the relationship between adoption of formal strategic management and organizational performance.

The research was conducted through a survey of MEs in Nairobi, Kenya, between July and September 2006. Eighty MEs were selected using simple random sampling. Primary data was collected using a semi-structured questionnaire. The respondents who were members of management team filled open and close ended questions. The data was analyzed statistically using the SPSS and R packages through tabulation, proportions and logit analysis. The results were both consistent and inconsistent with theoretical and empirical expectations. Thus, the majority of MEs have adopted some formal strategic management. This is inconsistent with current literature and empirical studies that suggest that the MEs have not adopted any formal strategic management. It is consistent with past studies that administrative/legal factors affect both adoption of formal strategic management and organizational performance. Competition also influences adoption of formal strategic management. Organizations with formal strategic management perform better than those without formal strategic management.

The top management of MEs should therefore adopt formal strategic management in line with administrative/legal and competitive environmental factors facing the organizations. MEs should also adopt formal strategic management to promote performance and counter competition. This will promote growth in enterprises and enhance entrepreneurship development.

Further research should evaluate the relative importance of other factors like ecological, physical, distributors and suppliers that are assumed to affect organizational performance.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

This chapter explains the background information and the importance of Medium Enterprises (MEs) in Kenya. It also explains the concept of strategic management and its importance to organizations and gives the statement of the problem, the objectives of the study and justification. The chapter also addresses the hypotheses of the study as well as the significance of the study and finally gives the chapter summary.

#### 1.2 Background of the study

In the recent past, a number of management theories and techniques have been developed to improve the understanding of management in organizations (Porter, 1980, Steiner, 1983). The more significant of these include management by objectives, organizational development and operations research. A relatively recent addition to this list was strategic planning and later strategic management system. In most cases these theories and practices were initially developed and applied in large private and public sector organizational settings and some attempts were subsequently made to transfer them to Medium Enterprise (ME) sector contexts. Such attempts have met varying degrees of success (Waalewijn and Segaar, 1993).

It has often been argued by some authors like Sexton and Bowman (1991) and Waalewijn and Segaar (1993) that the principles of management developed for the large organizations should be applied to help the ME sector improve its performance. Strategic management as an approach to management holds definite possibilities for beneficial application in the ME sector. It should be stressed, however, that successful application should account for the

particular context of the ME sector setting. Failure to do this will disregard modern organization and management theory and research (Njau, 2000).

Robinson and Pearce (1983) focused exclusively on small banks and found that formal planners did not outperform non-formal planners over a three year period. Perhaps the answer lies in the studies and their methodology. The strategic planning techniques used to guide the affairs of large businesses are not appropriate for smaller businesses, argues Curtis (1983). The smaller firms may lack the resources, time and knowledge to perform strategic planning reports Sexton and Bowman (1991). However, Handerson and Will (1997), Cool et al, (1999) and Aosa (1992) found that formal strategic management had a positive impact on firm performance.

Wheelen and Hunger (1992) argued that many concepts and techniques dealing with long range planning and formal strategic management have been developed and used successfully by business corporations but not all organizations use these tools or even attempt to manage strategically. Such organizations succeed only for a while with unstated objectives and intuitive strategies but fail in the long run. This view was later supported by Henderson and Will (1997). Henderson's extensive work in the area, shows that intuitive strategies cannot be continued successfully if the organization grows, the layers of management increase, or the environment changes substantially. Brews and Michelle (1999) in their analysis of the strategic planning of 656 firms show that formal planning and incrementalism both form part of good strategic planning especially in unstable environments. In the unstable environments, planning capabilities are far better developed and formal plans more amenable to change. At least 4 years of formal planning are required before external

performance associations are noted, they add. All these studies are based on experiences in developed countries where firms operate under very different political, cultural and socio-economic environments compared to firms in developing countries. Developed countries are high-income countries with per capita incomes of over US \$2000 as opposed to Kenya, a developing country with per capita income of less than US \$400. Furthermore, developed countries are mainly capital intensive while Kenya's production is mainly labour intensive.

There are very few studies carried out in Kenya. Aosa (1992) studied strategic formulation and implementation by large firms in Kenya. He admitted that the failures were caused by lack of effective management and political interference. Aosa (1992) however, did not cover evaluation and control. Sababu (2001) studied the effect of Business policy on organizational performance of large consumer cooperatives in Kenya. He found that strategic management has a positive impact on organizational performance. He noted that very few companies carry out formal strategic management. Although these studies provide valuable insights, they only provide partial perspective on formal strategic management in the private sector. None of them addresses the issue of formal strategic management in MEs in Kenya, which is a different sector altogether in a different political, social-economic environment.

Originally, formal strategic management were meant for implementation by large firms (Byras, 1987). However, they have been adopted by some MEs in developed countries because of their positive impact on organizational performance. MEs in developing countries are implementing formal strategic management. The study seeks to establish the extent to which formal strategic management have been adopted by MEs in Kenya.

Fundamental changes have taken place in the Kenyan business environment. Privatization of some state-owned corporations, liberalization of both domestic and foreign trade, reform programs aimed at modernization of the capital market and the established Retirement Benefit Authority (RBA) are some of the challenges facing the MEs in Kenya. One principal outcome of these changes is increased complexity in the business environment. Such dynamic conditions in the environment require firms to turn to formal strategic management in order to ensure survival and success.

### **1.3 Importance of the Medium Sized Enterprises to the Kenyan Economy**

In Kenya all firms employing between 51 and 100 workers on a permanent basis are categorized as medium sized enterprises (RoK, 2005). This definition was adopted in this study.

Since independence in 1963 the Kenyan economy has experienced a number of cycles of growth followed by downturns and stagnation as outlined below. Immediately after independence the economy registered GDP growth averaging 6.5 percent between 1964 and 1971 (RoK, 1986). However, the oil shocks of the early 1970s and the collapse of the East African Community caused a marked slow down in growth in this decade, except for the “coffee-boom” induced growth in 1976 and 1977. The economy stabilized in the 1980s with GDP growth of around 5 percent being recorded, except in the 1984 drought year (RoK, 1986). However in 1989 the growth again started to decline as a result of poor weather, regional conflicts and an influx of the refugees. During this period there was a global recession that lowered demand for Kenyan traditional exports, coupled with short term dislocations caused by the Structural Adjustment Programmes, and inadequate

macroeconomic management and political uncertainty (RoK, 1994). The GDP growth rate in 1990 declined from 4.3 percent to a low of 0.2 percent in 1993. A combination of improved weather, the favorable impact of economic liberalization and emergence of the global economy from recession led to much improved GDP growth rate of 3 percent in 1994 and 4.9 percent in 1995 and predictions that future growth will be accelerated to 6.7 percent (RoK, 1997). However, the economic growth rate decelerated to -2 (negative two) by 2001 but picked from 2003 and by 2007 the economic growth rate had reached a peak of 8% due to improved accountability, transparency and infrastructure (Rok, 2009).

The Kenya ME sector has assumed an increasingly significant role in national development. For instance according to the 1999 National ME baseline survey there were about 1.3 million Small and Medium Enterprises in Kenya, employing some 2.3 million people and 26 percent of the total households in the Country were involved in some kind of non-primary (non-farm) business activity (RoK, 1999).

The major benefits of medium enterprises includes significant contribution to the economy, creation of job; development of a pool of skilled and semi-skilled workers; creating demand as well as supply; and contributing to increased participation of indigenous Kenyans in the economic activities of the country. Other benefits include offering of excellent opportunities for entrepreneurial and managerial talents; supporting industrialization policies and encouraging use of local resources and adapting quickly to market changes (RoK, 1992).

According to RoK (1965), after independence Kenya intended to mobilize its resources to attain a rapid rate of economic growth for the benefit of its people. The major economic mobilization and reorganization of resources at this transition period could not be realized

without planning, direction, control and cooperation. One of the objectives was to have a high growth per capita income, equitably distributed (RoK, 1965).

The International Labour Organisation (ILO, 1998), has three different but often interconnected approaches which are emphasized: humanitarian, economic and political. The increasing impact and world scale of social problems faced by the above were a consequence of the Industrial Revolution in Europe, the colonization of other continents, and expansion of trade throughout the world. A number of primarily humanitarian movements for social reform developed, aimed towards such goals as the abolition of slave trade, the emancipation of slaves and serfs, the improvement of working conditions and greater assistance to the poor (ILO, 1998).

During the 1970s it became apparent that the number of MEs has increased tremendously. A large debt exposure among MEs resulted in increased vulnerability. Operating losses, inadequate returns on investments and limited administrative and managerial capabilities resulted in greater strain on public and personal finances. In the late 1980s problems associated with the vast growth of the ME sector began to emerge leading to a new government policy aimed at enhancing subsidies to MEs that failed to perform well (RoK, 1992).

To accommodate Kenyan's rising population, the country entered a new phase of development and the provision of basic needs through renewed and rapid economic growth. A target average GDP growth of 5.6 percent a year was established for 1984 to 2000. A restructured industry capable of employing more workers at a high productivity and of creating export market for Kenyan's manufacturers was also envisaged (RoK, 1990). The

Structural Adjustments Strategy, which had been implemented progressively since mid-1980s was essentially a move away from direct government involvement in manufacturing and other sectors where the private sector can operate more effectively (RoK, 1990).

The Session Paper No. 2 of 1992 on Small Enterprise and *Jua Kali* Development in Kenya set out a comprehensive policy framework which enhanced direct assistance to individual entrepreneurs and small scale enterprises; the transition of micro and small scale enterprises into medium size enterprises; access to credit for the informal sector; access to information; and an enabling policy environment through redressing licensing, tax, security of works and other regulatory restrictions on informal sector activities (RoK, 1992). As stipulated in the Sessional Paper No. 1 of 1994, “what” was to encourage the private sector to play its rightful role in industrial transformation development, the Government was to ensure that political, social and economic stability was to prevail (RoK, 1994).

Building upon the process started under the Sessional Paper No. 1 of 1986, and consolidated in the Sessional Paper No. 1 of 1994, the Government was to pursue overall macro-economic policies that provide for a stable economic climate, thereby fostering business confidence. Further, the Government was to encourage a vigorous industrial private sector through trade and industrial development policies that emphasize the mobilization of savings and availability of investible funds; the development of human capital within a flexible labor policy environment; stimulating domestic and external trade; inducing technological change to increase productivity; a reduction of the dominance of parastatals in favour of private sector enterprises and promotion of strategic industries (RoK, 1997). The World Bank Policy (1997) research report found that countries that made large improvements in their macro economic policies had strong increases in the growth of industries and manufacturing.

More recently RoK (2005) has asserted that the micro and small enterprises (SMEs) together with the medium and large industries are critical for industrialization. The 2005 Sessional Paper No.2 and 2003-2007 sessional paper framework provides a more balanced policy focus in line with national goals of fostering economic growth, employment creation, income generation, poverty reduction and industrialization.

The Government's pledge to create 500,000 jobs annually was set to be achieved within a framework of enhanced partnership between public and private sectors and development partners (RoK, 2005). The MEs are expected to seize the available opportunities to invest in productive enterprises, develop competitive industrial sector and create jobs.

The more recent Vision 2030 of year 2007 calls for Kenya to be a globally competitive and prosperous nation with a high quality of life for all citizens by 2030. Vision 2030 is anchored on three key pillars: economic, social and political. The economic pillar underpins the vision for prosperity- aspiring to an economic transformation journey aimed at achieving average economic growth of over 10 per cent per annum over the next 22 years. The social pillar seeks to create and build a just, cohesive society, with equitable social development, in a clean and secure environment. The political pillar in turn aims at realising a democratic political system that nurtures issue-based politics, respect for the rule of law, and protects all the rights and freedoms of every individual in society. The Vision aims at transforming Kenya into a newly industrializing, middle income country providing high quality life for all its citizens by the year 2030. The Kenya Vision 2030 is to be implemented in five-year Medium Term rolling plans with the first such plan covering the period 2008-2012. Within its first year, the Medium Term Plan (MTP) 2008-2012 incorporates interventions underscored in the report of the National Accord Implementation Committee on National

Reconciliation and Emergency Social and Economic Recovery Strategy, and in the One-year Economic and Social Recovery Plan produced to address immediate issues arising from the 2007 post election crisis. A total of 98 Vision 2030 Flagship Projects have been identified for Implementation in the period 2008-2012. Out of this, 21 Flagship Projects will be implemented in the 6 priority economic sectors of Agriculture, Manufacturing, Tourism, Wholesale and Trade, Business Process Outsourcing (BPO), and Financial Services while the rest will be implemented in the priority sectors in the social and political pillars. A Semi Autonomous Government Agency (SAGA) with the requisite capacity is being established to oversee the implementation of all Vision 2030 projects. In doing so, the agency will work in close collaboration with government ministries and departments as well as the private sector, civil society and other relevant stakeholder groups (RoK, 2008).

In conclusion the government was to ensure social stability and continuity of economic policy, recognizing that these are essential prerequisites for rapid and sustained economic growth. The government should also move to become more responsive to the needs of the private sector and be prepared to take reasonable actions to facilitate private enterprise (RoK, 1997).

#### **1.4 The Concept of Strategic Management**

Formal strategic management is that which is written or in official form. Accounts of the historical development of strategic management are given by writers such as Gluck (1984) and Ansoff (1990). Four major stages are commonly recorded as representing the development of strategic management to the current level of understanding which include budgeting and control, long-range planning, strategic planning and strategic management.

Budgeting and control represents early approaches to systematic management and is associated with the early years of the twentieth century. Based upon the assumption that past conditions will prevail in the future, the approach was simply to establish standard levels of performance in budgets and to compare these with actual levels. Reasons for any variations provided the only learning experiences.

Long-range planning is generally associated with the 1950's (Ansoff, 1990). The approach was based on the identification of past trends, particularly business growth, as well as methodology to project these trends into the future. Resources would then be planned either to exploit potential growth or to accommodate anticipated contraction.

Strategic planning is generally associated with the 1960's - 70's. At this stage of development past trends were considered to be inadequate, so that attention was focused on the total, albeit complex, market and business environment which the firm participates in. The focus was also placed upon identifying changes of direction, developing capabilities and creating strategic thrusts for competitive advantage. It was based on planning cycles, with the annual planning cycle being of particular importance (Gluck, 1984).

Strategic management is associated with the period from the mid-1970s onwards. Like strategic planning, it is based on the complexities of the total business environment. However, the approach is not to accept current conditions as being restricting. Rather, the approach is led by well-defined aims, well-developed means to achieve them, and by pursuing viable opportunities wherever they can be identified, which may be regardless of the nature of current operations. The approach relies upon a continuous supply of

information about the environment and avoids the use of planning cycles in preference to being based upon a continuous process, Greenley (1989).

Strategic management system has been defined in different ways by different scholars. David (1986) defines strategic management system as the process of formulation, implementation and evaluation of actions that enable an organization to achieve its objectives. Wheelan and Hunger (1987) surmise that strategic management system is the set of managerial decisions and actions that determines the long run performance of a corporation. According to these authors the concept of strategic management includes strategy implementation, evaluation and control. The study of strategic management system therefore emphasizes the monitoring and evaluating of environmental opportunities and constraints in light of a corporation's strengths and weaknesses. Strategic management practice is concerned with matching the organization resources to the environment in which it operates.

Thompson and Strickland (2003) assert that strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy and then overtime initiating whatever corrective adjustments in the vision, objectives, strategy and execution deemed appropriate. It includes strategy formulation, strategy implementation and evaluation and control.

Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organization-wide implications (Johnson and Scholes, 2002). It includes strategic analysis, choice and implementation. This is where the strategist seeks to understand the strategic position of the organization. Strategic choice has to do with the

formulation of possible courses of action, their evaluation and the choice between them. Lastly, strategy implementation is concerned with both planning how the chosen strategy can be put into effect, and managing the changes experienced by the organization. Strategic management includes all activities that lead to the definition of the organization's objectives and to the development of programs, actions and strategies to accomplish these objectives. It provides basic direction and framework within which all organizational activities take place. Pearce and Robinson (1997) defined strategic management as the formulation, implementation, control and evaluation of business strategies to achieve further objectives. Strategic management arises out of the need for organizations to exploit existing or emerging opportunities and deal with threats in the market. It is crucial that organizations seek to create a competitive advantage and wherever possible innovate to improve their competitive positions. This implies the readiness to change within the organizations and the ability to implement the proposed change (Thompson, 1994).

Hill and Jones (2001) explains strategic management as a process of moving an organization away from its present state towards some desired future state to increase its competitive advantage. They observe that most of the organizations have gone through some kind of strategic change as their management has tried to strengthen their existing core competences and build more to compete more effectively. Strategic management aims at aligning structures, systems, processes and behaviour to the new strategy. Burnes (2000) notes that organizational change is an ever-present feature in organizational life. The pace and magnitude of change have particularly increased significantly in the recent years. The emphasis in strategic management is on the market driven approaches (Thompson and Strickland, 2003). There is much concern with customer, competitor and industry analysis.

Strategy should therefore help companies to develop and maintain a competitive edge in the market place. There is also increased attention to implementation issues. Management training and education had been recommended as one of the ways towards effective strategy implementation (Taylor, 1986). Despite the different definitions, the general consensus is that strategic management includes all of the activities aimed at defining the organizational objectives and developing programs, actions and strategies to accomplish these objectives.

Many models of the strategic management process have been suggested. The various models basically involve formulation, implementation and evaluation of strategy. The model put forward by Thompson and Strickland (2003), identified five steps in the strategic management process. The first task in strategic management is to develop a concept of the business and form a vision of where the organization needs to be headed. Secondly, the mission should be converted into specific performance objectives-something the organization's progress can be measured by. Thirdly, a strategy should be crafted to achieve the targeted performance objectives. Next, the chosen strategy should be implemented and executed efficiently and effectively. Lastly, strategic management involves evaluating performance, reviewing the situation and initiating corrective adjustments in mission objectives, strategy or implementation in light of actual experience, changing conditions, new ideas and new opportunities.

The challenge of strategic management system is the involvement of managers in guiding the future direction of the organization. Accordingly, management needs to consider what strengths, weaknesses; opportunities and threats (SWOT) exist or may exist in the future in order to appropriately position the entity in the environment (Cole, 1996). Strategic management planning consists of all those managerial activities related to preparing the

strategy future. Specific tasks include forecasting, establishing objectives, devising strategy, developing policies and setting goals. Thus strategic planning traditionally involved mainly formulation (Cole, 1996).

Several empirical studies have been conducted to examine the relationship between strategic management system and organization's performance (Ansoff, 1990; Stacy, 1990; Aosa, 1992; Kangoro, 1998; Njau, 2000, Sababu, 2001, Munyoki(2007) and Irungu, 2007). In general, the studies revealed that strategic management leads to improved performance.

Lee (1999) found that organizations which utilize strategic planning achieve higher levels of performance than organizations which do not utilize strategic planning. In the study of twenty eight (28) manufacturing firms where formal planning was applied it was noted that twenty (71 percent) of them achieved better performance (Armstrong, 1999). Brews, *et al.*, (1999) on their analysis of the planning practices found that part of good strategic planning, especially in unstable environments are far better developed and formal plans useful to counter negative changes in the environment. Although many of the firms studied were fairly large, other studies showed that use of strategic management practices by medium sized firms improved performance.

The modern approach of strategic management system comprising the process of formulation, implementation and control of strategies was developed as a response to increasing challenges caused by high levels of environmental turbulence. The approach was more focused, participative and market driven; companies paid close attention to customers and hence remained competitive (Aosa, 1992). The emphasis in strategic management is on the market driven approaches (Cole, 1996). There is thus a lot of concern with customers

and competitors. The strategic management system should therefore help companies to develop and maintain a competitive edge in the market (Njau, 2000).

The Kenyan business environment has been undergoing drastic changes for a number of years. Some of the changes include the accelerated implementation of economic reforms by the government through industrialization by 2020 and Millennium Development Goals (MDGs) by 2030, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organizations in jeopardy (Aosa, 1992).

The medium enterprise (ME) sector operates in a changing environment that demands they operate efficiently and effectively in order to survive. The notion of market driven economy has resulted in competition for previously protected ME sector and hence the need to adopt management practices used by large private and public sector counterparts to achieve higher results. Strategic management practice may be more critical for medium businesses than for large ones. For example, medium business is likely to be seriously damaged by even minor market or competitive misreading. Large firms, on the other hand, can more readily absorb the costs of such mistakes (Fred *et al.*, 1999). The medium businesses are therefore significantly more vulnerable to the consequences of poor application of strategic management practice. Given the situation facing ME sector in Kenya today, strategic management practice would be useful in helping managers cultivate a culture of strategic thinking and management.

In both developed and less developed nations the ME sector remains large as compared to large enterprises. The environment in which Kenyan ME sector enterprises exist and with which they interact is increasing in complexity and the rate of change is accelerating (RoK, 1997). For instance, there is increasing pressure to perform from both the Kenyan public and from micro financial institutions (Rok, 2005). The above two are concerned with assisting development and supporting structural adjustment efforts that require a reassessment of the role structures and performance of ME sector for improved management and divestiture. With these pressures to perform and increasing challenges in the business environment, ME sector managers must have the capability to adapt and restructure the enterprises to address constraints and to regard organizational structures not as immutable. Hence the need for the strategic management practices. Therefore, there is a consensus among scholars that knowledge of strategic management is essential to effective organization performance in a changing environment (Fred *et al.*, 1999).

