RELATIONSHIP BETWEEN STRATEGIC PLANNING AND ORGANIZATIONAL PERFORMANCE OF MEDIUM SIZED ENTERPRISES IN NAKURU TOWN, KENYA

JACKLINE CHEPNGENO LANGAT

A Research Project Submitted to Graduate School in Partial Fulfillment for the Requirements of the Award of the Degree of Masters in Business Administration Egerton University

JULY, 2015

DECLARATION AND RECOMMENDATION

Declaration

This research project is my original work and has not been presented in this or any other University or institution of higher learning.

Sign: ___________________   Date :___________________

Jackline Chepngeno Langat

CM11/0268/06

Approval

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

Sign: ___________________   Date: ___________________

Dr. Daniel Auka

Senior Lecturer,

Department of Business Administration,

Egerton University

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DEDICATION

I dedicate this research work to my loving son Kigen and to my parents for their support and inspiration.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for his gift of life and strength given to me during the entire period of my studies, I thank Egerton University especially the Faculty of Commerce for providing me with a good learning environment together with all the facilitators. I would also like to express my sincere appreciation to my supervisor, Dr. Daniel Auka, for his tireless efforts in guiding me through my research work. I thank Mr. Henry Kombo for his guidance and support.

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ABSTRACT

The business environment is increasingly becoming uncertain and unpredictable because of globalization, technological changes and trade liberalization. As a result, like large enterprises, SMEs are facing many new and unexpected challenges that threaten their performance and competitiveness. Strategic planning is a management tool that helps organizations focus their energy and resources to ensure that goals and objectives are achieved. The SME sector plays an important role in economic development in terms of poverty reduction and employment creation in Kenya. Previous studies in this area, focused on Strategic planning in large firms and very few studies have been done on the impact of strategic planning on small and medium sized firms. This study determined the relationship between strategic planning and performance of medium sized enterprises in Kenya. The objectives of the study were to determine the relationship between strategic environmental analysis, organizational direction and strategy formulation on firm performance. The study used structured questionnaires to gather primary data from Medium sized enterprises. The structured questionnaire was used on 47 medium sized enterprises. Multiple regression and Pearson's correlation were used to test the study hypotheses. The results show that environmental analysis, organizational direction and strategy formulation had a positive influence on performance of medium sized enterprises. R^2 was 0.424 indicating that strategic planning explains 42.4% variation of organizational performance of medium sized enterprises. The study indicates that strategic planning significantly influences organizational performance, therefore, organizations need embrace strategic planning to enhance performance in their organizations. However, there are other factors besides strategic planning which also influence organizational performance. Therefore, the study recommends further research to identify the other factors which influence organizational performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

BSC	Balanced score card
EA	Environmental Analysis
ME’s	Medium Enterprises
OD	Organizational Direction
PERF	Performance
SF	Strategy Formulation
SME’s	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Globalization has resulted in fierce competition internally and externally to many organizations. However, coping with the ambiguities brought about by such development and how to achieve competitive performance is a real challenge for every organization, small and medium sized enterprises included. Companies have to take appropriate actions to deal with these challenges.

According to Raduan et al (2009), a business that does something that is distinctive and difficult to replicate has competitive advantage and is likely to be more profitable than its rivals. Pearce and Robinson (2011), assert that from a resource based view strategic planning can result in strategic change which may increase strategy-environment fit, hence can become a source of sustained competitive advantage especially when strategic planning system improves flow of products and services between manufacturers and users.

Small and Medium Enterprises (SMEs) play a very important role in a nation's economy. This is true for both developed and developing countries. SMEs constitute a high proportion of a nation's business activities and generate more employment opportunities than large corporations in recent years.

Although small and medium size enterprises typically employ a major share of an economy's total employees, formal plans and cost controls are often only provided on a regular basis and planning instruments are usually only used by a small number of individuals and developed rather intuitively (Brinkmann, 2002). These shortcomings point towards the importance of examining the value of strategic planning for SME's in detail.

1.1.1 Medium Enterprise Sector in Kenya

Medium sized Enterprises play a very important role in a nation's economy. This is true for both developed and developing countries. They constitute a high proportion of a nation's business activities and generate more employment opportunities than large corporations in recent years.

The small and medium enterprises play an important role in the Kenyan economy. According to the Economic survey 2011, of the 503,000 jobs created in 2010, 80.6 percent or 440,400 were in the Small and medium Enterprise sector. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of statistics, 2007).

There is no universal definition for Small and Medium Enterprise (SME). There are different standards about the definition of SMEs in Kenya. A national baseline survey of SMEs carried out in 1999, defines a small enterprise as one which employs 6-10 people, while a medium one is expected to have 11-100 employees (CBS et al, 1999). However there is an SME bill that has been in process in Kenya for more than 10 years, but has not yet been enacted into law. This bill takes a different approach by combining employment with other measures of size. It defines a micro-enterprise as a business activity whose annual turnover does not exceed Kshs.500, 000 and or employs less than 10.