In Kenya, the studies established the existence of formal and informal strategic planning in organizations. Environmental and organizational (contextual) factors were found to bring out variations in strategy practices. The contextual factors included ownership, complexity, company control, government and management orientation (Aosa, 1992, Sababu, 2001). However the state of strategy of MEs in Kenya is not documented. Therefore, this study seeks to establish the effect of formal strategic management on organizational performance of MEs in Kenya.

### **1.5 Importance of Formal Strategic Management to MEs**

Research findings in Kenya suggest that organizations using formal strategic management are more successful than those that do not use formal strategic management (Aosa 1992,

Karemu 1993, Kang'oro 1998, Sababu 2001, Lewa, 2003). Thus MEs can improve their performance and grow by formal using formal strategic management. Through expansion and growth more employment will be created in these manufacturing enterprises.

In 1994, according to the RoK Economic Survey of 1995, the manufacturing sector, which houses the medium manufacturing enterprises, employed 13 percent of the population in the modern sector and contributed 13.6 percent of the monetary GDP. It also provided a total wage payment of 8.9 percent nationally. The growth of employment has been low in the sector, averaging 1.17 percent over 1987-1994. Export volumes were high with the quantum index over 1987-1991 growing by annual 13 percent compared to imports of manufactured goods which have grown in quantum terms by 1.63 percent over the same period (RoK, 1997).

Kenya's dynamic informal sector is estimated to provide over half the total employment and has recorded an expansion of nearly 70 percent over the last four years. As such the sector has performed a vital role in absorbing surplus labour. Within the informal sector, manufacturing enterprises are estimated to engage 27.5 percent of total employment, with the remaining 72.5 percent engaged in what may be loosely described as services. The importance of the ME sector extends beyond employment, for it provides a point of entry for many Kenyan entrepreneurs into the manufacturing and service sectors and as testing ground of development of low cost products (RoK, 1997). Therefore, the study of Strategic Management to MEs performance will shed light on this area and if implemented enhance the benefits sighted above.

Various reasons have been advanced as to why formal strategic management is of importance to organizations. Thus developing, articulating and sustaining the organization and its mission and writing down gives a sense of purpose, direction, focus and a point of reference; It enables the organization to adapt under conditions of externally imposed stress or crisis (Kiggundu, 1989); improves decisions about the future opportunities and threats faced by the organization; stimulates the development of appropriate aims which serve as powerful motivators of people (Koontz, 1980) and enhances communication, coordination and participation in the organization. Study of formal strategic management on MEs performance will shed light on this area and if implemented enhance the benefits sighted in section 1.5.

### **1.6 Statement of the Problem**

Formal strategic management has been shown to be important as far as organizational performance is concerned. Among the studies done on large companies in Africa, Fubara (1986) conducted a study on companies in Nigeria. He found planning in Nigerian firms to be informal and characterized by budgeting and that most formal plans reported were actual budgets and profitability was greatly emphasised. Woodburn (1984), study of business policy variables in South African companies found that managers in Africa relied on centralized structures and carried out ad-hoc planning. Woodburn attributed this to environmental turbulence, lack of management resources and hostile government activity. However the effect of these environmental factors on MEs in Kenya have not been studied. These factors vary from one country to another.

Non-empirical literature conducted in Kenya (Kiggundu, 1989; Yabs, 2007) suggest that the effect of formal strategic management on organizational performance is not rigorously

researched. Many hypotheses have been advanced to explain the failures of organizations in Kenya. This scenario was later advanced by Nguku (1996), who argued that lack of effective management in organizations was responsible for their demise. A similar observation was made by Nginyo (1997) and Sababu (2001). Yabs (2007) adds that there are political uncertainties and interference on MEs in Kenya. The current study has tried to shed some light on these gaps.

Firms have been found not to perform well if they do not engage in formal strategic management. In a study of ninety USA companies it was concluded that management of any profit seeking organization is delinquent if it does not engage in the formal strategic management process (Byars, 1987). The study concluded that organizations with formal strategic management significantly out performed others in terms of earnings per share, return on equity and return on capital employed. However, although the sales and stock price appreciation for the companies with formal strategic management were greater, the figures were influenced by a single company.

In addition, Karemu (1993) suggests the need to research on strategies in different sectors in the Kenyan economy. Sababu's (2001) noted that very few companies carry out formal strategic management. He recommends future research on identification of factors that are assumed to affect organizational performance like political, physical and technological factors. Other variables that affect organizational performance include competition, ecological, customers, labour unions and distributors. This study is on the effect of administrative/legal and competition on organizational performance of MEs in Nairobi. This is because although there is comprehensive literature review on political interference on

MEs in Kenya (Aosa, 1992 and Yabs, 2007), no studies on their effect on MEs performance have been carried out. Competition was also deemed an important variable in the study because there is steep competition of Asian products in the Kenyan market. The Asian products seem to have a competitive edge locally. Different firms respond to administrative/legal and competition differently, these two factors that vary with time are, therefore, likely to have different influence on formal strategic management in Kenya. Moreover competition is semi-controlled by the firms and hence vary from one firm to another.

This study therefore sought to contribute to the strategic management field in addressing gaps identified. The review of the relevant literature so far has shown that previous studies did not empirically test the extent of adoption of formal strategic management in medium enterprise sub-sector in Kenya. No studies have been carried out on the influence of administrative/legal and competitive factors on the extent to which formal strategic management is adopted. There is also no study on administrative/legal influence on organizational performance (Sababu, 2007). Finally, no studies in Kenya have empirically tested the relationship between formal strategic management and organizational performance in MEs. This study is therefore greatly motivated by deficiencies and knowledge gaps on the empirical studies to justify the effect of strategic management on medium enterprises performance in Kenya.

### **1.7 Objectives of the Study**

The main objective of this study was to investigate the effect of formal strategic management on organizational performance of medium sized manufacturing enterprises in Kenya. The specific objectives of the study were to:

- i) Examine the extent to which formal strategic management are adopted by medium sized manufacturing enterprises in Kenya.
- ii) Investigate the effect of various administrative/legal factors on the extent to which formal strategic management are adopted.
- iii) Determine the relationship between level of competition and adoption of formal strategic management.
- iv) Investigate the effect of administrative/legal factors on organizational performance.
- v) Assess the relationship between the adoption of formal strategic management and organizational performance.

## 1.8 Hypotheses

The hypotheses of the study were:

- i) None of the medium sized manufacturing enterprises in Kenya have adopted any formal strategic management.
- ii) Administrative/legal factors do not significantly influence the level to which formal strategic management are adopted.
- iii) Level of competition does not significantly influence extent to which formal strategic management are adopted.
- iv) Administrative/legal factors do not significantly influence the extent of organizational performance.
- v) Organizations with formal strategic management do not perform significantly different from those without formal strategic management.

### **1.9 Significance of the Study**

The manufacturing sector is an important sector in the Kenyan economy. It offers employment to many Kenyans and provides invaluable products and services to the public. It also makes a substantial contribution (13.6%) to the country's Gross Domestic Product (GDP) (RoK, 1997). It has the potential to generate foreign exchange earnings and diversify the country's economy. Despite its importance, no comprehensive study has been done on formal management especially in MEs. The contribution of this to the knowledge of business management is therefore invaluable.

Theoretically, the study first contributes to the understanding of formal strategic management in organizations in a developing country like Kenya. Secondly, the study provides knowledge on strategic plans in this sector and hence lead to a better understanding of the problems of the ME sector.

In addition, specific knowledge in business management in Kenya is needed by entrepreneurs in MEs in order to make management training more relevant and effective. The research outcomes assists the government particularly the Ministry of Industry in formulating appropriate policies for the medium sized manufacturing firms as well as for the whole industrial sector. The findings hopefully enable academicians and researchers to understand better the relationship between the existence of formal strategic management and organizational performance in general and in MEs in particular.

### **1.10 The Scope of the Study**

This study focused on those medium sized manufacturing enterprises with 51-100 permanent employees and located in Nairobi industrial area. The study was conducted

through a survey of MEs in Nairobi, Kenya, between July and August 2006. Out of the MEs in Kenya, about two thirds are in Nairobi (KIRDI, 1997), hence they are an adequate representative of the total MEs in the Country. The study focused on formal strategic management.

### **1.11 Limitations of the Study**

The main limitation of the study is that the sample size was confined to Nairobi to represent MEs in Kenya. However, because two thirds (67 percent) of MEs are in Nairobi, the sample is considered adequate for the current study

The second limitation is that there was no recent KIRDI directory of MEs other than that of 1997. A few MEs had closed down while others had changed their location, hence it was difficult to trace them but the majority were in the same locations. In addition, only a few variables were tested in the study which did not cover all macro and micro environmental variables because strategic management is a complexity of variables and only a few can be studied at a time. Only competition and administrative/legal factors that are common to all MEs, like the Factory Act, were considered. Also the ME firms used in the study were manufacturing different products.

### **1.12 Chapter summary**

The chapter has discussed the background of the study, the concept and importance of strategic management, the importance of MEs to the Kenyan economy, and the statement of the problem. In addition, the study objectives and hypotheses have been stated. The significance of the study and the scope have also been given. Finally, the limitations of the study have been presented. The next chapter discusses the literature review.

### 1.13 Organization of the Study

The study was organized as follows:

- |               |   |
|---------------|---|
| Chapter one   | Introduction :<br>Background, concept of strategic management<br>Objectives and hypothesis.   |
| Chapter two   | Literature Review.<br>Reviews general and empirical studies from which<br>the conceptual framework of the study is developed.       |
| Chapter three | Research Methodology.<br>Discusses data collection and analytical techniques.   |
| Chapter four  | Results and Discussions.<br>This includes results and discussions and statistical tests for all<br>Hypotheses.                      |
| Chapter five  | Summary, conclusions and recommendations.<br>Includes summary, conclusions, recommendations and suggestions<br>for future research. |

## CHAPTER TWO

### LITERATURE REVIEW

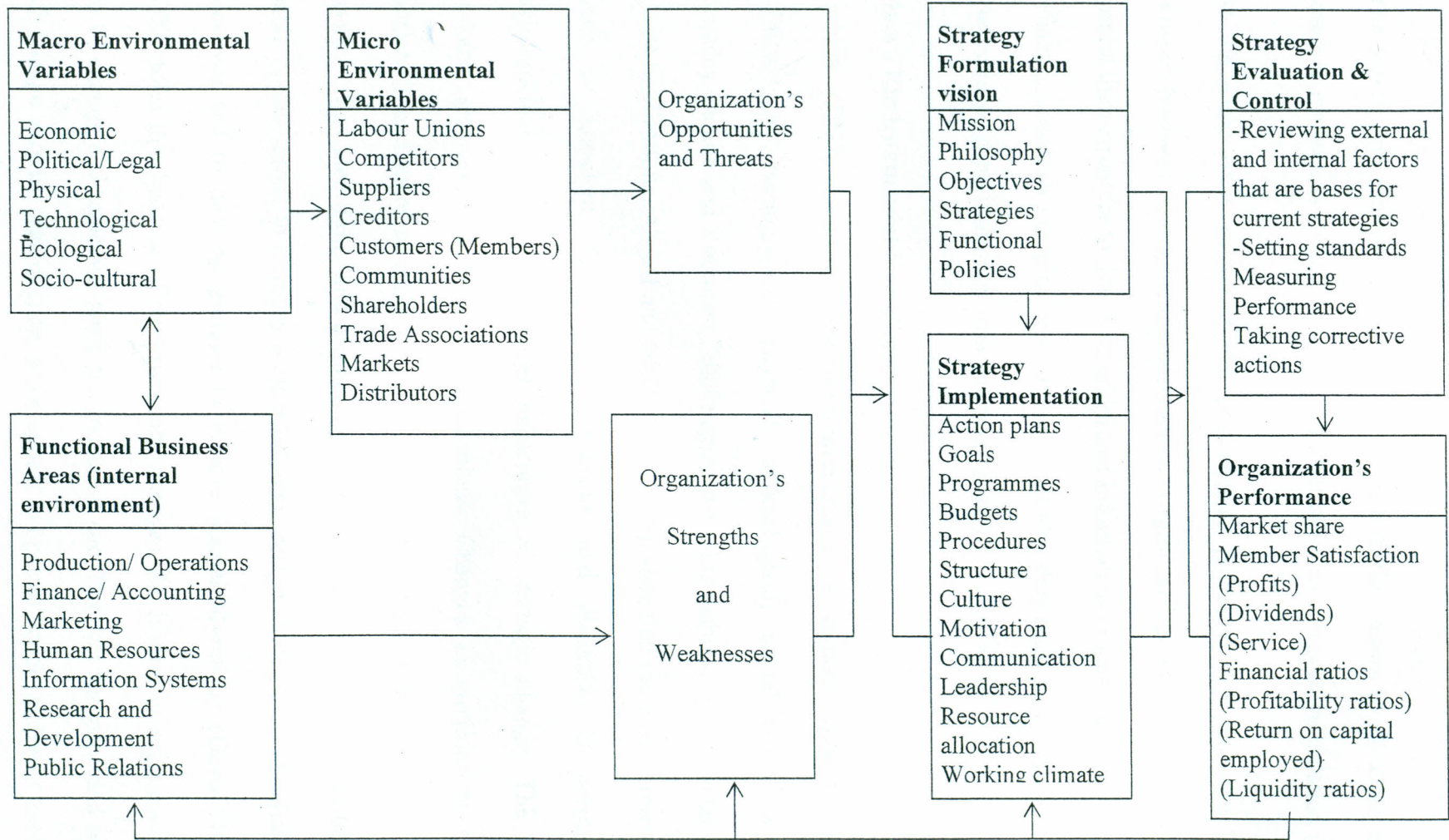
#### 2.1 Introduction

This chapter reviews the theoretical and empirical studies on the environment, strategic management and organizational performance. The conceptual framework of the study was developed after reviewing the relevant literature.

#### 2.2 General Literature

##### 2.2.1 The Environment

It has been observed that changes in the environment have an impact on an organization. Various authors (Jain, 1984; Kotha *et al*, 1995; Porter, 1998 and Luo, 1999) have pointed out that firms are environment-dependent and changes in the environment shape the opportunities and challenges facing the organization. Figure 2.1 shows the relationship between key environmental variables and an organization. According to the Figure 2.1 the SWOT analysis links environmental variables to formulation of formal strategic management process and organizational performance. These variables form part of conceptual framework in Figure 2.2. The environment of an organization embraces all those conditions and forces that affect its strategic options and determine its competitive situation (Porter, 1985). Organizations have to scan the environment in an effort to spot budding trends and conditions that can affect the industry and adapt to them (Thompson and Strickland, 1993). Failure to do this may lead to serious strategic problems characterized by maladjustment of the organization's performance growth (Ansoff, 1990).



**Figure 2.1 Relationships between key environmental variables and an organization**

Source: Adapted from David (1991), and Wheelen and Hunger (1992)

The macro and micro-environment of an organization refers to all those conditions and forces that affect its strategic options and determines its competitive situation (Porter, 1985).

At the same time, organizational performance (success) depends upon a relationship between business strategy and environment. Organizations must not only change, avoid or control their structure to deal with additional information processing requirements caused by dynamic, hostile or complex environments, but also they must review their strategy making processes to fit environment, structure and strategy.

### **Macro Environmental Variables**

Barbara (1997) identified Macro-Environmental or remote variables as economic, political/legal, demographic, physical, technological, social-cultural and ecological variables. Pearce and Robinson (2000) agree with this macro-environmental categorization and its implications. Ansoff and McDonnell (1990), state that the environment can be either stable or turbulent. Environmental analysis and diagnosis is necessary because environmental factors are principal influencers of strategic change. The factors affect products, services, markets and organizations. Changes in environmental forces may translate into changes in consumer demand for both industrial and consumer products and services. Thus identifying and evaluating external environmental opportunities and threats enable organizations to develop a clear mission, design strategies, and achieve long term objectives and to develop policies to achieve annual objectives (David, 1991). Burnes (2000) notes that because of environmental changes, the history of organizations has been that of change and upheaval since the industrial age. Because the pace and uncertainty of such change vary by organization, some appear to operate under relatively stable conditions while others operate under extreme turbulence. However, whichever the level of turbulence,

what matters is the ability of the organization to cope with the environmental constraints, challenges and threats (Weinrich *et al.*, 2008). Several empirical studies have provided the evidence that suggests environments are major determinants of performance in large firms (Lenz, 1980; Porter, 1985 and 1998). However, empirical studies have not provided support for the relationships between strategic management and organizational performance in MEs in Kenya (Kotha and Nair, 1995).

### **Economic Variables**

Economic forces have a direct impact on the potential attractiveness of various strategies. An organization has to diagnose the relationships between its operational activities and the key economic variables (Sababu, 2007). The key economic variables are product demand, economic depressions, levels of consumer disposable incomes, interests rates, stock market trends, inflation rates, propensity of people to spend, economies of scale, price fluctuations, money market rates, consumption patterns, unemployment (non-participation) trends, and growth rate of the Gross National Product (David, 1991; Wheelen and Hunger, 1992).

Because consumption patterns are affected by the relative affluence of various market segments, in its strategic planning, each firm must consider economic trends in the segments that affect its industry. On both the national and international level, it must consider the general availability of credit, the level of disposable income, and the propensity of people to spend. Prime interest rates, inflation rates, and trends in the growth of the gross national product and other economic factors must be considered.

The economic environment is a complex network of international, domestic and regional influences and dependencies that shape the market potential facing companies. Company

performance itself will depend critically on the quality of preparation and decision making that is brought to bear on this potential. Economic changes over time indicate major economic developments of direct interest to markets and business people generally. Such 'economy-watching' may enable the vigilant company to respond in time to scenarios such as recession, recovery and inflation (Adcock, 2001). Economic forces affect organizational performance and they have direct impact on the potential attractiveness of various strategies of the organization (Sababu, 2007). The economic environment can and does change a lot rapidly. The effects can be far reaching (McCarthy, 1993).

### **Political / Legal Variables**

Political factors define the legal, administrative and regulatory framework within which organizations operate. Political/legal variables are state oriented and at both national and local level can affect an organization's activities on a day to day basis through its laws, policies and authority. It can thus affect an organization's strategic decisions by creating opportunities and threats, which arise because the political environment can determine the structure of an industry through monopoly and restricted trade practices. Yabs (2007) also agrees that political development affect business environment in Kenya. One study on corporate political strategies and firm performance indicated that firm specific benefits may result from political strategies (Hilman *et al.*, 1999). Thus some MEs have been destroyed by policies (RoK 1997). MEs have also been known to have adversely been affected by political/legal factors(Aosa 1992).

Political factors define the regulatory parameters within which firms must operate. Political constraints are placed on firms through fair-trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies, administrative jaw boning and

many other actions aimed at protecting employees, consumers, the general public and the environment. Since such laws and regulations are commonly restrictive, they tend to reduce potential profits of firms. However, some political actions are designed to benefit and protect firms (Pearce and Robinson, 1997).

Consumers in the same country usually share a common political environment, but the political environment can also have a dramatic effect on opportunities at a local or international level. Some business managers have become very successful by studying the political environment and developing strategies that take advantage of opportunities related to changing political dimensions (McCarthy, 1993).

An enabling legal, administrative and regulatory environment is imperative for ME sector to play an effective role as an engine for economic growth, poverty eradication and employment creation. Despite significant achievements in reforming the legal and regulatory framework, a number of existing laws and regulations still remain cumbersome, out of step with current realities and hostile to the growth of ME sector. Specifically, the by-laws applied by many Local Authorities are not standardized and appear, in most cases, punitive instead of facilitative (ROK, 2005). At the same time, the role of Provincial Administration in the enforcement of regulations and in jurisdiction over land and utilities tends to overlap and conflict with those of Local Authorities. Finally, the bureaucratic and lengthy process of transacting business with Government agencies adversely impacts on the operations of the MEs by diverting the scarce resources from production to sheer housekeeping. Though administrative/legal factors affect businesses in Kenya (Yabs, 2007), no studies have been done to investigate their effects on MEs performance.

### **Demographic Variables**

Demographics help to locate a target market whereas psychological and socio-cultural characteristics help to describe how its members think and feel. Changes in demographics lead to a shift in the types of products required. Demographics cause changes in the way in which products are sold and also has an impact on the product requirements of a household (Rose, 1997). In organizations the levels of members education, experience, managers professional training and number of members have often been attributed to failure or success of formal strategic management practices (Nguku, 1996; Nginyo, 1997 and Sababu, 2001). Irungu's (2007) study on the effect of top management teams on the performance of publicly quoted companies in Kenya found that top management team, individual member characteristics had positive impact on decision making processes and organizational performance.

### **Technological Variables**

Technological innovations create possibilities for new processes, products and services for organizations. The space of technical change reduces the product life-cycle. This is true in the new technology of communications, electronic engineering, robotics, and computing, packing, money printing and so on. Creative technological adaptations can further suggest possibilities for new products, for improvements in existing products or in manufacturing and marketing techniques. Additionally, in contrast to the U.S based studies by Kotha *et al.*,(1995), it was found that capital expenditures and technological change are not negatively associated with profitability. Rather, technological change had a positive impact on a firm's growth. Shrivastava (1995) studied three corporations and found the environmental technologies to be a competitive force and a tool for competitive advantage.