In spite of their many contributions, Small and Medium Enterprises are 'plagued' by high failure rates and poor performance levels (Jocumsen, 2004). To ensure sustained development of the sector, it is vital to understand why some enterprises are more successful than others. Comprehensive of extant studies in SMEs (Shwenk & Shrader 1993) suggest that ceteris paribus, a key determinant of business success lies in the presence or absence of strategic planning and management.

1.1.2 Strategic planning

Strategic planning is concerned with the setting of long term organizational goals, the development and implementation of strategy to achieve these goals and the allocation or diversion of resources necessary for realizing these goals (Stonehouse & Pemberton 2002). In practical sense, strategic planning is about competitive advantage. The purpose of strategic planning is to enable a business to gain as efficiently as possible, a sustainable edge over its competitors.

Research has consistently shown that most small and medium sized enterprises do not engage in strategic planning (Berman et al, 1997; Orser et al, 2000; Sandberg et al, 2003). This is at odds with much of the strategy literature that dictates that enterprises must actively plan for the future to compete effectively and survive (Ennis 1998). Accordingly, SME owner-managers have been accused of being strategically myopic and lacking the long term vision as to where their company is headed (Mazzarol, 2004). The concern is that by neglecting strategic management and planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk (Berry 1998).

Strategic planning is more likely in to be, in those enterprises that are innovative, that have more newly patented products and that employ new processes and management technologies and that achieve international growth (Upton et al, 2001).

With respect to performance, strategic planning and management are more common in better performing SMEs. SMEs that engage in strategic planning, compared to those that don’t, are more likely to be those that achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Bracker et al, 1988).

While it is certainly true that SME performance success is driven by more than strategic planning alone, previous findings generally support the contention that there are, on balance, greater advantages to it. However, given the evidence, it is well recognized that strategic planning is rare or nonexistent in the majority of SMEs. In practice, SMEs tend to orientate towards short term operational rather than long term strategic issues and decision making tends to be reactive rather than proactive (Gaskill et al, 1993). In SMEs that claim to plan, plans are frequently ad hoc and intuitive rather than formally written and provide little basis upon which business performance can be measured or analyzed (Kelmar & Noy 1990).

If the high rate of insolvencies and failure amongst SMEs, relative to larger businesses in the economy are to be taken as a guideline, it is clear that the financial risks involved in managing, owning and investing in small to medium sized businesses are relatively high.

1.2 Statement of the Problem

The small and medium sized enterprises play an important role in the Kenyan economy in terms of poverty reduction ad employment creation. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small and medium enterprises. Strategic planning as management tool has been used, with great success, in large multinational organizations to manage uncertainties, exploit opportunities and to better their position for long term growth and performance. However, its acceptance and application by Small and Medium Enterprises in the country is still minimal. Therefore, this study sought to determine the relationship between strategic planning and organizational performance of medium enterprises in Nakuru country.

1.3 General Objective of the study

The main objective of the study was to establish the relationship between strategic planning and performance of medium sized enterprises in Nakuru town.

The study was guided by the following specific objectives:

i) To determine the relationship between strategic environmental analysis and firm performance.

ii) To determine the relationship between establishment of organizational direction and firm performance.

iii) To determine the relationship between strategy formulation and firm performance

iv) To establish the relationship between the combined effect of environmental analysis, organizational direction and strategy formulation and the performance of medium sized enterprises.

1.4 Research Hypotheses

This study tested the following hypotheses:

$H_0$1. There is no relationship between strategic environmental analysis and firm performance.

$H_0$2. There is no relationship between establishment of organizational direction and firm performance.

$H_0$3. There is no relationship between strategy formulation and firm performance.

$H_0$4. The combined effect of environmental analysis, organizational direction and strategy formulation has no relationship with performance of medium sized enterprises.

1.5 Significance of the study

Medium sized enterprises play an important role in Kenya's economy. This study, contributes to knowledge that will assist owners and managers of these enterprises to be able to study their environments and gauge the uncertain and dynamic future in the business environment and therefore better position their businesses.

1.6 Scope and Limitations of the study

1.6.1 Scope of the Study

The study assessed the relationship of strategic planning on performance of 54 medium sized enterprises. The sample was drawn from medium sized enterprises within Nakuru town. Nakuru town was chosen because it is one of the fastest growing towns in East and Central Africa according to the UN Habitat.

1.6.2 Limitations of the study

The study concentrated on medium sized firms in Nakuru town but excluding the larger Nakuru County because of the vast geographical area. Therefore generalization of results to other firms outside the town must be done with caution. The study concentrated on businesses operating in the retail, manufacturing and service industries only.

1.7 Operational Definition of terms

Environmental Analysis: It is the evaluation of the key factors in the internal and external environment of the firm that would impact both today and future development of the firm.

Medium sized Enterprises: For the purpose of this study, a medium sized enterprise is a firm or an organization that employs 11-100 people

Organizational Direction: This is the process of determining the direction in which an organization should move. The company vision and mission communicate the direction of the firm.

Performance: Organizational performance comprises the actual output or results of an organization as measured against its intended outputs.

Strategic Planning: Strategic planning is defined as the process of clearly defining objectives and assessing both the internal and external business situation to formulate strategy, and making adjustments as necessary to meet the organization's objectives.

Strategy Formulation: Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives.

Strategy: The term strategy is used in business to describe how an organization is going to achieve its objectives and mission.

CHAPTER TWO

LITERATURE REVIEW

2.1 Strategic Planning

Strategic planning is the process of developing and maintaining consistency between the organization's objectives and resources and its changing opportunities (Robson 1994). Strategic planning is a management tool, used to help the organization to focus its energy, to ensure that the members of the organization are working towards the same goals, to assess and adjust the organization's direction in response to a changing environment.

Strategic planning has long been used successfully by large organizations to manage uncertainties and for better positioning for long-term growth and profitability. Due to the current and predicted environmental uncertainties the practice of strategic management will become a need for Small and Medium-sized Enterprises (SMEs) to keep them in equilibrium with their external environment to survive and grow. SMEs normally operate in an industry structure that is fragmented–companies compete to capture a comparatively small share of total market. Because of this highly competitive environment the practice of strategic management is also equally important to these companies, as it is for large established corporations. However, the degree of formality of the process will vary depending on the complexity, size and requirements of businesses.

Strategic planning is the attempt to prepare for future contingencies and thus to account for environmental dynamics and complexity. It entails the need to build alternative future scenarios and configurations. Although the future cannot be predicted, it is possible to prepare for the future and/or alternative 'futures' and align the enterprise accordingly. Unlike strategic management, planning is not concerned with the development of strategic goals and visions but rather deals with extrapolating present tendencies into the future. Hence strategic planning provides guidelines and programs for the achievement of specific goals and visions. It specifies the basic conditions as well as the scope for the future business activities and is thus a key instrument for the overall strategic management (Kropfberger 1986). In line with Berry (1998), five types of planning of varying depth can be conceptualized; Simple financial plans, planning based on forecasts, externally oriented planning (the entrepreneur begins to think strategically), proactive planning of the corporate future and strategic planning as a systematic instrument of strategic management.

Strategic planning, according to Kroon (1993), makes it possible to lead the enterprise continuously, considering the enterprise's situation (strengths and weaknesses) and the external environment (opportunities and threats), and to exploit the market with the greatest possibilities for the effective presentation and the profitable sale of a product or service. Kroon (1993) also states that strategic management concentrates on effectiveness while tactical management concentrates on efficiency.

According to Hunger and Wheelen (1996), strategic planning is that set of managerial decisions and actions that determines the long-run performance of an organization or business.

There are different definitions of strategy conducted by many researchers. According to some research, there are two types of formation strategy, which are deliberate "planned" and emergent "not planned" (Mintzberg, 1985). Emergent strategy usually comes through everyday routines, activities and processes in organization, in the other hand deliberate strategy formulated or planned by managers (Johnson et al, 2005). Emergent strategy that emerges from within the organization; deliberate strategy developed through the strategic planning process.

Deliberate strategies provide the organization with a sense of purposeful direction. Emergent strategy implies that an organization is learning what works in practice. Mixing the deliberate and the emergent strategies in some way will help the organization to control its course while encouraging the learning process (Hax & Majluf, 1996).

Emergent strategies and deliberate strategies both play an important role for SMEs. Karl-Heinz (2007) stated that emergent strategy formation in SME is strongly related to the personality of the owner, who, in turn, is able to quickly capture new opportunities in dynamic environments. Deliberate strategies are clearly formulated intentions that are articulated by the top managers and implemented by formal controls, regarded corporate growth and technological leadership which are more important than emergent strategies.

2.1.1 Environmental Analysis

Environmental analysis is the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market. The factors which need to be considered for environmental analysis are events, trends, issues and expectations of the different interest groups. Issues are often forerunners of trend breaks. A trend break could be a value shift in society, a technological innovation that might be permanent or a paradigm shift. Issues are less deep seated and can be a temporary short lived reaction to a social phenomenon.

Organizational environment consists of both external and internal factors. The environment must be scanned so as to determine developments and forecasts of factors that will influence organizational success. It helps managers to decide the future path the organization. Scanning must identify the threats and opportunities existing in the environment. While formulating strategies an organization must take advantage of the opportunities and minimize the threats.