To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence the industry. Creative technological adaptations can suggest possibilities of new products, improvements in existing products, or in manufacturing and marketing techniques. A technological break through can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Thus all firms and most particularly those in turbulent growth industries must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services (Pearson and Robinson, 1997).

Underlying any economic environment is its technological base: the technical skills and equipment that affect the way an economy's resources are converted to output. New technologies have created important industries that did not exist a few years ago. As new technological developments come along, managers should be alert to possible uses of these technologies and see how opportunities can be turned into profits (McCarthy, 1993).

There have been major developments in the technology used in the retailing of financial services. Over the last few years, technology has been dynamic and companies have invested millions of dollars trying to keep pace with the changes and to ensure that their systems are customer oriented. Developments in the use of technology have changed the ways in which organizations interact with their customers and promote their products. In a highly competitive environment, it is vital for companies to be able to develop and maintain customer databases. It is now apparent that technology is no longer a support mechanism, instead it is key to the development of new services and products (Rose, 1997). Innovation and technological resources are elements that clearly contribute to ME's competitiveness

and success (Antonio and Gregorio, 2005). A study by Munyoki (2007) showed that technology transfer practice had a direct influence on organizational performance.

### **Social-cultural Variables**

Social-cultural variables which affect ME's include beliefs, values, attitudes, opinions, activities and lifestyles of persons in the organization's external environment (Peace and Robinson, 1991). These factors are dynamic and dictate the individual's desires, wants and needs. Changes in these variables have major impacts on virtually all goods, services, markets and customers. They shape the way people live, work, produce and consume commodities (Sababu, 2007).

As social attitudes change, so too does the demand for various types of products and services. Like other forces in the remote external environment, social forces will constantly change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. Translating social change into forecasts of business effects is a difficult process. Nevertheless, informed estimates of the impact of such alterations of geographic shifts in populations and changing work values, ethical standards, and religious orientation can only help a strategizing firm in its attempts to prosper (Pearson and Robinson, 1997).

The cultural and social environment affects how and why people live and behave as they do which affects customer buying behavior and eventually the economic, political and legal environment. Most changes in basic cultural values and social attitudes come slowly. An individual firm cannot hope to encourage big changes in the short run. Instead, it should identify current attitudes and work within these constraints as it seeks new and better

opportunities (McCarthy, 1993). The available research evidence shows that social cultural factors affect the formulation of formal strategic management and organizational performance (Sababu, 2001).

### **Physical Variables**

These include geographical and ecological variables. They influence and determine strategic business decisions in many ways. Among the most important geographical variable is the infrastructure. The key infrastructural factors, which influence the formulation and implementation of business strategies in Kenya, were identified by Aosa (1992) as the availability of roads, airport facilities, power, telephones, transport, railways, communication and information facilities.

According to Aosa (1992), these factors are, in relative terms, lacking in Africa in general and Kenya in particular. They affect organizations' activities but the organizations have no control over them. The accessibility of piped water is also one of the major facilities lacking among others in Kenya. Ecologically, the interaction between the human activities and the surroundings has a bearing on the organization. The interaction can result in water, air and land pollution. The major concern of businesses is to eliminate pollutants and efficiently and effectively manage their surroundings. Effective strategic managers must make decisions on this very important area (Sababu, 2007).

### **Micro environmental Variables**

The key micro environmental variables are competition, customers, distributors and suppliers. Thus designing viable strategies for organizations including manufacturing enterprises requires a thorough understanding of these variables (Ansoff, 1990).

## **Competition**

Competition is a micro environmental variable that is semi- controllable by the organization (Sababu, 2007). Strategic management process ultimately aims at developing competitive advantage for the firm (Porter, 1980, 1985). Firms strive to outmaneuver their competitors in order to survive. However, this is not possible if there is lack of sufficient information about its rivals. Strategies of competition are also highly interdependent and so a competitor's position is a crucial determinant of the choice of strategy (Thompson and Strickland, 1998).

Effective competitor analysis requires systematic study of both existing and potential competitors. According to Porter (1980), the factors that need to be understood with regard to competitor's include their future goals, perceptions of themselves and the industry.

In any industry, the rules of the competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors (Porter 1985). The five forces determine industry profitability because they influence the prices, costs and required investments of firms in an industry.

Buyer power influences the prices that firms can charge. The power of buyers can also influence cost and investment, because powerful buyers demand costly services (Kotler, 1997). The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry places a limit on prices, and shapes the investment required to deter entrants (Porter, 1998).

When competing organizations within a single industry are observed, however, patterns of behavior begin to emerge which suggest that these various organizational forms can be reduced to several archetypes. So far four such organization types have been identified. Each of these types has its own strategy for responding to the environment, and each has a particular configuration of technology, structure, and process that is consistent with its strategy. These organization types are the defender, the reactor, the analyzer and the prospector (Porter, 1998). They have the following general characteristics:

Defenders are organizations which have narrow product-market domains. Top managers in this type of organization are highly expert in their organizations limited area of operation but do not tend to search outside of their domains for new opportunities. As a result of this narrow focus, these organizations seldom need to make major adjustments in their technology, structure, or methods of operation. Instead, they devote primary attention to improving the efficiency of their existing operation (Porter, 1998).

Prospectors are organizations which almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. Thus, these organizations often are the creators of change and uncertainty to which their competitors must respond. However, because of their strong concern for product and market innovation, these organizations usually are not completely efficient (Porter, 1998).

Analyzers are organizations which operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these organizations operate routinely and efficiently through use of formalized structures and processes. In their more

turbulent areas, top managers watch their competitors closely for new ideas, and then rapidly adopt those which appear to be the most promising (Porter, 1998).

Reactors are organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. Because this type of organization lacks a consistent strategy-structure relationship, it seldom makes adjustment of any sort until forced to do so by environment pressures (Miles and Snow, 1978).

Competitive analysis has the objectives of identifying competitors, collecting and evaluating information on competitors, identifying potential moves by competitors, determining competitors' strengths, weaknesses and capabilities and helping the organization to devise effective competitive strategies (Kotler, 1997, Wikipedia, 2009). Porter (1985) introduces the concept of competitive strategy. He says competition is at the core of the success or failure of organizations. Competition determines the appropriateness of the organization's activities that can contribute to its performances. Competitive strategy aims at establishing a profitable and sustainable position against the forces that determine industry competition. When the environment changes, competitive strategy seeks to not only respond to the new environment, but also attempts to shape that new environment in the organization's favour.

The exact criteria used in constructing a competitors' profile are determined by situational factors, market share, breadth of the product line, effectiveness of sales distribution, price competitiveness, promotional effectiveness, entity location, productivity capacity, experience, costs of raw materials, financial positions, product quality, research and development, quality of staff and general image of the organization (Kotler, 1984). A study

on the relative impact of actual and potential rivalry on firm profitability in Pharmaceutical Industry during the 20 year period 1963-1982 showed that during the 1960's actual rivalry among the sampled firms did not materially affect firm profitability, but that during the 1970's, competition among incumbents had an increasingly adverse effect on their profitability. The results also show that potential competition significantly reduced drug firms' profitability during the entire 20 year period (Cool *et al.*, 1999). In Kenya, because of liberalization, many products from the Asian countries seem to have a competitive edge locally. The study seeks to find out whether competition affects formulation of formal Strategic Management in Kenyan MEs.

### **Customers**

Successful organizations continually monitor present and potential customers buying patterns. Hence effective strategists should be concerned with who their present and potential customers are and their needs. An organization's customers are said to be effective if they have the capacity to purchase organizational products and these products are reachable by customers (Sababu, 2001).

Customer value are the benefits sought (Iyer, 2006). The examination and evaluation of customers needs involves conducting customer's surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis is essential in developing an effective mission statement. Customer profiles, on the other hand reveal the demographic characteristics of the respective customers of that organization. This means all stakeholders should participate in gathering information to identify customers' needs. A well developed customer profile of an organization improves the ability of its

managers to plan their strategic operations. The principal types of information used in constricting customer profiles are geographic, demographic, psychographics and buyer behavior (Sababu, 2007). Customers affect organizational performance (Iyer, 2006; Sababu, 2007).

### **Suppliers**

Dependable relationships should at times exist between an organization and its suppliers in the long-term organizational survival and growth. An organization regularly relies on its suppliers for provision of raw materials, merchandise, services, finance, long-lived assets, water, power and telephone facilities to enable it to function.

There are several factors to consider in assessing an organization's relationships with its suppliers. Among the most important ones are suppliers' price levels, quantity discounts, cartels, transportation, quality standards, supply abilities, reputation and availability in any time of need. A supplier is said to be powerful if his products are unique and are differentiated, he can integrate forward into the industry supplies.

The buyer group on the other hand can cater against this power by making large purchases at a time to reduce costs, by integrating backwards, by substituting the prevailing suppliers and relocating themselves strategically to the supply sources by opening effective sourcing branches (Sababu, 2007). According to Sababu(2007), suppliers is one of the variables assumed to affect organizational performance.

From the above overview, many environmental variables have been discussed. The many environmental factors, could not be tested in a single study. Some have already been studied. Sababu (2001) studied the effect of socio-economic, demographic, labour unions and

shareholders on formulation of formal strategic management systems. Munyoki (2007) studied the effect of technological transfer on organizational performance while Irungu (2007) studied the effect of Top Management Teams (TMTs) on performance of publicly quoted companies in Kenya. In this study the variables tested are administrative/legal and competition on organizational performance.

### **2.2.2 The Strategic Management**

The strategic management process is concerned with establishing objectives and goals for the organization and maintaining a set of relationships between the organization and the environment. This enables it to pursue objectives that are consistent with organizational capabilities, and continue to be responsive to environmental demands (Ansoff, 1990). The strategic management process is based upon the belief that key external and internal events and trends should continually be monitored. Organizations should pursue strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses (Cole, 1996). There must be strategic planning (Langston and Kristensen, 2003).

Strategic management analyzes environmental opportunities and threats, internal strengths and weaknesses or resource gaps and current values and management philosophy. The strategic management process can be depicted as a series of steps. These components are: strategy formulation (organisational vision and mission, objectives and internal analysis), situation analysis (competitor, industry and market analyses and strategy selection); strategy implementation and strategy evaluation and control (Pearce and Robinson, 1997)

Deepak (1990) study on the contribution of formal planning to decisions revealed that planning systems studied contributed more to decisions considered important, risky, of global nature and related to divestments. This study covered strategy formulation, implementation, evaluation and control.

### **Strategy Formulation**

Strategy formulation is the development of long range plans for effective management of environmental opportunities and threats, in light of an organization's strengths and weaknesses. It is also called strategic or corporate planning. It includes environmental scanning, defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines (Dess, 1987). These activities are undertaken by organizations to cope with changes in their external environment. Henderson *et al.* (1997) argued that both organization and competition are clearly important in shaping strategy and performance.

### **Environmental Scanning**

Environmental scanning (analysis) is the process by which strategists monitor the environmental sectors (economic, political/legal, social/cultural, technological or ecological) to determine opportunities for and threats to the organization (Pearce and Robinson, 1997). This analysis and diagnosis is necessary because environmental factors are prime influencers of strategy change. The scanning gives planners time to anticipate opportunities and plan to take optimal responses to them; developing an early warning of any negative deviations. If a firm ceases to adjust its strategy to the environment, the result is lessened achievement of corporate objectives (Glueck and Jauch, 1988; Thompson, 1994). Firms-specific factors or environment matter most for outperforming and underperforming firms (Gabriel *et al.*, 2005)

The environment of an organization consists of micro and the macro environments. Before an organization can begin to formulate strategy, management must scan the environment in order to identify opportunities, threats, strengths and weaknesses of the organization. To be successful overtime, an organization must be in tune with its environment. There must be a strategic fit between what the environment wants and what the organization has to offer, as well as between what the organization needs and what the environment can provide (Powell, 1992).

### **Mission**

The specification of the organization's mission marks the beginning of strategy analysis. It serves a crucial purpose in organizational decision-making and tries to answer the question: '*what business are we in?*' This reveals an organization's scope of the business activities it pursues-product or service, markets, customers and philosophy (Glueck and Jauch, 1988). A good mission statement focuses around customer needs and utilities (Andrew, 1972). Strategy will only make sense if the markets to which it relates are known. Defining the company's markets is the starting point of the strategy making process.

A mission statement is an enduring statement of purpose that distinguishes one organization from other similar organizations. Fred *et al.*, (1999) define an organization's mission as a firm's overall broad guiding statement of purpose that includes basic description of the firm, its nature and its philosophy. A well conceived mission statement defines the fundamental and unique purpose that sets a company apart and identifies the scope of the organization's operations in terms of the products offered and the markets served.

According to David (1991) a good mission statement should be as precise as possible; indicate the major components of strategy; indicate how objectives are to be accomplished; define the firm's products and functions; designate markets to be reached, specify the means for financing operations; and describe how the goals might be attained. The statement should also have strategic vision- a long term frame of horizon developed to set forth the organization's mission and objectives (Wheelen and Hunger, 1992). Few organizations including manufacturing sector cannot thus achieve a reasonable performance without a mission whether written or inferred since all their activities would not be in line with the philosophy, objectives, strategies or functional policies of such organizations. An organizational mission statement should therefore always be displayed conspicuously throughout the organization premises, and effectively be communicated to all stakeholders.

### **Objectives**

Objectives are integral to the strategic management process. They ensure that the organization's direction is converted into specific achievable performance targets. They provide yardsticks by which the organization's performance is judged. It then becomes possible to evaluate success. They also provide more specific definitions of the organization (Glueck and Jauch, 1988). Objectives change over time as a result of alterations of goal orientations, crisis, and demands from coalition groups within the sector and normal life-cycle changes.

Objectives are the end results of planned activity which the organization seeks to achieve through its existence and operation (Glueck and Jauch, 1988). They state what is to be accomplished by when and should be quantified where possible. Thompson & Strickland (2003) agree that objectives are an organizations performance targets, the results are

outcomes it wants to achieve. They function as yardsticks for tracking an organizations performance and progress. David (1986) defines objectives as the long-term results that an organization seeks to achieve in pursuing its basic mission. These objectives are vital to an organization's success because they provide direction, aid in evaluation, create organizational synergy, reveal priorities, allow coordination and are essential for the successful management of organizations (Ansoff, 1990). Therefore the objectives must be SMART (Specific, Measurable, Achievable, Realistic and Time bound). Without a considered, communicated and verifiable set of objectives, positive management of the organization becomes impossible. The comparison between objectives with current performance reveals the gap, if any, to be filled in the future performance of the business. The objectives set for the organization over a specific time period must be the means used to appraise the organization, hence the requirement for specific verifiable objectives.

Objectives can be both long range and short range in nature. Long range objectives, which can also be referred to as vision specifies the results that are desired in pursuing the organization's mission, and normally extend more than one financial year. Short range objectives are performance targets normally of up to one financial year that are used by management to achieve the organization's long range objectives establishment. The objectives begin with the mission. Without objectives organizational performance will not be achieved since there will be no direction in the activities of the organization as individuals and departments will most likely pursue different goals.

### **Strategies**

Jauch and Glueck (1988) define a strategy as a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. A

strategy is a commitment to undertake one set of actions rather than another (Strickland et al, 2007). This is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. Strategy enables organizations to cope with environmental challenges. According to Johnson and Scholes (2002), strategy is the process that matches resources and activities of an organization to the environment in which it operates.

An organization's strategy forms a comprehensive plan stating how the organization will achieve its mission and objectives (David, 1991). According to Howe (1993) the purpose of a strategy is to take the organization from its present position towards the goals it has identified for itself. Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purposes it wishes to accomplish. It is meant to provide guidance and direction for the activities of the organization. This idea is in line with Ansoff's (1965) view that strategy is the 'common thread' among an organization's activities and product/markets that defined the essential nature of the business that the organization was in and planned to be in the future. It is a pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals (Andrews, 1972). Various strategies could be pursued but since no organization has unlimited resources, strategy decisions will have to eliminate some possible courses of action and allocate organizational resources to others.

Bett (1995), found out that due to the economic reforms in Kenya, firms in the dairy industry made substantial adjustments in the strategic variables which included the marketing mix components of the products, promotions, place and price. However if it is

established that none among the available strategies is suitable for the organizations, suitable strategies should then be crafted and one or more must be selected for implementation. Rogers et al., (1999) study revealed that strategy moderates the relationships between planning and performance.

The strategic management literature emphasizes on the important role of strategy in both large and small firms (David, 1994 and 1999, Wheelan and Hunger, 1995 and 1999, and Rue and Holland, 1986). Firms use strategy to outline the fundamental steps that they plan to follow in order to accomplish their objectives. The literature indicates that organizations can have a single strategy or many strategies, and that these strategies are likely to exist at three levels: corporate level strategies (such as grand or master strategies); business level strategies (competitive strategies); and functional level strategies. Although the literature suggests that strategies are developed at the three different levels, theoretical and empirical studies of the relationship between strategy and organizational performance have mainly emphasized on business strategy (Lee, 1987).

Previous empirical research on the strategy/performance relationship has mainly focused on large firms. These studies provide strong evidence that suggests business strategies are associated with the performance of large firms (Woodburn, 1984; Byras, 1987; Deepak, 1990 and Sababu, 2001). Although most of the empirical studies centre upon large firms, a small body of research indicates that business strategy can also influence the performance of medium firms.

In the context of MEs, it was noted that effective business strategies depended on the type of business as well as the products they developed. Keith (2006) claimed MEs that adopted

particular business strategies seem to achieve better performance. Nicholas and Abby( 2006) observed that small firms have to develop new strategies to react to the changing nature of business as reflected in such factors as increasing competition, both national and international, the increasing internationalization of markets, and new global competitors. Formal planning firms experience the barriers to deployment to a lesser extent compared to non-formal planning firms, they noted.

The role of strategy is to match external environment with the firm's internal capabilities. Over time the firm's strategies had changed to counter changes in the organizations environment during the economic transition in China (Justin and David, 2004). Different phases of the transition process call for firms' ability to switch from one strategy to another in order to align with environmental changes. Such strategic transition may determine performance.

Organizations exist in the context of complex commercial, economic, technological, cultural and social world. An understanding of the historical and environmental effects, as well as opportunities and other factors that will exert threats to the organization is of paramount importance.

Strategy crafting is largely influenced by top manager's perception of their organization's environment. Every organization has a unique environment, even organizations within the same industry have environments unique to themselves. Small and Medium firms mix strategies as a response to customer demand or in an attempt to increase sales volume by offering greater variety (Jay and Alec, 2005).

The major tasks of managers is to assure success (and therefore) survival of the companies they manage. In order to achieve success the companies have to adequately adjust to meet environmental challenges. Failure to do this will cause the company to experience a big strategic problem. This problem arises out of the mismatch between the output of the company and the demand in the market place. Strategy is useful in helping managers tackle the potential problems that face their companies (Aosa, 1998). Strategy is a tool, which offers significant help for coping with turbulence confronted by business firms. If the concept of strategy is to be of value, correct strategies have to be formulated and implemented, a process known as Strategic Management.

### **Strategy Implementation**

Strategy implementation includes organizing, motivating and staffing. Implementation of the chosen strategy is by any measure one of the most vital phases in the decision making process. Strategy implementation embraces all of those actions that are necessary to put the strategy into practice. David (1991) states that strategies are not the end result of the strategic management process. Strategic thought has to be translated into strategic action.

Once the strategic planning process is complete, the strategy must be implemented. No matter how creative and well formulated the strategic plan, the organization will not benefit if it is incorrectly implemented. Strategy implementation involves several dimensions of the organization. It requires changes in the organization's behaviour, which can be brought by changing one or more dimensions, including management's leadership ability, organizational structure, information and control systems, human resources and production technology.

Leadership is getting others to do what the leader wants them to. Managers must influence organizational members to adopt the behaviors needed for strategy implementation. Leadership includes communication and motivation as well as changes in corporate values and culture. Managers seeking to implement a new strategy may find it useful to build coalitions and persuade middle managers to go along with the strategic plan and its implementation. If leaders involve other managers during strategy formulation, implementation will be easier because managers and employees will better understand, and be more fully committed to, the new strategy.

Organizational structure indicates individual managers' responsibilities and degree of authority and incorporates jobs into departments. Structure also pertains to the degree of centralization and whether a functional, divisional or matrix approach will be utilized.

Information and control systems include reward systems, incentives, management-by-objective types of systems, budgets for allocating resources, information systems, and the organization's rules, policies and implementation. A proper mix of information and control systems must be developed to support the implementation of the strategic plan. Managers and employees must be rewarded for adhering to the new strategy and making it a success, or the intensity of implementation will be reduced substantially.

The human resources of an organization are its employees. The human resource function involves recruitment, selection, training, transfers, promotion and layoffs of employees to properly implement the strategic plan. New strategy may foster resentment and resistance among other managers and employees, and this is a matter that must be resolved quickly or

it may hinder strategy implementation. In essence, a proper balance of human resources must be developed to support strategy implementation.

Technology relates to the knowledge, tools and equipment used to accomplish an organization's assignments. If an organization adopts a strategy of producing a new product, managers must often redesign jobs and construct new buildings and facilities. New technology, because of its efficiency, may also be required for implementing a low-cost strategy. As with other aspects of strategy implementation, the appropriate level of technology must be found for proper implementation of the strategic plan (Porter, 1980).