The purpose of environmental analysis is to evaluate the key factors that would impact both today and future development of the enterprise, as well as determine the specific impact factors in the process of strategy formulation (Beal, 2000). An organization's environment usually consists of two aspects: internal environment and external environment.

Internal analysis of the environment is the first step of environmental scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff and operational potential.

The internal environment of an organization depicts the variables that are within the corporation. It consists of the strengths and weaknesses which include the company's culture, structure and resources (Beal, 2000).

Internal analysis is the process of evaluating an organization’s resources and capabilities (Coutler, 2008). Internal environment factors include organizational structure, owner structure, firm resources, management style and culture.

Resources are the inputs used by the organization to create products and services and capabilities are the firm's skills and competences. Resource based approach is used by companies to help them compete with other firms more effectively and efficiently. Indeed unique resources are a source of distinctive competence that cannot be easily imitated by its competitors.

Culture is an intangible asset for a firm, it is difficult to imitate. For instance, a competitor may imitate the company's human management strategy; however it is difficult for them to implement it in an organization with a different culture. Indeed, organization structure and management style can influence culture (Analoui & Karami, 2003)

Some SMEs may not have a formal organizational structure which may be an advantage in that the business may respond quickly in markets and customer's expectation. However its disadvantage is that it may work against the best interests of the company.

Leadership is one of the most important factors in business success. SMEs are often characterized by strong personal leadership of the owners. Owner-managers use intuition more whereas other manager's favor a more structured and logical approach (Dyer, 1997). The personal objective, personal experience and educational background are reflected in the management style of the owner-managers.

External environmental analysis is the process of scanning and evaluating an organization's external environment (Coulter, 2008). The macro environment is the set of factors that are not specific to an organization or the industry in which it operates, but nonetheless affect them (Haberberg&Rieple2008).

Regardless of the industry, the external environment is critical to a firm's survival and success (Ireland et al, 2007). Analyzing the external environment is important for researchers and firms. It helps researchers understand the motivation of firms' activities and helps firms take appropriate action with the changing environment. The external environment is divided into three major areas; the general environment, the industry and the competitor's environment.

The general environment is composed of dimensions in the broader society that influence an industry and the firms within it, it includes several environmental segments such as demographic, economic, political/legal, socio-cultural, technological and global factors (Ireland et al, 2007).

The industry environment is the set of factors that directly influences a firm and its competitive actions and competitive responses. These factors are the threat of new entrants, the power of suppliers, the power of buyers, the threats of product substitutes and the intensity of rivalry among competitors. In total, the interactions among these five factors determine an industry's profit potential. The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood that the firm will earn expected returns (Ireland *et al* 2007).

The competitor's environment is the part of a company's external environment that consists of other firms trying to win customers in the same market. It is a segment of the industry that includes all immediate rivals. It is very important for firms to understand the competitor's environment through competitor analysis. Competitor analysis is focused on predicting the dynamics of competitors' actions, response and intentions. In combination, the results of the three analyses the firm uses to understand its external environment influences its vision, mission and strategic actions (Ireland *et al* 2007).

The PEST module, which includes political, economic, social and technological factors, can be applied assessing the environment. Political factors affect the stability of industry environment and uncertainty makes it difficult for managers to develop strategy. Economic factors such as economic growth, unemployment, interest rates impact on the environment. Sociocultural factors like music, fashion and style affect the consumer purchasing power and preferences. Technology factors such as new innovations, internet connection, networking and other technological changes affect the way organizations run their businesses.

Hunger and Wheelen (1996), state that to be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide. According to Hunger and Wheelen (1996) current predictions are that environment for all organizations will become even more uncertain in the coming years, due to factors such as better information technology and the effect that it will have on competition between businesses.

2.1.2 Organizational Direction

Through an interpretation of information gathered during the environmental analysis, managers can determine the direction in which an organization should move. There are two important ingredients when determining the organizational direction. These are the organization's mission and vision.

Both visions and missions are defined within the framework of the organization philosophy and are used as a context for development and evaluation of intended and emergent strategies. One cannot overemphasize the importance of a clear vision and mission; none of the subsequent steps will matter if the organization is not certain where it is headed (Mintzberg, 1996).

The mission is the purpose for which the organization exists. It reflects such information as what types of products or services it produces, who its customers tend to be and what important values it holds. The organization mission is a very broad statement of organizational direction and is based on a thorough analysis of information generated through environmental analysis. Vision statements define the organization's purpose in terms of the organization's values rather than the bottom line measures. The vision statement communicates both the purpose and values of the organization. Vision and mission statements provide unanimity of purpose to organizations and instil the employees with a sense of belonging and identity. Indeed, vision and mission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.

Vision and mission are two distinct concepts reflecting different existential time frames. Vision is an idealistic projection of the company in an undefined future, in a mature and successful position. According to Porras and Collins (1994), visionary companies display a powerful drive for progress that enables them to change and adapt without compromising their cherished core ideas.