In strategy implementation, the management translates strategies and policies into action through development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is key part of strategic management.

### **Evaluation and Control**

Evaluation and control is the process by which an organization's activities and performance results are monitored and actual performance compared with desired performance. In evaluation of strategy, managers try to assure that the strategy chosen is properly implemented and is meeting the objectives of the organization. Control and evaluation process helps strategists monitor the progress of a plan. Evaluation and control processes are set up to be sure the gap between expected and desired objectives will be closed according to the strategy (Pearce and Robinson, 1997).

The evaluation process is thought of as comprising of four interrelated activities which include to establish performance targets, standards and tolerance limits, measure the actual

position in relation to the targets at a given time, analyze deviations from acceptable tolerance limits and execute modifications if any necessary and/or feasible (Karemu, 1993).

Though the above model may portray formality in strategic management, a number of factors determine how much formality is needed. These factors include the management style, complexity of the environment and the size of the organization (Pearce and Robinson, 1997). Although evaluation and control is the final phase of strategic management, it can also pinpoint weaknesses in previously implemented strategies and thus stimulate the entire process to begin again.

### **2.2.3 Organizational Performance**

Organizational performance assesses how firms are able to meet their stated objectives over time. It is known that the ultimate goal of any business organization is to be able to meet specific objectives such as customer satisfaction, profit maximization and cost effectiveness. A firm that is able to meet these objectives is perceived as being more successful than one that is not able to meet the objectives. There are many ways of measuring performance, which include profitability ratios such as earnings per share, return on investment or return on equity. However, in many cases performance is not just about profits, and indeed a successful firm may not necessarily be making profits at a particular point in time, depending on the purpose for which performance is measured. An organization's performance is observed through the activities it carries out in order to achieve its mission and can be observed through the various outputs. For example, absenteeism, lack of commitment among managers, and absence of a clear mission statement are indicators of poor performance (Munyoki, 2007). In this study it was found prudent to use several criteria

to measure performance. Lusthaus (2000) discusses performance by splitting it into four main indicators: Efficiency, Effectiveness, Relevance and Financial viability.

Although, many studies as noted below have found that different companies in different countries tend to emphasize on different objectives, the literature suggests financial profitability and growth to be the most common measures of organizational performance in relation to its environment over a period of time.

Accounting figures can reveal inefficiency in performance; inefficiency of the firms' and general threats caused by macro-economic factors like inflation, interest rate and foreign exchange rates. But that is not all. Threats, opportunities and future strengths and weaknesses should be continuously identified. The trends should be regularly reviewed to ensure identification of sudden, fast and potentially surprising changes.

Organizational performance is crucial to the survival of any organization, and over time, provides the test of leadership and strategy (Schendel and Hofer, 1979). Organizational performance has been perceived as the integration of three broad dimensions: efficiency, effectiveness and adaptability (Moseng and Bredrup, 1993). The classical approach to organizational performance and measurement is best described by the Sink and Tuttle model (Sink 1985; Sink and Tuttle, 1989). The model proposes that the performance of an organizational system is a complex interrelationship among seven performance criteria: effectiveness, efficiency, quality of products, productivity, quality of work life, innovation, and profitability. As such, organizational performance can be judged in terms of whether or not an organization achieves the various objectives set before it. Some of the objective measures to assess performance include creation of new products according to time and

resources target (Bradley and Hebert, 1996), reduction of operational failures (Mjos, 2002), reduction in organizational costs, increase in overall revenue, improvement of customer service and workforce productivity, as well as financial and non-financial measures. The measures of organizational performance can further be evaluated from the perspective of various stakeholders (Gu, 1994; and Kaplan and Norton, 1996).

Sababu, 2001 and 2007 gave the criteria for evaluating efficiency in the cooperatives as looking at their economic performance in terms of profitability of the business, analyzing the improvement of the services offered to the members, and assessing the cooperative's contribution to economic growth, and diversification of its activities. His argument implies that the evaluation of performance in cooperative organizations is geared on their internal environment with regard to strategy formulation, strategy implementation, strategy evaluation and control in view of the external environment. Therefore, the onus is to every ME's to continuously appraise the environment and identify issues/factors that can impact on performance and act/manage them immediately.

A relationship exists between strategy and performance. Strategy is a set of decision-making rules for guidance of organizational behavior. The rules are yardsticks by which the present and future performance of the firm is measured. The rules may also be used for developing the firm's relationship with its external environment (Ansoff, 1990).

Aligning strategy, performance and business results gives a step by step guide to making strategy happen. This demonstrates how adapting a strategic approach to performance management can lead to a clear competitive advantage and reveals what puts some companies' way ahead of the competition in managing strategic performance.

According to Ansoff (1990) strategies are frequently not made explicit. They are either privately carried out or shared only by the key management or a diffuse generally understood by seldom-verbalized sense of common purpose throughout the firm. And since management is a pragmatic results-oriented activity, the question that needs to be asked is whether an absolute concept such as strategy can usefully contribute to firm's performance.

Examples of deliberate and successful use in strategy include Dupont's deliberate and successful move from explosives into chemical in the 1920s, Henry Ford's concentrating on the model-T, and Durant's vision of a firm founded on a full automotive product line and Sloan's subsequent rotation of this vision into a clear set of organization audiences for building a novel type of firm (Ansoff, 1965).

In a productive environment characterized by slow change in demand and stable technology in products and processes; strategy needs to change slowly and incrementally. In an organizational dynamics and a turbulence environment, strategy has emerged as a tool for reorienting the organizations. The viability of systematic and explicit strategy gets questioned. Significantly organizational complexity, uncertainties of information makes it impossible to approach strategy formulation in a systematic manner. This leads to strategy being more of adaptive, unsystematic, informal way in most organizations (Ansoff, 1990). A study on American mergers and acquisitions has revealed that deliberate and systematic preplanning of acquisition strategy produces significantly better financial performance than an unplanned, opportunistic, adaptive approach (Ansoff, 1965).

The unfolding of process characteristics of strategies over time is complex. Assuming that success is not only a dependent variable, changes in success of firms should also affect their strategies. For example, a failure may lead to reactive strategies, because crisis and stress put

additional strain on the decision making process. This leads one to be cognitive by simply reacting to structural demands.

Similarly, success may lead to an increased use of the complete planning strategy because expanding activities and hiring new employees leads to the necessity to develop more sophisticated management and control techniques. Also success provides feedback about which practices are successful and which are not. This results in planning successful practices.

### **2.3 Empirical Studies**

Literature abounds with empirical studies on relationship between strategic management and performance in organizations. One of the earliest studies concerning the relationship between strategic management and organizational success involved companies in the drug, chemical, machinery, oil, food and steel industries in the U.S.A (Byras, 1987). Companies were classified as having a strategic management system if they established objectives for at least three years ahead and if they established specific action programmes, projects and procedures for achieving the objectives. The study concluded that organizations with formal strategic management systems significantly outperformed others in terms of earnings per share, return on equity and return on capital employed. However, although the sales and stock price appreciation for the companies with formal strategic management system were greater, the figures were strongly influenced by a single company.

In the study on the contribution of formal planning to decisions, Deepak (1990) presented results of 1087 decisions made by 129 of the Fortune 500 companies during the years 1982-1986. The study revealed that the planning systems studied contributed more to decisions

that were considered important and risky and also to those that were either global in nature or related to divestments. The following year he examined the relationship between management styles and post-acquisition performance in Canada. He found that differences in management styles had a negative impact on performance.

In the study on environmental technologies and competitive advantage, Shrivastava (1995) argued that in this decade and century, the natural environment will be an important arena for economic competition. Ecological issues regarding energy, natural resources, pollution and waste will offer both competitive opportunities and constraints, and are changing the competitive landscape in many industries. Industries can gain competitive advantage by managing ecological variables. He studied 3 corporations and found the environmental technologies as a competitive force and a tool for competitive advantage. He found out that environmental technologies offer a new substantive orientation and a management process for minimizing ecological impacts on economic production while enhancing competitiveness of firms. Whereas both strategy and environmental variables are significantly related to firm profitability, only environmental variables are associated with firm growth. Additionally, in contrast to U.S based studies, it was found that capital expenditures and technological change are not negatively associated with profitability. Rather adapting to technological change had positive impact on firm growth (Kotha *et al.*, 1995). An important issue in corporate strategy was to explain persistent differences in conduct and performance among close competitors within an industry. They then studied the source of persistent differences between two firms competing on two identical markets in Europe. They found that the firm's respective capabilities diverged and only some

differences in the firm's respective initial capability existed. There was an appropriate combination of organizational inertia and market conditions.

A survey of 225 food manufacturing firms was used to explore relationships between manufacturing strategies and competitiveness in U.S.A (Starbird and Agrawal, 1996). The relationship between manufacturing objectives, manufacturing policy adoption rates, manufacturing performance and financial performance were examined. Results suggested that many food manufacturing firms fail to fully exploit manufacturing potential contributions to customer satisfaction and that they frequently adopted manufacturing policies that have little or no effect on organizational manufacturing performance.

A study conducted by Morton (1996) examined the impact of bureaucratic complexity on the ability of management and the extent the managers adopted the principles and techniques of implementing management strategies successfully in Philippines. She found that the most important features of strategic management and implementation process in the Philippines case were the role, style, and power base of the key policy champion.

Handerson and Will (1997) study on the interactions of organizational and competitive influences on strategy and performance argued that both organization and competition are clearly important in shaping strategy and performance. A study on corporate political strategies and firm performance showed that such linkages with the government positively affect firm value. These findings indicate that firm specific benefits may result from political strategies. Another study on relative impact of Actual and Potential Rivalry on firm profitability in Pharmaceutical Industry during the 20 year period 1963-1982 showed that during the 1960's actual rivalry among the sampled firms did not materially affect firm profitability, but that during the 1970's competition among incumbents had an increasingly

adverse effect on their profitability. The results also show that potential competition significantly reduced drug firms' profitability the entire 20 year period. Brews and Michelle (1999) in his analysis of the planning practices of 656 firms shows that formal planning and incrementalism both form part of 'good' strategic planning especially in unstable environments. In the unstable environments, planning capabilities are far better developed and formal plans more amenable to change. At least 4 years of formal planning are required before external performance associations are noted, he adds. Rogers et al., (1999) studied using information processing theory to understand planning/performance relationships in context of strategy. The study revealed the importance of viewing planning processes within the context of strategic orientation using information processing theory in the banking industry. The results were that strategy moderates the relationship between planning and performance. On the other hand, studies by Rue and Holland (1986) found that there was no returns or benefits from strategic planning. Some studies have also revealed that some organizations have been successful without any formal strategic management systems (Kudla, 1980).

A study of 200 medium-sized Dutch firms showed that profitability was directly related to the use of strategic management system (Waalewijn and Segaar, 1993). Influences on strategic management styles among fast growth medium-sized firms in France and Germany study found that entrepreneurs in fast growth Medium-sized firms adopt hybrid styles of strategic management, that is, a synthesis of entrepreneurial adaptive small and large firm characteristics (Keith, 2006). In a study of strategic planning in small and medium sized firms, it was found that formal planning firms experience the barriers to deployment to a lesser extent compared to non-formal planning firms (Nicholas and Abby, 2006).

In another study of 25 Japanese machine tool firms during 1979-92, it was found that company's strategies and the environment play significant roles in influencing its profitability and growth (Kotha, 1995). Another study on the impact of deregulation on the United States railroads found that railroad that changed strategies as their environment changed outperformed those that did not change theirs (Deepak, 1990).

Among well-known studies in Africa are those conducted by Woodburn (1984) in South Africa, Adegbite (1986) in Nigeria, Fubara (1986) in Nigeria and Aosa (1992) in Kenya. In studies of strategic management in East Africa Companies in 1984 Woodburn found that managers in Africa relied on centralized structures and carried out ad-hoc planning. Aosa (1992) found out the same results. Woodburn (1984) attributed this state of event to environmental turbulence, lack of management resources, paucity of information and hostile government activities especially for companies that operated with low level of formality in planning and strategy development, and the family Companies. However, this did not hold true for professional companies and those generally characterized by high level of formalities with their management.

Adegbite (1986), on the other hand, conducted a study in long range planning in Nigerian companies. He found that these companies had difficulties in planning ahead and that managers in Nigeria relied more on centralized structures such that corporate planning was wide spread, and institutionalized in Nigerian companies. This was attributed to the formal influence in Nigeria. In the same year, Fubara (1986) conducted another study on companies on the same country. He found that planning Nigerian firms tended to be informal and characterized by budgeting, and that most of the formal plans reported were actual budgets, and that profitability was greatly emphasized.

Aosa (1992) conducted a study on strategy formulation and implementation by private firms in Kenya. He studied 84 companies. His study revealed that many Kenyan companies operated in highly competitive conditions. These companies paid close attention to competition in order to gain an edge in their markets, and were using competitor information as a basis for developing their own strategies. His findings further revealed that the companies had made a shift towards being more market driven in their strategies. He concluded his study by stating that companies that maintained a strategy-budget linkage were significantly more successful in implementing strategy than those which did not maintain such linkages; companies that carried out management training were significantly more successful in implementing strategy than those that did not; professionally run companies operated with longer planning horizons, had written mission statements and strategic plans, and were significantly different from family run companies with respect to performance of the strategy activities studied; foreign companies were more involved in strategy development than local ones and indigenous Kenyan companies were more involved in strategy development than their Indian- owned counterparts (Aosa, 1992).

Comparing his findings with those in North America and other countries, Aosa (1992) found that managers in Africa relied on centralized structures and carried out ad-hoc planning. Like Woodburn (1984) and Adegbite (1986), Aosa (1992) attributed this to environmental turbulence, lack of management resources, paucity of information and hostile government activity. Aosa (1992) also compared his study with that of Fubara (1986) and found that Fubara's findings tallied with those of family and local Indian company in Kenya.

Sababu (2001) studied the effect of business policy on organizational performance in Kenya. He selected 59 consumer cooperatives and found that the results were both consistent and

inconsistent with theoretical and practical expectations. He found that majority of consumer cooperatives used informal business policy; formal strategic management systems in Kenya also influence organizational performance and demographic and social economic factors appear to influence development of formal strategic management system and member participation but have no direct influence on organization and member participation has no noticeable effects on development of formal strategic management systems. Sababu (2001) concluded that formal strategic management systems do play a positive role in determining organizational performance in Kenya. The results were in contrast with Rue and Holland findings that there was no return or benefits from strategic planning.

Munyoki's (2007) study was on the effect of technology transfer on organizational performance in medium and large manufacturing firms in Kenya whereas Irungu (2007) studied the effect of top management team on performance of publicly quoted companies in Kenya. Both technology and top management team were found to have positive influence on organizational performance.

The review of the relevant literature so far has shown that none of the above cited studies has empirically tested the extent of adoption of formal strategic management systems in medium enterprise sub-sector in Kenya neither the influence of political/legal and competitors factors on the extent to which formal strategic management system is formulated and also political/legal influence on organizational performance. Finally, no studies in Kenya have empirically tested relationship between formal strategic management systems and organizational performance in MEs. Elsewhere, there have been different results and conclusions from both theoretical and empirical studies reported in the literature. Some have been narrow in scope and yet others have been methodologically deficient.

Certainly, this may have been partly responsible for the mixed results and conclusions. Further, some have differed in terms of scope and context. This study is greatly motivated by the gross absence of comprehensive empirical studies to justify the effect of strategic management on medium enterprises performance in Kenya.

#### **2.4 Conceptual Framework of the Study**

Figure 2.1 shows relationship between the various key environmental variables and an organization as discussed in the literature review. The many environmental factors make it a complex endeavor to test the whole framework. Hence the above relationships have been partially tested in this study (Figure 2.2). The variables tested are the administrative/legal and competitive factors. Competition is under micro-environment because it can be semi-controlled by an organization (Sababu, 2007). There is stiff competition of Asian products in the Kenyan markets. There are also political uncertainties in Kenya and political interference on MEs (Yabs, 2007). These two factors greatly affect the MEs performance in Kenya and they are likely to have influence on formal strategic management, because firms respond to them differently. Some relationships have already been studied. For instance, Sababu (2001) studied the effect of socio-economic, demographic and member participation (labour unions and shareholders) on the formulation of strategic management and organizational performance of consumer cooperatives and Munyoki (2007) studied the effects of technology transfer on organizational performance.

A conceptual framework of the study was developed from the reviewed literature and the relevant research objectives (Figure 2.2). The framework shows that the macro-environment (A) and micro-environment (B) influence the extent to which organizations engage in formal strategic management (C). The Macro-environment (A) is also expected to influence

organizational performance (D). Formal strategic management (C) also influences organizational performance (D). Finally the competitive factors (B) influence organization performance (D). Figure 2.2 shows the conceptual framework of the study.

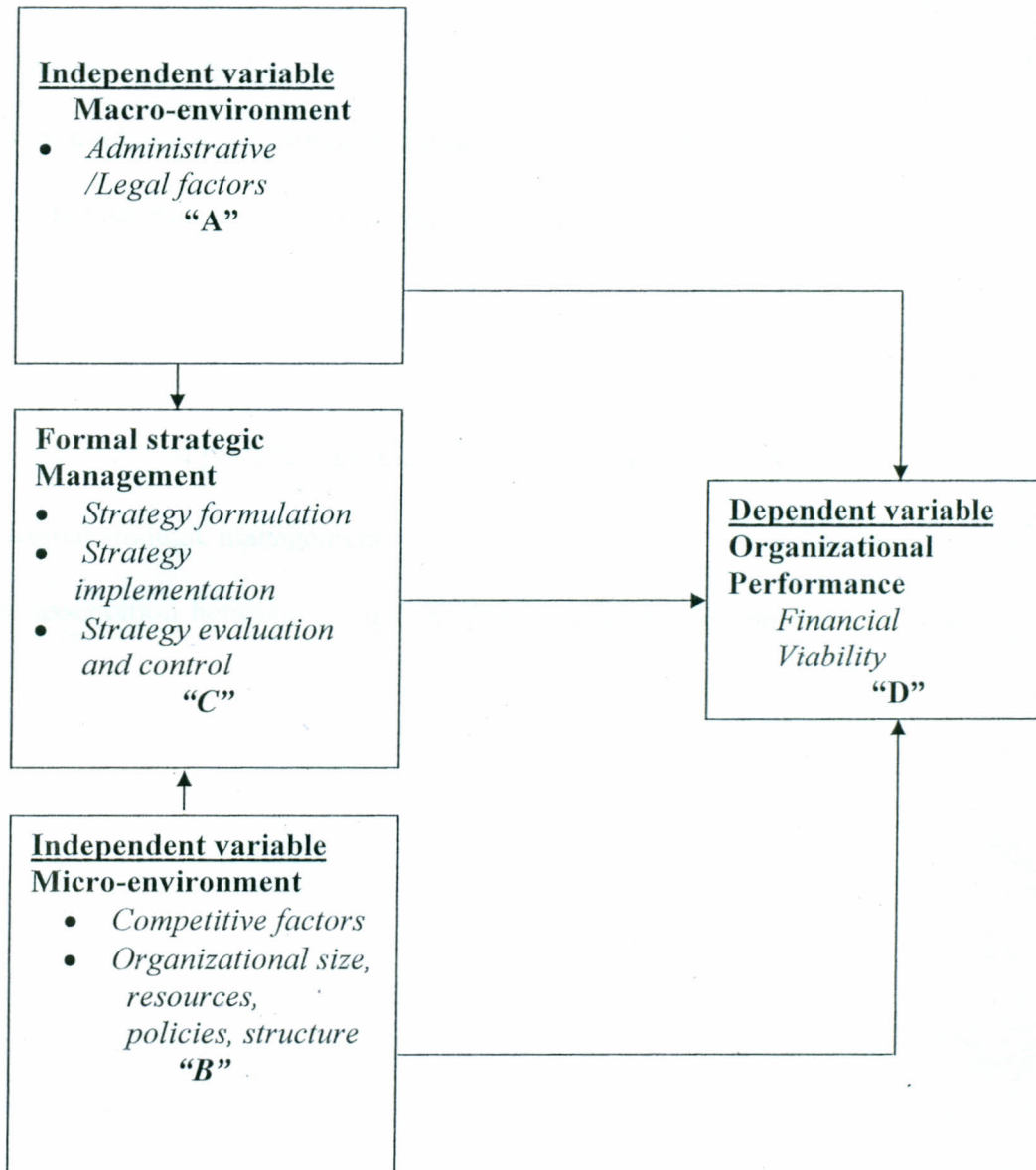


Figure 2.2 Conceptual framework of the relationships between formal strategic management and organizational performance.

The relationships between independent variables, formal strategic management and the dependent variable, organizational performance and also the relationship between macro and micro environmental factors and formal strategic management were modeled using Logit analysis. This is because the data was non-normal and in proportions and Logit analysis is used for non-normal data. Binary Logit analysis was used because the options were two either adoption or non-adoption of formal strategic management. In this procedure, the relationship between the dependent variable  $p_i$  and the independent variable  $x$  is formulated as follows:

$$\text{logit}(p_i) = \beta_0 + \beta_1 x_1$$

Where  $p_i$  denotes organizational performance and  $x_1$  denotes the Macro and Micro environments and formal strategic management.

The strength of the association between  $p_i$  and the X's is normally determined using the Chi-square test.

ITEM	MAJOR FINDINGS	GAPS IDENTIFIED	INDICATORS	KEY REFERENCES
1	Majority of large firms carry out informal FSM	Medium firms extent of establishment of FSM in Kenya not known	Written mission objectives, strategies, implementation, Evaluation.	Woodburn ( 1984) Fubara ( 1986) Aosa (1992) Sababu ( 2001)
2	Macro environmental variable interference with performance of organizations.	Other major variables studied Administrative/Legal not studied & recommended Kenya is a different political. cultural, social economic environment.	Licenses, Taxes, Factory Act, Policies	Kiggundu (1989) Sababu (2001) Rok (1997, 2005) Pearre Robinson (1997) Yabs (2007)
3	Micro environmental factors influence adoption of strategies	Developing countries have different political, cultural, socio-economic environment Asian products having a competitive edge in local markets	Written mission objectives, strategies, implementation, Evaluation	Porter ( 1980, 1985, 1998) Thompson and Strickand (1998), Kotler (1997) Miles & Snow (1978)
4	Macro environmental variables e.g. Administrative/Legal factors cause firms adopt strategies in response to environment	Impact of Administrative /legal on MES adoption of FSM in Africa not known	Written mission objectives, strategies, implementation, Evaluation	Kiggindu (1989) Asababu (2001) Rok (1997, 2005) Pearce Robinson (1997) Yabs ( 2007)
5	Organization with written FSM outperform those without	Single company influence None in MES sub sector	Written mission objectives, strategies, implementation, Evaluation	Henderson et al (1997) David ( 1991), Fred et al (1999), Thompson & Strickland ( 2003), Aosa (1992), Sababu ( 2001)

Figure 2.3: Summary of literature review findings

## 2.5 Chapter Summary

This chapter reviewed the environment, the strategic management and performance. It also discussed both the theoretical and empirical studies on various environmental variables that influence adoption of formal strategic management and organizational performance. Gaps were identified and a conceptual framework of the study was developed. The next chapter sets out the research design and methodology which was used in this research.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter examines the research design and defines the population of the study. The sample size and the sampling techniques are explored. The chapter also reviews the research instrument, data collection and data analysis techniques.

#### 3.2 Research Design

The study was a descriptive survey which set out to collect data on the effect of formal strategic management on organizational performance of medium sized manufacturing enterprises in Kenya. In this research, the survey method was found superior to other methods of collecting primary data because it allowed the collection of large amount of data from a sizable population in a highly economical way. It also allowed easy comparison of items in the questionnaire.

The research was carried out in industrial area of Nairobi where these manufacturing firms are situated. The study was descriptive aimed at determining how the environment in which these enterprises operate affects their performance and the relationship between adoption of formal strategic management and organizational performance.

The data collection exercise involved a self-administered structured questionnaire, as this was the most appropriate for collecting the information required for the study from medium manufacturing firms that had been identified through random sampling. While this was the case, there was need to maintain flexibility in the data collection process by allowing respondents enough time to fill the questionnaire by leaving it behind when requested. Since

FSM is always in written form there was data reliability and validity because the respondents produced copies of SFM stages.

### **3.3 Target population**

All the MEs in Kenya constituted the population. Evidence shows that manufacturing industry activities in Kenya are concentrated in major towns (KIRDI, 1997). The target population included all medium sized manufacturing enterprises in Nairobi from KIRDI directory listing which provided the sampling frame from which the study sample was selected. This is because two thirds of the medium sized firms are in Nairobi (KIRDI, 1997) forming the majority of the medium enterprises in Kenya. Out of 165 MEs, 112 (67 percent) are based in Nairobi and 33 percent are spread in all other parts of the Country. Nairobi represents a typical town with a variety of Medium Sized manufacturing Enterprises. It may represent other upcoming towns that have MEs in Kenya. The political, social-economic and competitive environment encountered by ME's in Kenya are similar.

### **3.4 Sampling**

The sampling technique used was simple random sampling which is one of the probability or representative sampling. In probability sampling each case had an equal chance of being selected from the population. A sample list was obtained from KIRDI directory from which the sample was drawn. Some eighty (80) MEs from the manufacturing sector in Nairobi were selected using simple random sampling. A computer was used to aid in sampling (Appendix 7). In simple random sampling, every item has an equal probability of being picked and hence being included in the sample (Kothari, 2005). KIRDI is the institution in Kenya that keeps a detailed record of various manufacturing firms in relation to the number of permanent employees. The MEs sampled were all from manufacturing sector that

employed 50-100 people on permanent basis. They manufactured a variety of products ranging from food, steel, plastics, textile, chemicals and others. The respondents are CEO's of these firms who were the firm managers.

Peter (1994) provided a useful table of determining the sample size (Appendix 8). Saunders *et al.*, (2000) provides a similar table. The sample size for the study is eighty (80) MEs because according to the table a population of about 100 should have a sample size of 80. Also a sample size of eighty (80) MEs is above the recommended 10 percent (Saunders *et al.*, 2000).

### **3.5 Research instrument**

The questionnaire method was used for data collection. The questions were picked from those of Aosa (1992) and Sababu (2001). However, these questions were modified to suit the objectives of the study. The questionnaire was on the strategic management process. It was divided into the following parts: - mission, objectives, developing the organizations strategy, implementation, evaluation, organizational performance, administrative/legal influence, competition and additional information.

The reliability of the instrument of data collection (questionnaire) used in this study was tested using Cronbach's alpha reliability coefficient. The decision to accept likert scales of measurement in the instrument were reached using the guide of George and Mallery (2003).

The guide is as follows;

$C > .9$  – Excellent,

$C > .8$  – Good

$C > .7$  – Acceptable

$C > .6$  – Questionable

$C > .5$  – Poor, and

$C < .5$  – Unacceptable

Where  $C$  is the value of Chronbach's alpha coefficient. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1, the greater the internal consistency of the items in the scale.

The Likert scales used in the survey instrument were tested for reliability using the Cronbach's Apha method and found all to be highly reliable. This was evidenced by high values of the Cronbach's alpha coefficient, that is, above 0.9 (Appendix 6). Generally, according to George and Mallery (2003) the more Alpha tends to 1 for a likert measurement scale, the higher its reliability.

### **3.6 Data Collection Techniques**

The first draft of the questionnaire (Appendix 1) was given to supervisors and two lecturers at the business department and business school, Kenyatta University, and their comments were incorporated. A pilot study using ten ME CEO's was conducted. They were drawn from samples of those listed ME's from KIRDI directory but did not participate in the study. The main aim was not only to receive comments and suggestions on additional information

from respective respondents but also to get an indication of the expected responses with a view to detecting ambiguities in the asked questionnaire or given answers. The piloting refined the questionnaire so that respondents had no problems in answering the questions and there was no problem in recording the data. The final version of the questionnaire was prepared after incorporation of the pertinent comments as shown in Appendix 1.

Four research assistants were trained in July 2006 and taken through the questionnaire on how to ensure that the respondents carefully filled the data. They were also trained on how to conduct a successful research by showing good public relations. The researcher was conducted through a survey of MEs in Nairobi, Kenya between July and September 2006.

The method of collecting data was by use of structured questionnaire, with open and closed ended questions. By asking respondents the same question in the same way, it was possible to get broad and reasonably accurate recommended views on the issues under study. Talukhaba (1999) and Gall *et al* (1996) recommended questionnaire as a convenient and the most suitable instrument for data collection in survey as well as statistical research in social and technical research. Administered questionnaires have a usually high response rate (Saunders *et al.*, 2000) because they are delivered and collected by the researcher or the assistant (Saunders *et al.*, 2000).

### **3.7 Data Analysis**

The data was analyzed using Statistical Package for Social Sciences (SPSS) for windows version 6.1 and R computer package. Frequency tables were used to describe the type of data collected, the extent to which formal strategic management is adopted in Kenya and also the frequency of the administrative/legal and competition factors and their influence on

adoption of formal strategic management and organizational performance. Further, the extent to which formal strategic management is adopted by MEs in Kenya was analysed using , Z-test, the relationship between performance and administrative/legal was analysed also using Z-statistics while the effect of competition, administrative/legal and adoption of formal strategic management as well as the relationship between performance and formal strategic management were analysed using binomial logit.

The adoption of formal strategic management in this study was analyzed using dichotomous variable. The latter is non-normal statistics (Collett, 2003). This means it does not produce a normal curve. The use of ordinary least squares (OLS) regression techniques was therefore not valid and so the logistic regression technique was employed to analyse the data. The major problems with the OLS regression model is that the predicted probability values may lie outside [0,1] interval and that the variance of the error term may not be constant and hence estimates values of the model parameters are not unbiased estimates. Hence logit model was used to overcome the above limitations(Collett, 2003).

The most suitable method or test for rating the significant contributors to MEs performance and developing the conceptual working model on the cause and effect relationship was found to be the logit method. This is because the data was non-normal, that is, in proportions, and logit is used for analysis of non-normal data.

In the logit analysis, the basic assumption is that a relationship exists between the logit of probability of success (in this case the adopting of strategic management) and the independent variables (McCullagh and Nelder, 1989). The independent variables were the macro and micro environment which are represented by administrative/legal and

competition respectively. They were measured by the percentage scores they contributed to formal Strategic Management.

The response variable under investigation is binary (binomial). This is because there were only two responses in each case, either success or failure, that is, either adoption or non-adoption of formal strategic management. None of the responses in hypotheses 2, 3 and 5 had more than two categories. Therefore the logistic regression model with the binary *logit* link function was the appropriate method of analysis.

In this procedure, the relationship between the dependent variable (Y) and the independent variables (X's) is formulated as follows:

The dependent random variable, Y, is assumed to be binary, taking on but the values, 0 and 1 where Y=1 denotes adoption of formal strategic management and Y=0 denotes non-adoption of formal strategic management. The outcomes of Y are assumed to be mutually exclusive and exhaustive. The value of the parameter P, is the probability that Y equals one [or  $p=p(y=1)$ ].

Y is assumed to depend on  $k$  observable variables  $X_1, \dots, X_k$ . The exogenous variables are assumed to account for the variation in  $p$ . Thus  $p=P(Y=1/X_1, \dots, X_k)$  or simply  $P=P(Y/X)$  where X denotes the set of  $k$  independent variables.

This can be re-written as:

$$\log it(p_i) = \beta_0 + \beta_1 x_{1i} + \dots + \beta_k x_{ki}, i = 1, \dots, n, \quad (1)$$

Where  $p_i$  is the probability of adoption of formal strategic management.

X are administrative/legal and competition variables

$$\log it(p_i) = \log\left(\frac{p_i}{1-p_i}\right) = \log(\text{Odds of success}). \quad (2)$$

For non-normal data like proportions, as in this case, deviance is used for model selection and comparison. The chi-square test is used to test if there is any association between the dependent variable (organizational performance) and the independent variables (formal strategic management).

### **Development of the Performance indicator using principal component analysis**

Principle component analysis was used to compute a single indicator of performance by reducing the dimensionality in the four indicators of performance: ratio of current assets to current liabilities, change of net operating capital in year 2002/2003, change of net operating capital in year 2003/2004, change of net operating capital in year 2004/2005, return on investment, return on capital employed, increased net profit and gross profit margin.

Principal component analysis is a multivariate statistical technique used to reduce the number of variables without losing too much information in the process. Using principal component analysis it was arrived at an indicator of organizational performance that arose from the first principal component. The first principal component explained 43% of the variability in the measures of performance measured and was viewed as a good indicator of organizational performance. This assertion is also illustrated in Appendix 6.

### **Operationalization of Variables**

In this section, the conceptual hypotheses are operationalized into testable forms. That is:

**Hypothesis 1: None of the MEs in Kenya has adopted any formal strategic management practices.'**

The extent of establishment of formal strategic management (mission, objectives, strategies, implementation and evaluation):

$$Z = \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} \quad (3)$$

where the  $\hat{p}$  is the sample observed relative frequency and  $se(\hat{p}) = \sqrt{\frac{\hat{p}(1-\hat{p})}{n}}$  is the

standard error of the statistic  $\hat{p}$  and  $n$  is the size of the sample considered. The null

hypothesis rejected at some  $\alpha$  level if the absolute value of the statistic computed is greater than or equal to 1.96. That is

$p=p(x=1)$  denotes probability of establishing strategic management in less than three stages and  $q=1-p=p(x=0)$  denotes probability of establishing strategic management in at least three stages.

Where  $X=1$  if formal strategic management are established in less than three stages

$X=0$  if formal strategic management are established in at least three stages

$X = H1 =$  extent to which MEs have adopted formal strategic management in the redrafted model.

## Hypothesis 2

The effect of administrative/legal factors on the levels of establishment of formal strategic management is given as:

$$\text{logit}(p_i) = \beta_0 + \beta_1 x_i \quad (4)$$

Where  $p_i = P[y=1]$  denotes the probability of establishing formal strategic management in at least three stages and  $q = 1 - p_i = P[y_i = 0]$  where  $y_i = 1$ , if formal strategic management is

established in at least three stages and  $y_i = 0$ , if formal strategic management is established in less than three stages.

$p_i$  = Level of establishment of formal strategic management.

Thus the dependent variable  $p_i$  has two responses.

$X_1$ , the level of Government influence on development of organizations strategies, as

$$X_1 = \begin{cases} 0, & \text{if No time period} \\ 1, & \text{if 1-2 year period} \\ 2, & \text{if 3-4 year period} \\ 3, & \text{if 5 year period and above} \end{cases}$$

### Hypothesis 3

Relationship between level of competition and adoption of formal strategic management:

$$\text{logit}(p_i) = \beta_0 + \beta_2 x_2 \quad (5)$$

Where

$p_i = P[Y=1]$  = Adoption of formal strategic management.

$$Y = \begin{cases} 1, & \text{if formal strategic management is established in at least three areas} \\ 0, & \text{if formal strategic management is established in less than three areas} \end{cases}$$

$X_2$  is define as

$$X_2 = \begin{cases} 1, & \text{if Competition affects formulation} \\ 2, & \text{if Competition does not affect formulation} \end{cases}$$

### Hypothesis 4

The relationship between administrative/legal factors and performance is expressed as (implementation and evaluation):

$$Z = \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} \quad (3)$$

where the  $\hat{p}$  is the sample observed relative frequency and  $se(\hat{p}) = \sqrt{\frac{\hat{p}(1-\hat{p})}{n}}$  is the standard error of the statistic  $\hat{p}$  and  $n$  is the size of the sample considered. The null hypothesis is rejected at some  $\alpha$  level if the absolute value of the statistic computed is greater than or equal to 1.96. That is

$Y$  is a nominal response variable that measures the extent of government regulations given by

$$Y = \begin{cases} 1, & \text{if to a small extent} \\ 0, & \text{if to a great extent} \end{cases}$$

### Hypothesis 5

The relationship between formal strategic management and performance.

$$\text{logit}(p_i) = \beta_0 + \beta_3 x_3 \quad (7)$$

Where

$p_i = P[Y=1]$  denotes financial viability to a great extent

$q = 1 - p_i = P[Y=0]$  denotes financial viability to a small extent.

Where

$$Y = \begin{cases} 1, & \text{if to a great extent} \\ 0, & \text{if to a small extent} \end{cases}$$

and  $X_3$  is the level of establishment of formal strategic management given by

$$X_3 = \begin{cases} 2, & \text{if formal strategic management is established in at least three areas} \\ 1, & \text{if formal strategic management is established in less than three areas} \end{cases}$$

The operationalized variables above were deemed to be the most important factors affecting adoption of strategic management and performance of medium enterprises in Kenya, but which have not so far been tested.

### **3.8 Chapter summary**

The above discussion has dwelt on the methodology and design of this study. The study location, the study population, sample, sampling procedure and instrumentation have been discussed. It has also discussed the data collection and analytical techniques. The next chapter presents results and discussions.

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

The Chapter presents the results of the factors that affect organizational performance of MEs in Kenya. It also discusses the empirical findings on how the environment in which these enterprises operate affects their performance. The relationship between formulation of strategic management and organizational performance is also analyzed.

#### 4.2 Sample Characteristics

The response rate for this study was 77.5 percent (62 out of 80) MEs. Hence this response rate was adequate for this study because a sample of 10 percent of the accessible population for descriptive studies is adequate for analysis (Mugenda and Mugenda, 1999). Table 4.8 depicts the extent to which MEs have adopted F.S.M. The majority (67.7%) of the executives in the MEs have spent at least 16 years or above in schooling and hence most of the top management of the enterprises have tertiary education. According to Appendix 2, 69.4% have also attended some training in strategic management. Among the factors influencing organizational performance are the macro and micro environmental variables and formal strategic management.

#### Macro environmental variables

Macro environmental variables play a very important role in influencing the activities of MEs in Kenya. Among the key Macro environmental variables hypothesized to affect MEs is the administrative/legal factors. Administrative/legal factors have substantially influenced

the activities of the MEs in Kenya. As can be seen (Table 4.12) the majority of the respondents firms (83.9%) are affected by government regulations to a great extent.

The law has also been known to influence the activities of MEs in Kenya. Results of the simple tabulation (Table 4.13) show the effects of the new Factory Act, the most prominent factor being that of rise in production cost (14.5%). It appears that most of the impacts of the Act are negative as far as the respondents are concerned.

The influence of government taxes on the activities of the MEs are presented in Table 4.14. Out of the 62 respondents, 17.7% said that the government high taxes on MEs reduce profit, while about 13% said that the cost of production went up. As expected the majority appear to dislike the taxes because of the negative impact it has on their business activities.

#### **Micro environmental variables**

The influence of micro environmental variables on MEs are contained in Table 4.9. As can be seen, some of the 60 MEs interviewed said competition is a main factor in adoption of the formal strategic management in MEs.

The data on the Table 4.10 show the extent to which MEs carry out competitor analysis. Identification of the competitors is frequently (64.5%) considered while evaluation of information on competitors is (54.8%). Identification of potential moves by competitors is *considered* most important (66.2%).

As expected there are several suggestions for improvement of MEs (Appendix 2). The key suggestions mentioned by the respondents include reducing high taxes, relaxing employment caution, including government incentives and improving supply chain management.

As shown in Table 4.15 some (47.5%) of the respondents stated that the formal strategic management affects the ratio of current assets to current liabilities to a “great extent”. Gross profit margins and return on capital employed were 45.2% and 50% respectively while return on investment, changes of net operating capital year 2004/05 and increased net profits were slightly below average.

### **Formal Strategic Management and Performance**

As shown in Table 4.15 some (47.5%) of the respondents stated that the formal strategic management affects the ratio of current assets to current liabilities to a “great extent”.

## **4.3 Descriptive results**

### **4.3.1 The extent of adoption of formal strategic management by MEs**

This section gives the analysis of the extent to which MEs engage in formal strategic management. The extent to which MEs engage in formal strategic management practice is through strategy formulation, implementation and evaluation.

#### **Strategy Formulation**

The components of strategy formulation include the mission, objectives and strategies. The results of the study revealed that a majority of the respondents (82.3%) indicated that they have a mission statement but only less than half of them (40.3%) mentioned the statement was in written form (Table 4.1).

Table 4.1: Mission statement for the organization

Mission	Yes	No	No Response	Total n	%
Organization with mission statement	82.3	16.1	1.6	62	100
Organization with written mission statement	40.3	51.6	8.1	62	100

This makes it difficult to either verify their existence or to evaluate their appropriateness. A good mission statement defines the fundamental and unique purpose that sets a company apart and identifies the scope of the organizations operations in terms of the product offered and the markets served.

Table 4.2 summarizes the types of mission statements mentioned by the sample respondents.

Table 4.2: Various written down mission statements mentioned by respondents

Responses	Frequency	Percent
To produce high quality products	17	27.4
To create employment	9	14.6
To be the best	6	9.7
To satisfy customers	5	8.1
Others	3	4.8
Don't have any	22	40.2
Total	62	100

As shown in Table 4.2, some 27.4% of the respondents indicated that their mission is to produce high quality products while another 14.6% said their mission is to create employment. Other mission statements are to be the best (9.7%) and to satisfy customers

(8.1%). Many firms (40.2%) did not have mission statement. The mission statements in Table 4.2 do not describe the firm, its nature and philosophy. That is the statements are not precise either in terms of stating the major objectives to be achieved, or the firm's products and functions.

Table 4.3 shows the organizations with written and unwritten objectives.

Table 4.3: Objectives for the organization

Objectives	Yes	No	No Response	Total N	%
Organization with objectives	98.4	0	1.6	62	100
Written objectives	53.2	41.9	4.8	62	100

As far as establishment of organizational objectives is concerned nearly all the respondent firms (98.4%) stated that they have developed the objectives but only slightly more than half (53.2%) have them written down as shown on Table 4.3. Table 4.4 contains the written objectives which were mentioned by respondents.

Table 4.4: Various written down objectives mentioned by the sample respondents

Objective	Frequency	Percent
Increase in turnover	16	25.8
Reach out to the most profitable clients	10	24.2
Invest in technology to reduce labour costs	4	17.7
Decrease wastage and minimize time wastage	6	12.9
Others	11	22.6
No response	15	19.4
Total	62	100

As shown in Table 4.4, increase in turnover was mentioned by 25.8% of the respondents, while 16.1% wanted to reach out to the most profitable clients. Others wanted to decrease wastage and minimize time (9.7%) and invest in technology (6.5%). The stated objectives are not specific, measurable, achievable, realistic and time-bound (SMART). They are open-ended and therefore it is difficult to determine their level of attainment.