Visionary companies attained a long-term performance due primarily to the fact of having a vision and a clear direction of their evolution. They developed a strategic thinking with a well-defined entropic dimension (Clayton, 1997).

Vision is a strong integrator (Bratianu et al, 2007). People sharing the same future image of their organization will strive to find the best solutions to transform that vision into reality. Thus vision integrates the individual contributions in knowledge, intelligence and values from all employees and becomes a driving force for increasing the potential of the organizational intellectual capital.

Mission is an assumed responsibility of the company born from its social goals. Mission reflects the way in which vision can be transformed into a tangible existence for the company. A company exists because it must create value for customers and satisfy their needs. The mission of an organization represents the reason for existence and for creating value for society. It synthesizes the existential law of the organization and explains its vision (Bratianu, 2005)

A company's mission differs from vision in that it integrates both the social goal of the company and the basis for creating a competitive advantage. A good mission statement incorporates the concept of stakeholder management, a complex process through which organizations respond to multiple constituencies if they want to survive and prosper. Owners, employees, customers, suppliers, different governmental agencies represent the main stakeholders, but their range can be increased up to the level of community and society. There are very few companies who mention profit as a mission component. Profit maximization not only fails to motivate people but also does not differentiate between organizations. Every corporation wants to maximize profits over the long term. A good mission statement, by addressing each principal theme, must communicate why an organization is special and different. Two studies that linked corporate values and mission statements with financial performance found that the most successful firms mentioned values other than profits. The less successful firms focused almost entirely on profitability (Dess et al, 2006)

The mission statement is more realistic than the company's vision, answering the questions, on who we are, what we want to create and why we want to exist. All the answers cluster around the customer needs, stakeholder's interest, shareholder's financial returns and our legacy to create value and competitive advantage. A good mission statement is a strong integrator for the organizational intellectual capital (Bratianu &Vasilache 2007)

According to Forbes and Seena (2006), a mission statement is crucial as it motivates staff and guides decision making. Ungerer et al, (2007), state that the business mission ensures employee commitment creates an understanding of the business domain in which the business would want to operate.

A number of studies have examined the relationship between mission statement and business performance (Bart and Hupfer 2004; Hong and Park, 2010). The findings show that mission statements do affect financial performance. Similar results were found in Strong's (1997), study whose findings from a study of the formulation of mission statements by UK organizations confirm a positive relationship between mission statements and firm performance.

Finkelstein et al, (2008), stated that vision encapsulates the ideology or guiding philosophy of a business and it expresses the values, purpose and direction through the mission and business objectives. The company objectives are targets towards which the organization directs its efforts. The importance of establishing appropriate objectives for an organization is to provide the foundation for planning, organizing, motivation and controlling. Without objectives and their effective communication, behavior in organizations can stray in almost any direction.

Kantabutra and Avery (2010), point out that vision is needed by a business to guide, remind of history of the company, inspire and to control the business. According to Ungerer et al, (2007), a business vision must be shared and ensure everyone's commitment, be able to clarify the business' desired future, be fluid, sustainable and nurtured in a constant process. The vision should not be vague and should be a solution to the business' current problems.

Not only large corporations benefit from creating mission and vision statements but SMEs as well. Entrepreneurial businesses are driven by vision and high aspirations. Developing a mission statement will help the small business realize their vision. Its primary purpose is to guide the entrepreneur and assist in refining the planning process. By developing a strategic plan that incorporates the mission statement, entrepreneurs are more likely to be successful and stay focused on what is important. The mission statement encourages managers and small business owners alike to consider the nature and scope of the business.

2.1.3 Strategy Formulation

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision and mission. According to Bogner and Thomas (1993), there are two competing models of strategy formulation. The first model, is the objective model, which is based on economic concepts like supply, demand and competition factors. The model begins with a company objective, which will finally be affected by competition. The competition will have an impact on the strategy formulation process. The industry structure will directly impact the formulation process, which in turn will affect resource allocation decisions. This process will continue until an external factor like technological changes will disrupt it, at which time a new objective will be formulated.

The second model is the cognitive model. It exposes a flaw in the objective model like the inability to capture the significant changes taking place. The cognitive model follows the sample principles the objective model, however it also consists of a collective view of objective strategies, which are consolidated into one formulation process. This process is to define one's place in the industry and cognitively organize one's understanding of competitive strategy (Bogner and Thomas, 1993).

Strategy formulation involves the preliminary layout of the detailed paths by which the company plans to fulfil its mission and vision. This step involves four major elements: identification of the major lines of business, establishment of critical success indicators, identification of strategic thrusts to pursue, and the determination of the necessary culture.