In terms of the third component of the strategic management process, most of the respondents (87.1%) said they have developed strategies to guide achievement of their objectives (Table 4.5).

Table 4.5: The extent of Strategy Development by MEs

Responses	Frequency	Percent
Yes	54	87.1
No	6	9.7
No response	2	3.2
Total	62	100.0

When asked to indicate the factors that they consider when formulating strategies, they rated the factors summarized in Appendix 3. The factors considered by the respondents during strategy formulation include the macro environmental factors with the exception of administrative/legal factors and social-cultural factors.

Always, priority is given to customer satisfaction (67%) followed by both market trends and competitive factors (46.8%) each. General economic trends (45.2%) and marketing mix variables (40.3%) are also deemed important in developing strategies. Others include organizations internal resources (37.1%) and technology changes (24.2%). However, only half of the respondents (50%) indicated that their strategies are in written form (Table 4.6).

Table 4.6: Written or unwritten strategies

Responses	Frequency	Percent
Yes	31	50.0
No	15	24.2
No response	16	25.8
Total	62	100.0

In summary, most of the sample respondents stated that they develop the three key elements of strategy formulation, namely mission, objectives and strategies. Unfortunately, about half of them also said their missions, objectives and strategies are not in written form. This makes it difficult to either verify their existence or to evaluate their appropriateness.

Thus, half of the MEs organizations cannot achieve reasonable performance without a written mission, objective or strategies on which they can frequently refer to so that their activities are inline with the philosophy, objectives, strategies or functional policies of such an organization.

### **Strategy Implementation**

As discussed in section 2.3, the components of strategy implementation include preparation of budgets. Others include motivation, change of technology and change of organization's structure. Budgets are key to strategy implementation since they allocate resources to various organizational units and activities.

The study results (Appendix 4) showed that a majority of the respondent firms (82.3%) stated that they prepare annual estimates of their operations (short term budgets) as opposed to strategic budgets i.e. long range budgetary plans.

It is worthy noting that only 6.5% of the enterprises said they achieve “all” their set targets within their budgets. A majority (83.9%) only achieve “some of them” (Appendix 4). Less than half (45.2%) of the respondents said they “always” prepare budgets for all activities while 51.6% mentioned “sometimes” and only 3.2% stated “never” (Appendix 4).

Employee motivation was another strategy implementation variable that was examined in the current study. The research results revealed that 51.6 % of the respondents said they “always” motivate employees while the others 48.4% indicated they only do so “sometimes”.

Strategy implementation also includes change of technology to meet organizational needs. Here technology refers to knowledge, tools and equipment used to accomplish an organization’s assignments. About three quarters (72.6%) “sometimes” do while 22.6% “always” do and 1.6% do not change technology to meet organizational needs (Appendix 4). As with the other aspects of strategy implementation, the appropriate level of technology must be found for proper implementation of the strategic plan. Adapting to appropriate technology is important for organizations proper functioning (Appendix 4).

A final strategy implementation variable included in the current study is changing of organization’s structure. A majority of the respondents (88.7%) said they have changed the organization structure (Appendix 4). This could involve reducing the number of employees and/or creating strategic positions or departments.

Budgets are crucial in implementation of strategies and many MEs take budgeting seriously. However, operational and not strategic budgets are prepared. Employee motivation is also seen important in strategy implementation and because motivation increases the synergy for

organizational performance. Creative technology adaptations can suggest possibilities of new products, improvements in existing products or in manufacturing and marketing techniques. In spite, MEs do not always adapt new technologies to meet organizational needs.

### **Strategy Evaluation and Control**

Strategy evaluation and control embraces a number of variables including establishment of performance targets, standards and tolerance limits within a given time and also analysis of deviations from the expected and execution of modifications. As far as formal standards of performance in MEs are concerned, 79% of the respondents mentioned that they prepare formal standards of performance for their enterprises (Appendix 5). For MEs to remain successful and effectively compete with large organizations, they have to adequately address issues of organizational performance.

Table 4.7 indicates the extent to which MEs evaluate organizational performance. 32.3% of the ME respondents indicated that they “occasionally” evaluate performance while only 3.2% stated they “seldom” do it (Table 4.7).

Table 4.7: Extent to which respondent MEs evaluate organizational performance

Responses	Frequency	Percent
Occasionally	20	32.3
Frequently	18	29.0
Always	12	19.4
Never	4	6.5
Seldom	2	3.2
No response	6	9.7
Total	62	100.0

MEs appear to do better in preparation of formal standards of performance, than in their evaluation of the same. As shown in Table 4.7 a fifth of the respondents (19.4%) said they “always” evaluate performance; another 29% do so “frequently” while about one third (32.3%) of the respondents “occasionally” evaluate the organizational performance. This means they are not able to adequately monitor the progress of their plans and point out weaknesses. It becomes difficult to bridge the gap between expected and desired objectives according to the strategies the MEs have set. Table 4.8 depicts the extent to which MEs in Kenya have adopted formal strategic management practice. According to the study results, about two thirds (66.2%) of the sample MEs have established formal strategic management practices in three or more component stages. Thus many of the MEs have at least implemented three stages of formal strategic management.

Table 4.8: Extent to which MEs in Kenya have adopted formal strategic management.

Degree of establishment of FSM	Frequency	Percent
None	2	3.2
One stage of strategic management	8	12.9
Two stages of strategic management	11	17.7
Three stages of strategic management	15	24.2
Four stages of strategic management	14	22.6
Five stages of strategic management	12	19.4
Total	62	100

Formal strategic management involve five steps: mission, objectives, strategies, implementation, evaluation and control. The degree of establishment of strategic management in one stage refers to development of a written mission, two stages refer to having a written mission and the objectives, three stages refers to having a written mission, objectives and strategies, four stages involve having a mission, objectives, strategies and implementation plan and finally five stages refer to implementing the whole system (mission, objectives, strategies, implementation and evaluation and control).

The results do not support the literature that majority of organizations have not formulated any formal strategic management (Fubara, 1986, Aosa, 1992, Sababu, 2001). Many of the chief executive officers (CEO's) in MEs (69.4%) had training in strategic management and hence its implementation (Appendix 2). This is consistent with findings of Aosa (1992),

which revealed that those with management training were significantly more successful in implementing strategy than those that did not. Aosa (1992) also found that professionally run companies operated with longer planning horizons, statements and strategic plans and that they performed their strategy activities. The process of formal strategic management involves control of actions that will enable an organization to achieve its objectives. They are written down for reference.

#### 4.3.2 Factors that influence adoption of formal strategic management.

##### The effect of competition on adoption of formal strategic management by MEs

The pertinent results of the study regarding the influence of competition on the adoption of MEs strategies are presented in Table 4.9

Table 4.9: Influence of competition on adoption of ME strategies

Response	Frequency	Percent
Yes	60	96.8
No	1	1.6
No response	1	1.6
Total	62	100.0

Table 4.9 shows that nearly all the MEs (96.8%) regard competition as a major influence on the development of their strategies. Handerson *et al.* (1997) and Aosa (1992), concur that competition is important in shaping organization's strategies.

- Frequent competitor analysis is another way MEs adopt strategic management (Table 4.10). Identification of competitors (64.5%) is frequently considered while evaluation of

information on competitors is 54.8%, identification of potential moves by competitors (66.2%) is considered most important in the analysis followed by devising effective competitive strategies (64.8%). From the mean score, identification of potential moves by competitors is “occasionally” done whereas other competitive analysis indicators are “seldomly” analysed.

Table 4.10: Extent to which MEs carry out competitive analysis (N=62)

Attribute	Frequently (1)	Occasionally (2)	Seldom (3)	Never (4)	No Response	Mean score
Identification of potential moves by competitors	66.2	21.1	4.8	4.8	3.2	1.6-occasional
Devising effective competitive strategies	64.8	24.2	6.5	1.6	3.2	2.5-seldom
Identification of competitors	64.5	22.6	8.1	0.0	4.8	2.6-seldom
Evaluation of information on competitors	54.8	32.3	8.1	1.6	3.2	2.5-seldom
Assessment of competitors SWOT	43.6	29.0	12.9	11.3	3.2	2.8-seldom

The results are consistent with the literature that competitive analysis has the objective of identifying competitors, collecting and evaluating information on competitors and their potential moves, determining competitors SWOT and helping the organization to devise effective competitive strategies (Kotler, 1997).

Appendix 2 shows the common challenges cited by the respondents that affect MEs. About 13% of the respondents cited the problems of infrastructure. Other problems include lack of raw materials (9.7%) and government taxes (6.5%). The respondents gave several suggestions for improving MEs performance (Appendix 2). The key suggestions mentioned by the respondents include lowering taxes (4.8%), supply chain management (4.8%) need for capital (1.6%), government incentives, (3.2%) improved infrastructure, (1.6%) lower cost for maintaining businesses, (3.2%) creation of local markets and partnerships (1.6%). The solutions suggested are all environmental (contextual) factors.

### **The effect of administrative/legal factors on adoption of formal strategic management by MEs.**

The major administrative/legal factors hypothesized to influence organizational performance of MEs were operationalized as government influence on time frame of organizational strategies. As far as government influence on the development of the organizations strategies is concerned more than half (53.2%) of the respondents indicated that they are not affected by government influence in relation to the length of time, as far as developing their strategies is concerned (Table 4.11). This means that firms will not keep on changing their strategies to respond to the same requirements from the government.

Table 4.11: The government influence on time-frame of organization strategies

Time frame of strategies	Frequency	Percent
No influence	33	53.2
1-2 year period	7	11.29
3-4 year period	7	11.29
5 years and above	13	21.0
No response	2	3.2
Total	62	100.0

Thus the government influence on organizations over a period of time does not affect majority of the organizations development of their strategies.

#### 4.3.3 Factors that influence organizational performance

##### The effect of administrative/legal factors on MEs performance

The major environmental variables hypothesized to influence organizational performance of MEs are administrative/legal factors which were operationalized as government regulations on organizational performance of MEs is summarized in Table 4.12.

Table 4.12: Respondents influence of government regulations on the performance of MEs

Extent of Influence	Frequency	Percent
To a great extent	52	83.87
To a small extent	9	14.52
No response	1	1.61
Total	62	100.0

A majority of the respondents (83.9%) said government regulations affect performance of their firms “to a great extent”. These include numerous licenses to operate a business and heavy taxation on manufactured goods .The government should reduce the number of licenses required as well as reduce taxation to encourage manufacturers. Therefore, firms should use their internal strengths and opportunities around them to counter the effect of government controls and promote performance.

Among the factors that affect performance of MEs is the Factory Act. Table 4.13 shows the pertinent responses.

Table 4.13: The negative influence of Factory Act on the performance of MEs

Response	Frequency	Percent
Rise in production cost	9	14.52
Increased cost on imported products	7	11.29
Annual repairs expenses on protection gear and medicine	5	8.06
Others	25	40.32
Not to any extent	5	8.06
No response	11	17.74
Total	62	100.0

Some 14.5% complained that the Factory Act results in rise of production costs. Another 11.3% complained that the Factory Act requirements result in increased cost on imported products. In addition, 8.06% of the responding firms complained, because of the requirements of the Factory Act, the money they spend on annual repairs, protection gear

and medicine for workers is too high. Others 40.3% include Oppressive Act, lowering morale, time wasted, the Act not clear and the Act not sensitive to MEs needs.

Another administrative/legal factor that affects performance of organizations is the tax. Table 4.14 shows the perceived effects of government taxes on MEs in the manufacturing sector.

Table 4.14: The effect of government taxes on performance of MEs

Factors	Frequency	Percent
Reduction in profit	21	33.87
Cost increases	10	16.77
Low sales	23	37.10
Low production	3	4.84
Others	5	8.06
Total	62	100.0

As shown in Table 4.14 above, 33.87% of the respondents said the taxes reduce their profits while another 16.8% mentioned the same by indicating that costs increase their operations. This conforms with the findings of Henderson and Will (1997). Government should try to reduce taxes to minimal.

### **The relationship between formal strategic management and MEs performance**

The relationship between formal strategic management practice and performance was assessed using financial ratios. Financial viability is one of the indicators of organizational performance. The magnitudes of financial ratios for the respondents MEs in Table 4.15.

Table 4.15: The perceived extent to which FSM influences financial ratios of MEs (N=62)

Financial ratios	To a very great extent (1)	To a great extent (2)	To a small extent (3)	Not at all (4)	Mean score
Ratio of current assets	23	47.5	29.5	0.0	2.1
Changes of net operating capital year 2002/03	14.8	45.9	34.4	4.9	2.3
Changes of net operating capital year 2003/04	16.1	40.3	33.9	3.2	2.3
Changes of net operating capital year 2004/05	14.5	37.1	32.3	6.5	2.3
Return on investment	6.5	45.2	40.3	4.8	2.4
Return on capital employed	9.7	50	32.3	3.2	2.3
Increased net profits	9.7	40.3	46.8	0.0	2.4
Gross profit margins	14.5	45.2	32.3	3.2	2.3

As shown in Table 4.15 some (47.5%) of the respondents stated that the formal strategic management affects the ratio of current assets to current liabilities to a "great extent". Gross profit margins and return on capital employed were 45.2% and 50% respectively while return on investment, changes of net operating capital year 2004/05 and increased net profits were slightly below average. From the computed mean score strategic management influences financial ratios to a great extent. Thus the study has revealed that the formal strategic management influences organizational performance (financial ratios) of an organization. Byras (1987) in his study concurs with above that organizations with formal

strategic management practices significantly out performs others in terms of earnings per share, return on equity and return on capital employed.

#### 4.4 Estimation of results

**Hypothesis 1:** The null hypothesis tested was:

**Ho: None of the MEs in Kenya have adopted any formal strategic management.**

Table 4.8 shows the extent to which MEs in Kenya have adopted formal strategic management. The data in the Table 4.8 show that two thirds (66.2%) of manufacturing MEs in Kenya have partially adopted a formal strategic management in 3 or more stages. The proportion of enterprises that had adopted formal management in less than three stages was estimated to be 34 percent. That is,  $\hat{p} = 0.34$ , that is, 34 percent of the medium sized manufacturing enterprises in Kenya have adopted formal strategic management in less than three stages. Formal strategic management influence organizational performance positively and therefore MEs with formal strategic management perform better according to the results of the study.

The null hypothesis is rejected because absolute value of the statistic computed is greater than 0.05.

The results of the Z-statistic are:

$$Z = \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} = \frac{0.34}{\sqrt{0.34 \times 0.66 / 62}} = 7.11 > Z_{0.05} = 1.645$$

**Note:** It was not significant at 95% confidence level

From the results of the Z-statistics, the null hypothesis that *none of the medium sized manufacturing enterprises in Kenya has adopted any formal strategic management* was therefore rejected. Thus the alternative hypothesis has been supported that the majority of MEs have adopted some formal strategic management at least three stages.

Aosa (1992) and Sababu (2001) found that the majority of large organizations have not adopted any formal strategic management, the findings of the current study reveal that the majority of medium enterprises have adopted some formal strategic management.

**Hypothesis 2:** The null hypothesis tested was:

**Ho: Administrative/legal factors do not significantly influence the extent to which MEs adopt formal strategic management.**

The results of Logit analysis on the probability of establishing formal strategic management against administrative/legal influence are shown on Table 4.16.

In the above table the result of fitting the model,

$$\text{logit}(p_i) = \beta_0 + \beta_1 x_1,$$

where  $p_i$  denotes the probability of establishing formal strategic management and  $x_1$  denotes the administrative/legal.

Based on a deviance value of 7.602 for 2 degrees of freedom ( $p=0.022$ ), it is concluded that administrative/legal factors explained the probability of adopting formal strategic management. Thus the null hypothesis that administrative/legal factors do not significantly influence the level to which formal strategic management are adopted is rejected.

From Table 4.16, it is apparent that the chances of institutions with no administrative/legal influence adopting formal strategic management are twice those of institutions which have one to two year of administrative/legal influence.

Table 4.16: The logit of the probability of establishing formal strategic management against administrative/ legal influence.

<i>Period</i>	<i>Parameter Estimate</i>	<i>Std Error</i>	<i>90% Confidence interval</i>	<i>Relative Odds</i>
No time	Reference			
1-2 year	-0.78	0.45	[-1.52, -0.04]	[0.22, 0.96]
3-4 years	0.36	0.65	[-0.71, 1.42]	[0.49, 4.18]
≥5 years	0.80	0.57	[-0.14, 1.73]	[0.87, 5.68]

The results of the analysis indicated that organizations with highest level of adoption of strategic management are those that have at least 5 years of administrative/legal influence, followed by those that have 3-4 years of administrative/legal influence and then by those that have had no administrative/legal influence.

Aosa (1992), found that managers in Africa relied on centralized structures and carried out ad-hoc planning like Woodburn (1984) and Adegbite (1986), Aosa attributed this to environmental turbulence, lack of management resources, paucity of information and hostile government activities. Brews *et al.*, (1999) found that in unstable environments planning capabilities are far better developed and formal plans more amenable to change. They noted that at least four years of formal planning are required before external performance

associations are noted. In view of the above evidence it was concluded that administrative/legal factors have a significant impact on the adoption of formal strategic management. This suggests that administrative/legal environment directly affects adoption of formal strategic management.

**Hypothesis 3:** The null hypothesis tested was:

**Ho: Competition does not significantly influence levels to which formal strategic management are adopted.**

From Table 4.9 nearly all the MEs (96.8%) regard competition as a major influence on the development of their strategies. Effect of competition on the adoption of strategic management is as shown on Table 4.17 from which logit regression is applied and the results are as on Table 4.18.

Table 4.17: The degree the Competition and adoption of formal of formal strategic management

Competition effect	Establishment of formal strategic management		Total
	In less than 3 stages	In at least 3 stages	
No	10	7	17
Yes	11	34	45
Total	21	41	62

Table 4.18: Logistic regression results for effect of competition on the adoption of FSM

Competition effect	Parameter Estimate	S.E.	90% confidence interval	p-value	Odds
Yes	Reference				
No	-1.485	.603	-1.49±1.20	.014	.226

The chances of adoption of formal Strategic Management with competition are 4.42 times those without competition effect, that is,  $1 \div 0.226 = 4.42$ .

The results on Table 4.18 of the logit analysis indicate that competition highly influence the adoption of formal strategic management. The lowest level of adoption of strategic management are noted in organizations that seldom device competitive strategies (Appendix 3).

Thus the null hypothesis that competition does not significantly influence levels to which formal strategic management are adopted is rejected at 90% confidence level. The coefficient is unlikely to have occurred by chance. In view of the above results, the conclusion can be made from this research evidence that competition significantly influences levels to which strategic management are adopted.

**Hypothesis 4:** The null hypothesis tested was:

**Ho: Administrative/legal factors do not significantly influence the extent of organizational performance.**

Table 4.19 report estimates the government regulations and the extent to which they affect performance of MEs. From the Table 4.19, it is apparent that a majority of the medium sized

manufacturing enterprises in Kenya feel that government regulations, as operationalised by Factory Act, affect the performance of their business. This analysis addresses the question of whether this influence is to a great extent or to a small extent.

Table 4.19: Government regulations and the extent to which they influence business performance of MEs

Government influence	Frequency	Percentage
To a small extent	9	14.5
To a great extent	52	83.9
No response	1	1.6
Total	62	100.0

About 84% of the medium size enterprises feel that government regulations greatly affect their performance. That is,  $\hat{p} = 0.84$ .

The null hypothesis that administrative/ legal factors (government regulations) do not significantly influence the extent to of organization performance is rejected on the basis of the Z-statistic.

$$\begin{aligned}
 1. \quad Z &= \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} = 18.04 > Z_{0.05} = 1.645. \\
 &= \frac{0.84}{\sqrt{0.84 \times 0.16 / 62}} = 18.04 > Z_{0.05} = 1.645
 \end{aligned}$$

At the 0.05 level of significance we conclude that administrative/ legal factors (government regulation) significantly influence the extent of performance of MEs.

The results show evidence that the level of organization performance is affected by administrative/legal factors. The relationship between the dependent variable (organizational performance) and the independent variable (administrative/legal factors) is therefore

negative. The statistical test of administrative/legal factors influence on organization performance is therefore significant. The higher the influence of administrative/legal, the lower the performance.

**Hypothesis 5:** The null hypothesis tested was:

**Ho: Organizations with formal strategic management do not perform significantly higher than those without formal strategic management.**

The results of the analysis (Table 4.20) on the effect of formal strategic management on organizational performance indicate that *Change of net operating capital in year 2004/2005*, *return on investment* and *Return on capital employed* are the measures of organizational performance significantly associated with the establishment of formal strategic management (Appendix 6).

Table 4.20: Summary of chi-square tests in 2×2 contingency table relating establishment of formal strategic management and key measures of organizational performance

Financial ratios	R <sup>2</sup>	χ <sup>2</sup>	Degrees of freedom	p-value	Significance
Ratio of current assets to current liabilities	0.015	0.128	1	0.7205	Not significant
Change of net operating capital in year 2002/2003	0.025	0.8294	1	0.3625	Not significant
Change of net operating capital in year 2003/2004	0	0.3049	1	0.5808	Not significant
Change of net operating capital in year 2004/2005	0.025	4.7912	1	0.02861	Significant
Return on investment	0.082	4.051	1	0.044	Significant
Return on capital employed	0.027	3.8723	1	0.04909	Significant
Gross profit margin	0	1.0095	1	0.3150	Not significant

Table 4.21 shows the effects of formal strategic management on change of net operating capital in the year 2004/2005.

Table 4.21: Effects of formal strategic management on Change of net operating capital in the year 2004/2005

Formal strategic management	Parameter Estimate	Std Error	90% confidence Interval	p-value	Relative Odds
Less than 3 stages	Reference				
At least 3 stages	1.47	0.61	1.47±1.00	0.016	4.35

The chances of adoption of formal strategic management in at least stages areas is 4.34 times more than those with less than three stages in change of net operating capital. The results of the analysis indicate that there is association between adoption of formal strategic management and the change of net operating capital in the year 2004/2005. From Table 4.22, it is apparent that organizations that have established formal strategic management in at least 3 stages were four times more likely to have a positive change in net operating in the year 2004/5 than those that had established strategic management in less than three stages (Appendix 6). Table 4.22 shows the effect of formal strategic management on return on investment.

Table 4.22: Effects of formal strategic management on return on investment

Formal strategic management	Parameter Estimate	Std Error	90% confidence Interval	p-value	Relative Odds
Less than 3 stages	Reference				
At least 3 stages	1.13	0.57	1.29±0.94	0.048	3.10

The chances of adoption of formal strategic management in at least three stages is 3.10 times more than those with less than three stages on return on investment. Based on a Chi-square value of 3.02 on 1 degree of freedom (p-value=0.08), we can conclude that there is association between adoption of strategic management and the Return on investment. Table 4.22 indicates that organizations that have established formal strategic management in at least 3 stages were 3 times more likely to have higher returns on investment than those that had established them in less than three stages (Appendix 6).

Table 4.23 shows the effects of formal strategic management on return on capital employed. The reference indicate that the level of the factor FSM is the one the other level is compared against (Appendix 6).

Table 4.23: Effects of formal strategic management on return on capital employed

Formal strategic management	Parameter Estimate	Std Error	90% Confidence Interval	p-value	Relative Odds
Less than 3 stages	Reference				
At least 3 stages	1.29	0.58	1.29±0.95	0.0275	3.63

The chances of adoption of formal strategic management in at least three stages is 3.63 times more than those with less than three on return on capital employed. The results of the analysis (Table 4.23) also indicate that there is association between adoption of formal strategic management and Return on capital employed. It is also clear that organizations that have established strategic management in at least 3 stages were 3.6 times more likely to have higher returns on capital employed than those that had established them in less than three stages (Appendix 6).

Thus the null hypothesis that strategic management do not influence organizational performance (financial ratios) of an organization is rejected. Organizations that have adopted formal strategic management significantly out perform others in terms of change of net operating capital in the year 2004/2005, return on investment and return on capital employed. Byras (1987) study found that organizations with formal strategic management significantly out perform others in terms of earnings per share, return on equity and return on capital employed.

### **Impact of formal strategic management on Organizational performance**

Using ANOVA, the results indicated that having written objectives [ $F=8.912$  on 1, 50 df,  $p=0.004$ ]; having developed strategies for operation [ $F=4.153$  on 1,50 df,  $p=0.046$ ]; and carrying out evaluation of performance [ $F=3.038$  on 4,45 df,  $p=0.0267$ ] significantly explain organizational performance. It was also noted that adoption of FSM in three or more stages significantly improved performance [ $F=6.93$  on 1, 52 df,  $p=0.011$ ]. Other measures of FSM did not significantly impact on the performance of the organization. Organisations that indicated that they have always motivate employees in the course of implementation of plans performed better than those that only motivated them occasionally [ $F=14.04$  on 1, 52 df,  $p=0.001$ ].

Of all the measures of FSM, employee motivation in implementation of strategic plans was noted as the most important factor that explains organizational performance. This measure explains 20% of the variation in performance. Carrying out performance evaluation, having written mission statement and having developed strategies for operation explain 14.3%,

13.5% and 5.8%, respectively, of the variation in performance. Adoption of FSM in three or more stages explained 10% of the variation in performance.

### **Model selection**

In this section the significant demographic factors and measures of FSM identified previously were used to develop a best fitting model relating these factors with organizational performance. On the basis of the Adjusted  $R^2$  statistic, the best fitting model identified consisted of having a written objectives, having developed strategies for operation, motivation of employees and the years of schooling of the CEO. These variables together explain 37% of the variation in performance [Appendix 6].

### **4.5 Chapter Summary**

This chapter has given a detailed account of data analysis, touching on all the variables used in the study. It is now clear that formal strategic management affect organization performance and also administrative/legal and competition factors affect formulation of formal strategic management. Administrative/legal factors affect organizational performance as well. The researcher has also carried out statistical tests for all hypotheses.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter outlines the conclusion and recommendations of the study and makes suggestions for further research. The purpose of this study was to investigate the effect of strategic management on organizational performance on selected MEs in Nairobi, Kenya. The findings of the study are concluded in relation to the research objectives and the corresponding hypotheses.

#### 5.2 Summary of findings

The first objective was to find out the extent to which formal strategic management is adopted by medium manufacturing enterprises in Kenya. The study showed that a majority (66.2%) of medium sized enterprises have adopted formal strategic management in three or more stages. The research findings are therefore inconsistent with the relevant literature that the majority of organizations have not adopted formal strategic management.

Objective two sought to investigate the effect of various administrative/legal factors on the extent to which formal strategic management are adopted. The results show that administrative/legal factors significantly affect the adoption of formal strategic management. To determine the effects of competition on adoption of formal strategic management in objective three, it was found that competition also significantly influence (96.8%) levels of strategic management adoption. Therefore organizations should adopt formal strategic management in line with administrative/legal and competitive environment to enhance performance. Objective four investigated the effect of administrative /legal factors on organizational performance. It was found that administrative/legal factors significantly

influence (83.9%) level of organizational performance. Objective five assessed the relationship between the adoption of formal strategic management and organizational performance. The study found that formal strategic management do play a positive role in determining organizational performance in Kenya as far as return in investment (60.7%), net operating capital (51.6%) and return on capital employed (59.7%) is concerned.

Thus, other than the first hypothesis that, none of the medium sized manufacturing enterprises in Kenya have adopted any formal strategic management which had unexpected results according to literature, the other four hypotheses are inline with literature findings and expectations. Thus, a majority of MEs have adopted formal strategic management in at least three stages. Like other organizations administrative/legal factors influence adoption of strategic formal managements. Competition also influences adoption of formal strategic management. Administrative/legal factors affect organizational performance and lastly adoption of formal strategic management affect organization performance.

Of all the measures of FSM, employee motivation in implementation of strategic plans was noted as the most important factor that explains organizational performance. This measure explains 20% of the variation in performance. Carrying out performance evaluation, having written mission statement and having developed strategies for operation explain 14.3%, 13.5% and 5.8%, respectively, of the variation in performance. Adoption of FSM in three or more stages explained 10% of the variation in performance.

### 5.3 Conclusions

The first objective was to find out the extent to which formal strategic management is adopted by medium manufacturing enterprises in Kenya. The study showed that a majority (66.2%) of medium sized enterprises have adopted formal strategic management in three or more stages. Many of the CEO's in MEs (69.4%) had training in strategic management and hence its implementation. The research findings are therefore inconsistent with the relevant literature that the majority of organizations have not adopted formal strategic management. Formal strategic management should continually monitor external and internal events and trends to promote performance in MEs. . Formal strategic management is crucial for survival and growth of any entrepreneurial organization and hence should be adopted by all MEs.

The results of objective two show that administrative/legal factors significantly affect the adoption of formal strategic management. Therefore, some business managers have become very successful by studying the political environment and developing strategies that take advantage of opportunities related to changing political dimensions. To determine the effects of competition on adoption of formal strategic management in objective three, it was found that competition also significantly influence (96.8%) levels of strategic management adoption. In Kenya, because of liberalization many products from Asian countries seems to have a competitive edge locally. Strategic management process ultimately aims as developing competitive edge for the firm. Firms strive to out maneuver their competitors in order to survive by studying the competitors position and determining the choice of strategy to use. Therefore organizations should adopt formal strategic management in line with administrative/legal and competitive environment to enhance performance.

In objective four it was found that administrative/legal factors significantly influence (83.9%) level of organizational performance. A number of existing laws and regulation still remain cumbersome, out of step with current realities and hostile to the growth of ME sector. The government should provide a conducive environment by reducing the number of licenses and taxation required to encourage manufacturers and spur growth in the informal sector. Firms should also use their internal strengths and opportunities around them to counter the effect of government control and promote performance.

Objective five assessed the relationship between the adoption of formal strategic management and organizational performance. The study found that formal strategic management do play a positive role in determining organizational performance in Kenya as far as return in investment (60.7%), net operating capital (51.6%) and return on capital employed (59.7%) is concerned. Strategies are yardsticks by which presents and future performance of the firm is measured. Some companies have a competitive advantage in the environment because of adopting a strategic approach to performance. Therefore, the onus is for every ME, to continuously appraise the environment and identify issues/factors that can impact on the performance and act/manage them immediately.

#### **5.4 Recommendations**

Medium manufacturing enterprises, like all other entrepreneurial organizations, operate in a competitive environment and hence formal strategic management is a strategy of survival and growth. The environmental factors determine the survival and growth of organizations and therefore managers should maximize combination of strategic management variables for

optimal operation of their enterprises. The volatile nature of current markets makes strategic management critical. The following recommendations were advanced from this study:

- All MEs in Kenya should adopt formal strategic management to promote performance and counter competition through enhanced training in the informal sector.
- The top management of MEs should adopt formal strategic management in line with administrative/legal and competitive environmental factors facing the organizations because these factors greatly affect organizational performance of MEs. The government should provide a conducive environment that spurs growth in the informal sector.
- All MEs should evaluate failure or success of formal strategic management in their organizations.

### **5.5 Areas for further research**

This study investigated the effect of formal strategic management on organizational performance. The study determined how the environment (administrative/legal and competition) in which these enterprises operate affect the formulation of formal strategic management practices and their performance.

The macro and micro environment is composed of a multiplicity of factors. Due to the complex nature of these factors, no single study can be able to test them together. Future research should therefore identify more factors that are assumed to affect organizational performance. Such factors that are not studied so far include ecological, physical and distributors. For example, the effect of physical factors on organizational performance and adoption of strategic management; effect of ecological factors on adoption of strategic management and organizational performance and the effect of distributors on adoption of strategic management and organizational performance. Also the effect of informal strategic

management in organizational performance should be studied. The variables in formal studies should be measured more precisely. These studies can be carried out in organizations that are not studied so far. Also the effect of informal strategic management in organizational performance should be studied. The variables in further studies should be measured more precisely.

### **5.6 Chapter Summary**

This chapter has drawn the conclusion of the study in line with the objectives. It has also suggested recommendations to help improve the ME sector. Areas for further research have been suggested.

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**APPENDICES****Covering letter**

**Dear respondent,**

I am conducting a research to better understand the effect of strategic management on the performance of Medium Manufacturing Enterprises (MEs) in Kenya.

The results of this survey will form a basis for formulating ways of promoting better management of these enterprises.

Your firm was selected at random.

In answering the questions, you are assured that your responses will be kept confidential and answers are intended for research purposes only. Please read each question carefully and follow instructions preceding each section.

Your co-operation in completing the questionnaire will be highly appreciated.

If you have any queries regarding this project, feel free to contact me using the telephone numbers 0723 – 985 333

Thanking you in advance,

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Eva M. Gichunge  
Doctoral Candidate  
School of Business  
Kenyatta University.

**Appendix 1****QUESTIONNAIRE****CONFIDENTIAL**

Strategy Processes in Medium Manufacturing Enterprises in Kenya

**I. MISSION**

1. (a) Do you have a mission statement (purpose of existence) for your organization?

Yes  No (b) If yes, (i) is it a written statement? Yes  No 

(ii) Please provide me with a copy of the statement

(c) Write down the mission (purpose) of your organization's existence

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**II. OBJECTIVES**2. (a) Do you have objectives (targets) set for your organization? Yes  No (b) Are these objectives in written form? Yes  No 

(c) Please state starting with the most important the annual objectives (targets) of your organization.

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(iii) \_\_\_\_\_

(iv) \_\_\_\_\_

### III. DEVELOPING THE ORGANIZATION'S STRATEGY

3. Has your organization developed strategies for operation? Yes  No

4. Indicate the extent to which information on the following factors is considered in the developing of strategies: Given

Never \_ 1; Seldom \_ 2; Occasionally \_ 3; Frequently \_ 4; Always \_ 5

	Never	Seldom	Occasionally	Frequently	Always
(a) Political and Legal developments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) General Economic trends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Competitor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Market trends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Technological changes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Social and Cultural trends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Organizations internal resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Customer services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i) Marketing mix	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Are your organization's strategies put in writing once they are developed? Yes  No

### (IV). IMPLEMENTATION

6. Do you prepare annual estimates of operation (budgets)? Yes  No

7. If yes, do you achieve (realize) your set targets with these budgets?

All of them  Some of them  None

8. Do you prepare budgets for all activities?

Always  Sometimes  Never

9. How often do you motivate your employees?

Always  Sometimes  Never

10. How often do you change your technology to meet your organization's needs?

Always  Sometimes  Never

11. Is your organization's structure changed to cater for new strategies?

Yes  No

**(V) EVALUATION**

12. Does your organization prepare formal standards of performance?

Yes  No

13. If yes, how often do you carry out evaluation of the performance in your enterprise?

Never 1   
 Seldom 2   
 Occasionally 3   
 Frequently 4   
 Always 5

**(VI) ORGANIZATIONAL PERFORMANCE**

14. To what extent has the implementation of strategic management practices (i.e. formulation, implementation and evaluation) influenced your organization's performance in the following areas. Please tick (✓) the appropriate box.

Financial Viability Indicators	To a very great extent	To a great extent	To a small extent	Not at all
Ratio of current assets to current liabilities i.e. $\frac{\text{Current assets}}{\text{Current liabilities}}$ e.g. 1:2, 4:1 etc				
Changes of net operating capital years.				
2002/03				
2003/04				
2004/05				
Return on investment $\text{(ROI)} = \frac{\text{Profit}}{\text{Capital}} \times \text{Capital turnover}$ Sales				
Return on capital employed $\text{(ROCE)} = \frac{\text{Net Profit}}{\text{Capital employed}}$				

Increased net profits Kshs.= revenue-expenses-taxes- dividends				
Gross Profit Margins= Total revenue-expenses(no taxation)				
Other specify				

### (VII) ADMINISTRATIVE/LEGAL INFLUENCE

15. Please state the length of administrative/legal influence on the development of your organizations strategies.

No time period

1-2 year period

3-4 year period

5 year period and above

16. a) Please state how the Factory Act affects your business.

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b) To what extent do the government regulations affect your business performance?

0 = not at all

1 = to a small extent

2 = to a great extent

3 = to a very great extent

c) Please state the effect of government taxes on your manufacturing enterprise.

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d) Our business premises are located in the right place for manufacturing business

Yes  No

**(VIII) COMPETITION**

17. a) Does level of competition affect development of your organization strategies?

Yes  No

b) Indicate the importance your organization attaches to the following.

Never-1 seldom- occasionally –frequently- always-5

	Never	Seldom	Occasionally	Frequently	Always
Identifying competitors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Collecting evaluating information on competitors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Identifying potential moves by competitors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Determining competitors SWOT analysis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Devising effective competitive strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Please state any other problem affecting your enterprise,

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19. Is competition increasing from (a) Buyers  (b) Suppliers?

20. Please give suggestions on other important issues on medium manufacturing enterprises.

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**IX. ADDITIONAL INFORMATION**

21. Please state the number of years you have been in school.

5-10

11-15

16-20

21 and above.

22. Have you ever had any training related to strategic management?

Yes  No

23. Please state the number of years you have worked with this enterprise \_\_\_\_\_

24. Please state

a) Your sex; Male  Female

b) Occupation \_\_\_\_\_

25. a) Name of organization \_\_\_\_\_

b) Year of establishment \_\_\_\_\_

c) Address

Box \_\_\_\_\_

Street \_\_\_\_\_

Location \_\_\_\_\_

Telephone \_\_\_\_\_

Email \_\_\_\_\_

**Thank you very much for your co-operation.**

## Appendix 2: Demographics/characteristics of respondent firms

### Challenges facing MEs

Responses	Frequency	Percent
Government taxes	4	6.45
Infrastructure	8	12.9
Lack of enough raw material	6	9.68
Substandard products in the market	3	4.84
High cost of labour	3	4.84
Products not fast moving	3	4.84
Others	16	25.81
Don't know	19	30.65
Total	62	100.0

### Appropriateness of location of business

Responses	Frequency	Percent
Yes	51	82.3
No	7	11.3
No response	4	6.5
Total	62	100.0

## Training in strategic management

Responses	Frequency	Percent
Yes	43	69.4
No	16	25.8
No response	3	4.8
Total	62	100.0

### Appendix 3: Strategy adoption

Factors considered in developing strategies by respondent firms (N=62)

Factors	Never	Seldom	Occasionally	Frequently	Always
Customer satisfaction	0	4.8	3.2	22.6	67.7
Market trends	0	1.6	14.5	35.5	46.8
Competitive factors	0	3.2	14.5	35.5	46.8
General Economic trends	1.6	8.1	22.6	22.6	45.2
Marketing mix variables	0	4.8	22.6	29.0	40.3
Organizations internal resources	4.9	3.3	16.1	37.1	37.1
Technological changes	3.2	4.8	32.3	33.9	24.2
Administrative/legal factors	19.4	24.2	25.8	21.0	9.7
Social and cultural trends	12.9	22.6	41.9	14.5	6.5

Logit-Hypothesis 2

```
> fit1 <- glm(prop ~ q15, family = binomial(link = logit), weights = total, na.action =
na.omit)
```

```
> summary(fit1)
```

```
Call: glm(formula = prop ~ q15, family = binomial(link = logit), weights = total, na.action =
na.omit)
```

Deviance Residuals:

```
Min      1Q  Median      3Q      Max
```

```
-2.401323 -0.3841868 0.8306195 1.216224 1.724098
```

Coefficients:

	Value	Std. Error	t value
(Intercept)	1.8362112	0.2295668	7.9985923
q151 year period	-0.7753393	0.4497483	-1.7239403
q153 year period	0.3610133	0.6504373	0.5550317
q155 year and above period	0.8028461	0.5661240	1.4181453

(Dispersion Parameter for Binomial family taken to be 1 )

Null Deviance: 84.74085 on 56 degrees of freedom

Residual Deviance: 77.84402 on 53 degrees of freedom

5 observations deleted due to missing values

No. of Fisher Scoring Iterations: 5

Correlation of Coefficients:

	(Intercept)	q151 year period	q153 year period
q151 year period	-0.5104339		
q153 year period	-0.3529422	0.1801537	
q155 year and above period	-0.4055062	0.2069841	0.1431203

> anova(fit1, test = "chisq")

Analysis of Deviance Table

Binomial model

Response: prop

Terms added sequentially (first to last)

	Df	Deviance	Resid. Df	Resid. Dev	Pr(Chi)
NULL	56	84.74085			
q15 3	6.896827		53	77.84402	0.07525997

Logit-Hypothesis 3

glm(formula = prop ~ comp, family = binomial(link = logit), weights = total)

Deviance Residuals:

[1] 0 0

Coefficients:

Estimate Std. Error z value Pr(>|z|)

(Intercept) 1.1285 0.3469 3.253 0.00114 \*\*

comp2 -1.4851 0.6026 -2.464 0.01373 \*

---

Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

(Dispersion parameter for binomial family taken to be 1)

Null deviance: 6.2936e+00 on 1 degrees of freedom

Residual deviance: -1.7764e-15 on 0 degrees of freedom

AIC: 11.256

Number of Fisher Scoring iterations: 3

Call: glm(formula = prop ~ q17a, family = binomial(link = logit), weights = total, na.action = na.omit)

Deviance Residuals:

Min 1Q Median 3Q Max

-2.435509 -0.4130237 1.196248 1.196248 1.196248

Coefficients:

Value Std. Error t value

(Intercept) 15.20289 542.7933 0.02800863

q17a -13.33109 542.7933 -0.02456016

(Dispersion Parameter for Binomial family taken to be 1 )

Null Deviance: 86.15853 on 57 degrees of freedom

Residual Deviance: 84.74085 on 56 degrees of freedom

4 observations deleted due to missing values

No. of Fisher Scoring Iterations: 14

Correlation of Coefficients:

(Intercept)

q17a -0.9999999

> anova(fit3a, test = "chisq")

Analysis of Deviance Table

Binomial model

Response: prop

Terms added sequentially (first to last)

	Df	Deviance	Resid. Df	Resid. Dev	Pr(Chi)
NULL			57	86.15853	
q17a	1	1.417678	56	84.74085	0.2337859

> fit3c <- glm(prop ~ q17b5, family = binomial(link = logit), weights = total, na.action = na.omit)

> summary(fit3c)

Call: glm(formula = prop ~ q17b5, family = binomial(link = logit), weights = total, na.action = na.omit)

Deviance Residuals:

Min	1Q	Median	3Q	Max
-3.178608	-0.5090872	0.8077161	1.130634	1.888584

Coefficients:

	Value	Std. Error	t value
(Intercept)	2.6968769	0.4217850	6.3939605
q17b5Frequently	-1.2396308	0.5004246	-2.4771580
q17b5Never	12.5060175	542.7934569	0.0230401
q17b5Occasionally	-0.7044467	0.5515118	-1.2773013
q17b5Seldom	-1.8495790	0.6449790	-2.8676579

(Dispersion Parameter for Binomial family taken to be 1 )

Null Deviance: 84.74085 on 56 degrees of freedom

Residual Deviance: 72.37736 on 52 degrees of freedom

5 observations deleted due to missing values

No. of Fisher Scoring Iterations: 14

Correlation of Coefficients:

(Intercept) q17b5Frequently q17b5Never q17b5Occasionally

q17b5Frequently -0.8428543

q17b5Never -0.0007771 0.0006550

q17b5Occasionally -0.7647797 0.6445979 0.0005943

q17b5Seldom -0.6539516 0.5511860 0.0005082 0.5001290

> anova(fit3c, test = "chisq")

Analysis of Deviance Table

Binomial model

Response: prop

Terms added sequentially (first to last)

	Df	Deviance	Resid. Df	Resid. Dev	Pr(Chi)
NULL	56	84.74085			
q17b5	4	12.36349	52	72.37736	0.01484334

The chi-square test of association

		C				
		1	2	...	c	Row Totals
R	1	$O_{11}$	$O_{12}$	...	$O_{1c}$	$O_{1.}$
	2	$O_{21}$	$O_{22}$	...	$O_{2c}$	$O_{2.}$
	⋮					
	r	$O_{r1}$	$O_{r2}$	...	$O_{rc}$	$O_{r.}$
Column Totals		$O_{.1}$	$O_{.2}$		$O_{.c}$	$O_{..}$

## Appendix 4 : Strategy Implementation

### Preparation of annual budgets

Responses	Frequency	Percent
Yes	51	82.3
No	10	16.1
No response	1	1.6
Total	62	100.0

### Change of technology to meet organization needs

Responses	Frequency	Percent
Sometimes	45	72.6
Always	14	22.6
Never	1	1.6
No response	2	3.2
Total	62	100.0

### Set targets and achievement of budgets

Responses	Frequency	Percent
All of them	4	6.5
Some of them	52	83.9
None	2	3.2
No response	4	6.5
Total	62	100.0

## Whether budgets are prepared for all activities

Responses	Frequency	Percent
Always	28	45.2
Sometimes	32	51.6
No response	2	3.2
Total	62	100.0

## Frequency of employee motivation

Responses	Frequency	Percent
Always	32	51.6
Sometimes	30	48.4
Total	62	100.0

## Organization's structure change for new strategies

Responses	Frequency	Percent
Yes	55	88.7
No	7	11.3
Total	62	100.0

## Appendix 5: Strategy Evaluation

Organization preparation of formal standards of performance

Responses	Frequency	Percent
Yes	49	79.0
No	13	21.0
Total	62	100.0

## Appendix 6: Performance

### Logit-Hypothesis 5

Ratio of current assets to current liabilities on establishment of formal strategic management.