Strategic thrusts are the most well-known methods for accomplishing the mission of an organization. Generally speaking, there are a handful of commonly used strategic thrusts, which have been so aptly named grand strategies. They include the concentration on existing products or services; market and product development; concentration on innovation and technology; vertical or horizontal integration; the development of joint ventures; diversification; retrenchment or turnaround; and divestment and liquidation.

Finally, in designing strategy, it is necessary to determine the necessary culture with which to support the achievement of the lines of business, critical success indicators, and strategic thrusts. Harrison and Stokes (1992) defined four major types of organizational cultures: power orientation, role orientation, achievement orientation, and support orientation. Power orientation is based on the inequality of access to resources, and leadership is based on strength from those individuals who control the organization from the top. Role orientation carefully defines the roles and duties of each member of the organization; it is a bureaucracy. The achievement orientation aligns people with a common vision or purpose. It uses the mission to attract and release the personal energy of organizational members in the pursuit of common goals.

Hunger and Wheelen (1996) state that the basis of strategy formulation is a SWOT analysis. If done well, it should lead to the identification of a corporation's distinctive competence, in other words, the particular skills and resources a firm possesses and the superior way in which it uses them. According to Leonard B. (1992) distinctive competence sometimes is considered a collection of core capabilities and an appropriate use of a firm's distinctive competence should give it a sustainable competitive advantage.

2.2 Firm Performance

Firm performance comprises the actual output or results of an organization as measured against its intended outputs. It differs from one organization to the other with each trying to outdo the other. Internally, performance is driven by the organization's motivation to perform. Kloot and martin (2000) post that current strategic management literature suggests that there should be a strong linkage between strategic plans and performance measures. One means of measuring the different elements that maybe associated with success of an organization and one that can provide this linkage is the balanced scorecard. According to Marcus (2005) this is a multidimensional approach to corporate performance that incorporates both financial and nonfinancial factors (as cited in Kaplan & Norton, 1996).

Globalization has resulted in fierce competition internally and externally to many organizations. However, coping with the ambiguities brought about by such development and how to achieve competitive performance is a real challenge for every organization, small and medium sized enterprises included. Companies have to take appropriate actions to deal with these challenges.

To achieve competitive advantage and high performance, strategic planning is viewed as a primary resource as supported by the resource-based theory. The resource-based theory, is a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer, 1983)

Makadok, (2001) emphasizes the distinction between capabilities and resources by defining capabilities as a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm. Resources are stocks of available factors that are owned or controlled by the organization, and capabilities are an organization’s capacity to deploy resources.

Sloper et al, (1999) in their research found out that that the balanced scorecard methodology, developed by Kaplan and Norton, in a mere four years had found wide acceptance in the private sector. It argues for performance measurement over four dimensions of performance: financial, customer satisfaction, internal business processes, and innovation and learning. Kaplan and Norton’s dimensions can also be classified as results (financial, customer) and determinants (internal business processes and innovation and learning). Performance measurement systems are considered to be important for evaluating the accomplishments of firm goals, constructing strategies for development, making decisions for investments and compensating managers (Teker et al, 2011).

A study by American Management Association (2007) identified strategy as one of the five integrated components of a high-performance organization. It further states that high-performance organizations are superior to their low-performance counterparts in the area of strategy in that their strategies are more consistent, are clearer, and are well thought out. In this regard organizational performance is referred to as the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz & Donnell, 1993). Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization.

Most studies of firm performance define performance as a dependent variable and seek to identify variables that produce variations in performance. Such, is the posture the researcher has taken. Performance is driven, in part, by strategic management and thus by how well planning and implementation is done. Organization’s performance is more likely to appear on the left-hand side of the equation as a dependent variable (March & Sutton, 1997). This emphasis is most explicit in the field of organizational strategy, which is often defined as having organizational performance as its primary focus, but the idea that performance is to be predicted, understood, and shaped is commonplace throughout the field.

Performance can be measured from financial and non-financial aspects. Standard for such measurement are different for organizations that are dependent on objective & goal, which they want to achieve. This is the traditional approach, which emphasizes on organizational effectiveness by using qualitative or intangible success factors for measuring it; for instance, a company's image, culture, technological competence learning, employee morale and so on (Analoui & Karami, 2003.)

Another approach highlighted is quantitative analysis of organization's financial and operational performance (Haberberg &Rieple2008). Financial performance such as sales growth, net income growth, and return on investment (ROI) and so on; in contrast to it, operational performance takes account on improving product quality, introduction to new product, market share and the like.

The different measurements have their own benefit and limitation when doing research. It's important for strategic analysis on how well an organization is performing (Haberberg, &Rieple 2008). Firstly, it will give a more precise position on its competitive advantage; secondly, it will show if there is mismatch between what intended to do and what they are really doing. Furthermore, using performance measurement will help to find appropriate strategy that companies need to use.