Ratio of current assets to current liabilities	establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	7	11	18
To a great extent	13	30	43
Total	20	41	61

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.431(b)	1	.511		
Continuity Correction(a)	.128	1	.720		
Likelihood Ratio	.425	1	.515		
Fisher's Exact Test				.559	.356
Linear-by-Linear Association	.424	1	.515		
N of Valid Cases	61				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.90.

Change of net operating capital in the year 2002/2003 on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Change of net operating capital in the year 2002/2003	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	10	14	24
To a great extent	10	27	37
Total	20	41	61

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.416(b)	1	.234		
Continuity Correction(a)	.829	1	.362		
Likelihood Ratio	1.402	1	.236		
Fisher's Exact Test				.273	.181
Linear-by-Linear Association	1.393	1	.238		
N of Valid Cases	61				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.87.

Change of net operating capital in the year 2003/2004 on establishment of formal strategic management (Crosstab & Chi-Square tests)

## Crosstab

Change of net operating capital in the year 2003/2004	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	9	14	23
To a great extent	10	25	35
Total	19	39	58

## Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.703(b)	1	.402		
Continuity Correction(a)	.305	1	.581		
Likelihood Ratio	.697	1	.404		
Fisher's Exact Test				.568	.289
Linear-by-Linear Association	.690	1	.406		
N of Valid Cases	58				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.53.

Change of net operating capital in the year 2004/2005 on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Change of net operating capital in the year 2004/2005	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	12	12	24
To a great extent	6	26	32
Total	18	38	56

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	6.140(b)	1	.013		
Continuity Correction(a)	4.791	1	.029		
Likelihood Ratio	6.173	1	.013		
Fisher's Exact Test				.021	.014
Linear-by-Linear Association	6.031	1	.014		
N of Valid Cases	56				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.71.

Return on capital investment on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Return on capital investment	Establishment of formal strategic management		Total
	In less than 3 formal	In at least 3 formal	
To a smaller extent	13	15	28
To a great extent	7	25	32
Total	20	40	60

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	4.051(b)	1	.044		
Continuity Correction(a)	3.022	1	.082		
Likelihood Ratio	4.088	1	.043		
Fisher's Exact Test				.058	.041
Linear-by-Linear Association	3.984	1	.046		
N of Valid Cases	60				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 9.33.

Return on capital employed on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Return on capital employed	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	11	11	22
To a great extent	8	29	37
Total	19	40	59

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.089(b)	1	.024		
Continuity Correction(a)	3.872	1	.049		
Likelihood Ratio	5.018	1	.025		
Fisher's Exact Test				.042	.025
Linear-by-Linear Association	5.003	1	.025		
N of Valid Cases	59				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.08.

Increase in net profits on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Increase in net profits	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	12	17	29
To a great extent	8	23	31
Total	20	40	60

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.635(b)	1	.201		
Continuity Correction(a)	1.009	1	.315		
Likelihood Ratio	1.642	1	.200		
Fisher's Exact Test				.275	.158
Linear-by-Linear Association	1.608	1	.205		
N of Valid Cases	60				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 9.67.

Gross profit margins on establishment of formal strategic management (Crosstab & Chi-Square tests).

## Crosstab

Gross profit margins	Establishment of formal strategic management		Total
	In less than 3 formal stages	In at least 3 formal stages	
To a smaller extent	8	14	22
To a great extent	12	25	37
Total	20	39	59

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.095(b)	1	.758		
Continuity Correction(a)	.001	1	.981		
Likelihood Ratio	.095	1	.758		
Fisher's Exact Test				.783	.487
Linear-by-Linear Association	.094	1	.760		
N of Valid Cases	59				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.46.

## Logistic Regression 1

Ratio of current assets to current liabilities on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	.425	1	.515
	Block	.425	1	.515
	Model	.425	1	.515

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	73.585(a)	.007	.010

a Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	
Step 1 1(a)	formal1(1)	.384	.587	.429	1	.512	1.469
	Constant	.619	.469	1.744	1	.187	1.857

a Variable(s) entered on step 1: formal1.

## Logistic Regression 2

Change of net operating capital in year 2002/2003 on establishment of formal strategic management .

## Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	1.402	1	.236
	Block	1.402	1	.236
	Model	1.402	1	.236

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	80.370(a)	.023	.031

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a) formall(1)	.657	.555	1.398	1	.237	1.929
Constant	.000	.447	.000	1	1.000	1.000

a Variable(s) entered on step 1: formall.

## Logistic Regression 3

Change of net operating capital in year 2003/2004 on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	.697	1	.404
	Block	.697	1	.404
	Model	.697	1	.404

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	77.207(a)	.012	.016

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 formal1 (1)	.474	.568	.698	1	.403	1.607
Constant	.105	.459	.053	1	.819	1.111

a. Variable(s) entered on step 1: formal1.

## Logistic Regression 4

Change of net operating capital in year 2004/2005 on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	6.173	1	.013
	Block	6.173	1	.013
	Model	6.173	1	.013

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	70.312(a)	.104	.140

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)						
formal1 (1)	1.466	.610	5.783	1	.016	4.333
Constant	-.693	.500	1.922	1	.166	.500

a Variable(s) entered on step 1: formal1.

## Logistic Regression 5

Return on investment on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	4.088	1	.043
	Block	4.088	1	.043
	Model	4.088	1	.043

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	78.823(a)	.066	.088

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a) formall(1)	1.130	.571	3.911	1	.048	3.095
Constant	-.619	.469	1.744	1	.187	.538

a Variable(s) entered on step 1: formall.

## Logistic Regression 6

Return on capital employed on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	5.018	1	.025
	Block	5.018	1	.025
	Model	5.018	1	.025

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	72.917(a)	.082	.111

a Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

## Variables in the Equation

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a) formal1(1)	1.288	.584	4.860	1	.027	3.625
Constant	-.318	.465	.470	1	.493	.727

a Variable(s) entered on step 1: formal1.

## Logistic Regression 7

Increase in net profits on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	1.642	1	.200
	Block	1.642	1	.200
	Model	1.642	1	.200

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	81.469 (a)	.027	.036

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a) formal1 (1)	.708	.557	1.613	1	.204	2.029
Constant	-.405	.456	.789	1	.374	.667

a Variable(s) entered on step 1: formal1.

## Logistic regression 8

Gross profits on establishment of formal strategic management.

## Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	.095	1	.758
	Block	.095	1	.758
	Model	.095	1	.758

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	77.841(a)	.002	.002

a Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

## Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step (a) formal1(1)	.174	.565	.095	1	.758	1.190
Constant	.405	.456	.789	1	.374	1.500

a Variable (s) entered on step 1: formal1.

## Principal component analysis

Suppose that measurements for  $p$  variables  $X_1, \dots, X_p$  are made on  $n$  individuals. The first principal component is the linear combination of these variables and is given as

$Z_1 = a_{11}X_1 + a_{12}X_2 + \dots + a_{1p}X_p$ , where the coefficient  $a_{11}, \dots, a_{1p}$  are chosen such that the variance of  $Z_1$  is maximised subject to the constraint that  $a_{11}^2 + \dots + a_{1p}^2 = 1$ .

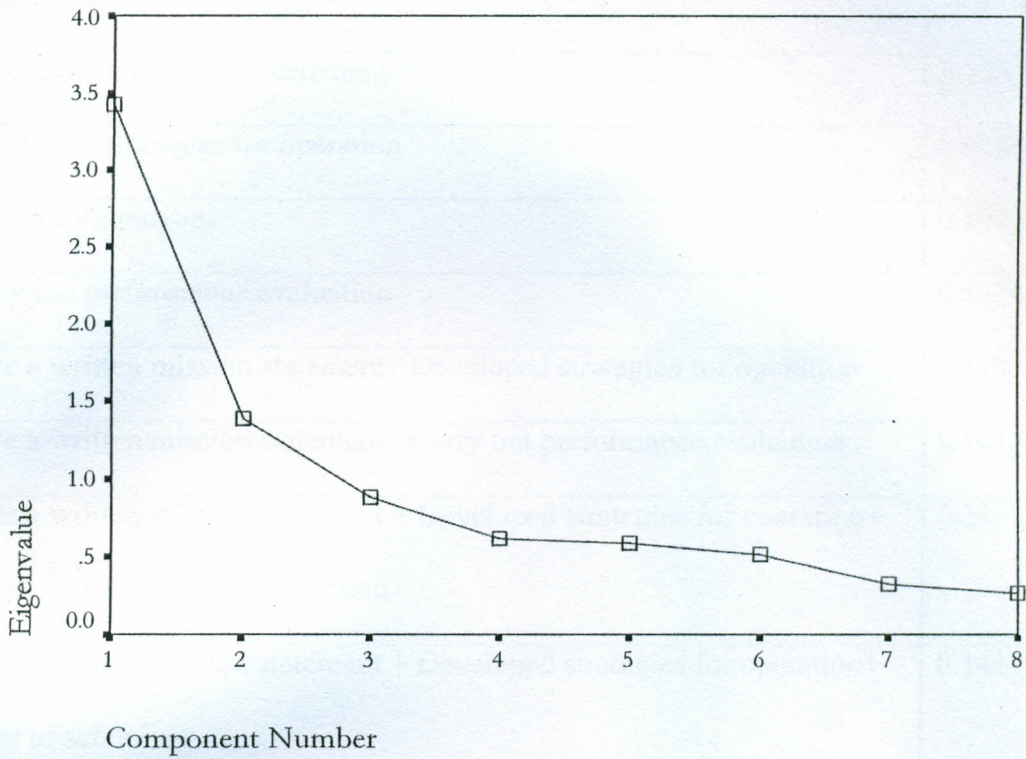
The second principal component is completely uncorrelated with the first component and is given as  $Z_2 = a_{21}X_1 + a_{22}X_2 + \dots + a_{2p}X_p$ . The second principal component explains additional but less variation than the first component subject to the same constraint. Further, principal components (up to the maximum of  $p$ ) are defined in a similar way.

Each principal component is uncorrelated with all the others and the squares of its coefficients sums to one. The principal component analysis involves finding the eigenvalues and eigenvectors of the covariance matrix.

## Total Variance Explained

Component	Total	% of Variance	Cumulative %
1	3.425	42.819	42.819
2	1.383	17.283	60.101
3	.889	11.112	71.214
4	.616	7.704	78.918
5	.588	7.346	86.264
6	.509	6.363	92.627
7	.323	4.032	96.659
8	.267	3.341	100.000

## Scree Plot



Screeplot of the principal component analysis

Adjusted R<sup>2</sup> statistic value for fitted models

Model terms	Adjusted R <sup>2</sup>
Have a written mission statement	0.1352
Developed strategies for operation	0.058
Motivate employees	0.1974
Carry out performance evaluation	0.1426
Have a written mission statement+ Developed strategies for operation	0.1736
Have a written mission statement+ Carry out performance evaluation	0.1613
Have a written mission statement + Developed strategies for operation+ Carry out performance evaluation	0.1595
Have a written mission statement + Developed strategies for operation+ Years of schooling	0.1417
Have a written mission statement + Developed strategies for operation+ Had training in SM	0.1622
Have a written mission statement + Developed strategies for operation+ Motivate employees	0.2685
Have a written mission statement + Developed strategies for operation+ Motivate employees+ Years of schooling	<b>0.2788</b>
Have a written mission statement + Developed strategies for operation+ Motivate employees+ Training is SM	0.2632

**(i) Likert scale 1 Q4a to Q4b****RELIABILITY ANALYSIS - SCALE (ALPHA)**

- |    |     |                                   |
|----|-----|-----------------------------------|
| 1. | Q4A | Political and legal development   |
| 2. | Q4B | General economic trends           |
| 3. | Q4C | Competitor                        |
| 4. | Q4D | Market trends                     |
| 5. | Q4E | Technological changes             |
| 6. | Q4F | Social and cultural trends        |
| 7. | Q4G | Organizational internal resources |
| 8. | Q4H | Customer services                 |
| 9. | Q4I | Marketing mix                     |

**Reliability Coefficients**

N of Cases = 50.0                      N of Items = 9

Alpha = .9802

According to the guide above the scale is excellent in terms of internal consistency (reliability) i.e Alpha is above 0.98 is tending to one.

**(ii) Likert scale 2 Q14a-Q14g****RELIABILITY ANALYSIS - SCALE (ALPHA)**

- |    |      |  |
|----|------|--|
| 1. | Q14A | Financial viability indicators           |
| 2. | Q14B | Current assets to current liabilities ra |
| 3. | Q14C | Changes of net operating capital         |
| 4. | Q14D | Return on investment                     |
| 5. | Q14E | Return on capital employed               |
| 6. | Q14F | Increased net profits                    |
| 7. | Q14G | Gross profit margins                     |

**Reliability Coefficients**

N of Cases = 50.0                      N of Items = 7

Alpha = .9801

The scale is also excellent as Alpha tends to one i.e. 0.98

**(iii) Likert scale 3 Q17b1-Q17b5****RELIABILITY ANALYSIS - SCALE (ALPHA)**

- |    |       |   |
|----|-------|---|
| 1. | Q17B1 | Identifying competitors                   |
| 2. | Q17B2 | Collecting evaluation information on com  |
| 3. | Q17B3 | Identifying potential moves by competitor |
| 4. | Q17B4 | Determining competitor's SWOT analysis    |
| 5. | Q17B5 | Devising effective competitive strategies |

**Reliability Coefficients**

N of Cases = 50.0

N of Items = 5

Alpha = .9352

The likert scale is excellent as the Alpha value is above the 0.9 mark

**(iv) Likert scale 4 Q8 and Q9****RELIABILITY ANALYSIS - SCALE (ALPHA)**

1. Q8 Do you prepare budgets for all activities

2. Q9 How often do you change your technology

**Reliability Coefficients**

N of Cases = 50.0

N of Items = 2

Alpha = .7097

This Likert scale is acceptable for use given that the Alpha value is above 0.7 as shown above.

**Appendix 7****A LIST OF ME's IN NAIROBI**

Acif Oil Refinery Ltd	
Aero Instrument Services	Choda Enterprise
African Body Builders Co Ltd	Choda Fabricators.
African Highland Produce Co Ltd	Colas East Africa Ltd
Afro Press	Concrete Pipes & Products (1970) Ltd
Ahmed Brothers Ltd	Concreters (1972) Ltd.
Ajay Garments	Cotton Lint & Seed Marketing Board
Alibhi Sharif & Sons Ltd	Crown Paints
Allied Industries	D.K Paints International
Atlas Fire Security (K) Ltd	Denamal Garments Factory
(Division of Morrison)	Detergents Ltd
Automotive & Industrial Battery	Diamond Concrete Co
Manufactures (K) Ltd	Dodhia Foam Ltd
Aviation Maintenance (EA) Ltd	Dodhia Saw Mills
Babytots Ltd	Dunlop Kenya Ltd
Baumann Engineering Ltd	Dynamic Heavy Industries
Bean Processing Ltd	E.A Hydraulic & Metal Industries Ltd.
Bhimji Ramji & Sons (K) Ltd	E.A Engineering Works Ltd
Bhupco Garments Factory	E.A Paper bag Manufactures Ltd
Bidco Industries Ltd	East African Cables Ltd.
Bima Manufacturers Ltd	East African Oxygen Ltd.
Bluebird Garments Factory	Elys Chemical industries Ltd
Brett & Co Ltd	Federal distributors & Co Ltd
Bupco Textile Mills Ltd	Fine Knit (K) Ltd
C.M.C Engineering Ltd	Flora Garments Factory
Cabroworks Ltd	Foam Plastic Ltd.
Capital Concrete.	Furniture International Ltd
Cassin & Tonolo Ltd	Gilbeys (E.A) Ltd
Cassman Brown & Co Ltd	Glanjivan Wire Galvanizing Mills Ltd.

Haco Industries Ltd	Mather & Platt (K) Ltd
Henkel Chemical (E.A) Ltd	Mepal Plastic (K) Ltd
Impala Glass Industries	Metaplastic
Inks (K) Ltd	Metco Ltd
Intersilk Garments MFG	Multi-Packaging Ltd
J.K. Industries	Murphy Chemicals (EA) Ltd
J.L. Morrison Sons & Jones (K) Ltd	Musikcraft Manufacturing (K) Ltd
Jagat Singh & Sons.	Nairobi Flour Mills Ltd
Jaydees Knitting Factory Ltd.	Nanak Body Builders.
Jogoo Industries Ltd	Ndoto Ltd
Johnsons Wax (E.A) Ltd.	Neon & General Signs Ltd.
Joy Shoes Ltd	Nicholas Laboratories (EA) Ltd
Kappa Oil Refineries Ltd	Pan African Enterprises (K) Ltd
Kartasi Industries Ltd	Pattni Jewellers (K) Ltd
Kenafric Diaries Manufactures Ltd	Phonogram Ltd
Kenya Clay Products Ltd	Plastic & Rubber Ltd
Kenya Clothing Factories Ltd	Porcelain Products Ltd
Kenya Literature Bureau	Power Technics Ltd
Kenya National Federation Co-op Ltd.	Premier Food Industries
Kenya Uniforms Ltd	Premium Drums Ltd
Kerbrook Garments Manufacturers Ltd	Primeal Ltd
Kiambaa Blankets Ltd	Prudential Printers Ltd
Kleenway Chemicals Ltd	Pyramid Concrete Blocks Ltd
Leyland Paints (K) Ltd	Refrigeration & Allied Equipment Ltd
Longhorn (K) Ltd	Sadhu Singh & Tara Singh
Lyons Maid (EA) Ltd	Sadolin Paints (EA) Ltd
Mango Limited	Sairaji Fibre Products
Manson Hart (K) Ltd	Samaria Industries
Mareba Enterprises Ltd	Shah Timber Mart Ltd
	Simba Clothing Factorz

## Appendix 8

Table to determine the Sample Size

Population Size	Sample Size	Population Size	Sample Size
10	10	250	162
20	19	300	169
30	28	400	196
40	35	1,500	306
50	44	2,000	322
60	52	3,000	341
70	59	4,000	351
80	66	5,000	357
90	73	10,000	370
100	80	20,000	377
150	108	50,000	381
200	132	100,000	384

Adapted from Peter C. B (1994). A guide to Academic writing.