The balanced score card is a strategy performance management tool, which is supported by design and methods and automation tools, that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions. It is perhaps the best known of several such frameworks. Since its original incarnation in the early 1990’s as a performance measurement tool, the BSC has evolved to become an effective strategy execution framework. It is a holistic strategy execution process that besides helping organizations articulate strategy in actionable terms provides a road map for strategy execution, for mobilizing and aligning executives and employees and making strategy a continuous process.

The characteristic of the balanced score card and its derivatives is the presentation of a mixture of financial and non-financial measures each compared to a target value within a single concise report. The report is not meant to be a replacement for traditional financial or operational reports but a succinct summary that captures the information most relevant to those reading it. It is the method by which this ‘most relevant’ information is determined. The balanced scorecard also gives light to the company’s vision and mission. These two elements must always be referred to when preparing a balance scorecard. As a model of performance, the balanced scorecard is effective in that it articulates the links between leading inputs (human and physical) processes and lagging outcomes and focuses on the importance of managing these components to achieve organization’s strategic priorities.

The balanced score card allows managers to look at the business from four important perspectives; financial perspective, the customer perspective, the internal perspective and learning and growth perspective.

2.3 Strategic Planning and firm Performance

Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful. Strategic planning is a crucial element in sustaining competitive edge and performance.

McCarthy and Minichello (1996), note that a company's strategy provides a central purpose and direction to the activities of the organization and to the people who work in it. Howe (1986) and Kotter (1996) argue that the primary goal of strategic planning is to guide the organization in setting out its strategic intent and priorities and refocus itself towards realizing the same. Miller and Cardinal (1994) argue that an objective analysis of external and internal environment facilitates the establishment of the firm-environment fit and improved decision-making.

Strategic planning assists in providing direction so organization members know where the organization is heading and where to expand their major efforts. It guides in defining the business the firm is in, the end it seeks and the means it will use to accomplish those ends. McCathy and Minichiello (1996), note that a company's strategy provides a central purpose and direction to the activities of the organization and to the people who work in it. Adding to this argument, Kotter (1996) contends that the primary goal of strategic planning is to guide the organization in setting out its strategic intent and priorities and refocus itself towards realizing the same. David (1997) argues that strategic planning allows an organization to be more proactive than reactive in shaping its own future, initiate and influence activities, and thus to exert control over its destiny. It assists in highlighting areas requiring attention or innovation.

The process of strategic planning shapes a company's strategy choice. It reveals and clarifies future opportunities and threats and provides a framework for decision making throughout a company. It helps organizations to make better strategies through the use of systematic, logical and rational approach to strategic choice.

Strategic planning tends to make an organization more systematic in terms of its development and this can lead to a greater proportion of the organization's efforts being directed towards the attainment of these goals establishment at the planning stage, that is, the organization become more focused.

Strategic planning applies a system approach by looking at a company as a system composed of sub-systems. It permits managers to look at the organization as a whole and the interrelationships of parts, rather than deal with each separate part alone without reference to others. Therefore it provides a framework for improved coordination and control of an organization's activities. Strategic planning provides a basis for other management functions. Strategic planning is inextricably interwoven into the entire fabric of management. It provides a basis for measuring performance. Managers are able to spend time effort and resources in activities that pay off. The setting of goals and targets on the other hand facilitates evaluation of organization performance. Individuals in an organization will strive to achieve clear objectives that are set. It is argued that strategic planning results in a viable match between the firm and the external environment. Strategy concerns an analysis of the firm's environment, leading to what the firm, given its environment, should achieve. Environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between the firm and its environment. Environmental analysis reveals the market dynamics, business opportunities and challenges, customer expectations, technological advancements and the firm's internal capacities and this provides the basis for strategy selection.

Kotter (1996) argues that the strategic planning process can be used as a means of repositioning and transforming the organization. Thompson et al, (2007) postulate that the essence of good strategy making is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition and internal difficulties.

2.4 Conceptual Framework

The framework for this study examines strategy planning as being a key factor in improving organizational performance as illustrated below:

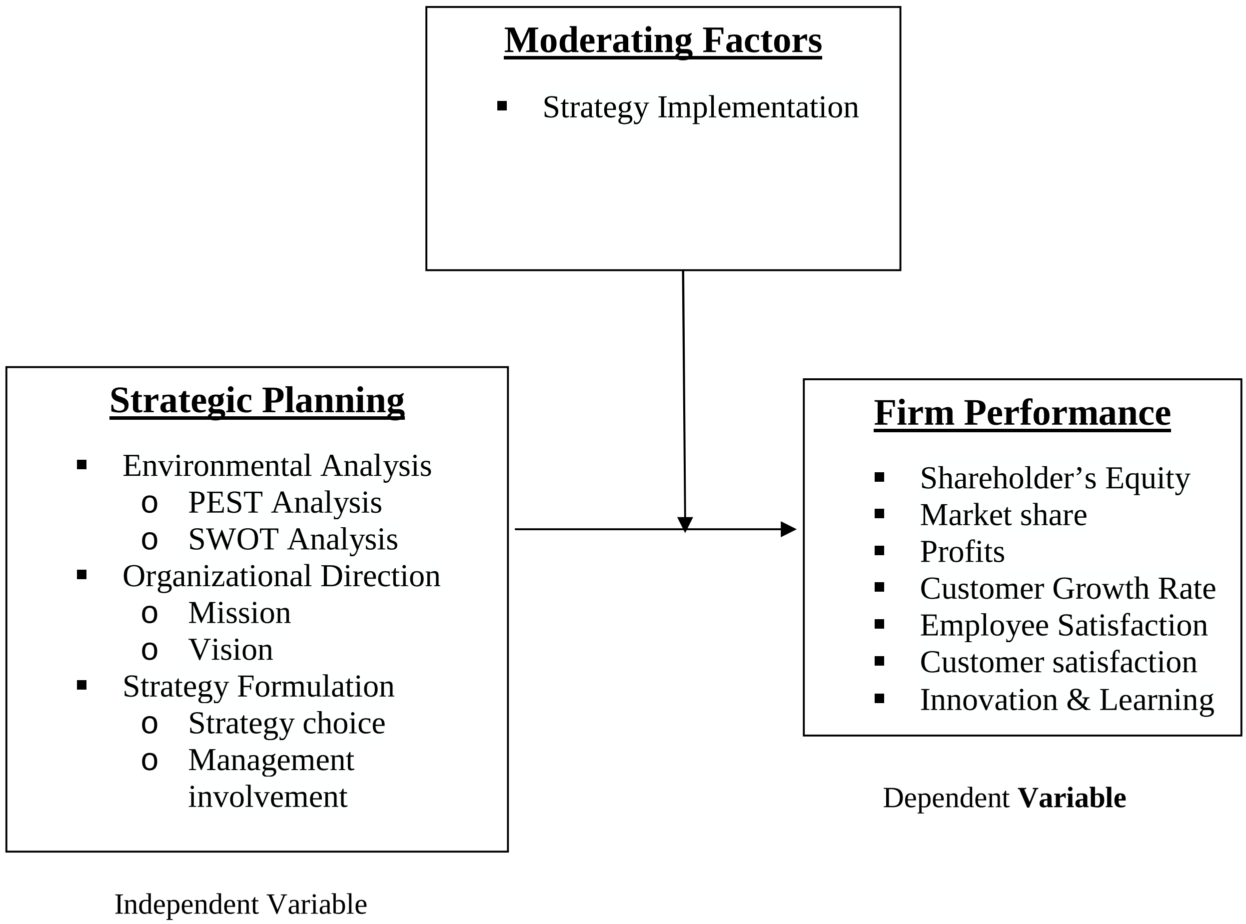

Figure 2.1: Relationship between Strategic planning and firm Performance

Source: Author (2015).

According to this framework, strategic planning constitutes the independent variable while firm performance is the dependent variable.

Strategic planning is expected to result in improved organizational performance. This will be assessed in terms of financial perspective, customer satisfaction, employee satisfaction, and innovation and learning.

It is conceptualized that firms that have effectively embraced strategic planning, record better performance as compared to those that have not. Firms, record improved performance once they effectively embrace strategic planning. Carrying out these various steps in the strategic planning process is expected to facilitate the realization of organizational effectiveness. By defining a company's purpose and goals, strategic planning provides direction to the organization and enhances coordination and control of organization activities.

The moderating factor, which is strategy implementation, will have an effect on the relationship between strategic planning and performance. The job of strategy implementation is to translate plans into actions and the intended results. Implementing strategy is a tough and time consuming challenge. Practitioners emphatically agree that it is a whole lot easier to develop a sound strategic plan than it is to 'make it happen.' Therefore this moderating factor can encourage or hinder performance after strategic planning has been done.

Kaplan and Norton (1992) suggest the use of the balanced score card (BSC) to comprehensively determine the business performance of firms. BSC measures business performance across four different perspectives: financial perspective, the customer perspective, the internal business process perspective, and the learning and growth perspective. With the use of four perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more balanced view of business performance.

According to Kaplan and Norton (1992), the financial perspective is a financial performance measurement indicator as to whether the company's strategy, implementation and execution are affecting the bottom line enhancement. Financial goals or big companies would be profitability, growth and shareholder's value. But these are different from the financial goals o SMEs who do not have large volume of resources. For the SMEs, the financial goals are simply to continue to exist, to be successful, and to prosper. Measurement of survival is in terms of cashflow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment and return on equity.

As for the customer perspective, Kaplan and Norton (1992), advise that the customers' concern tend to fall into four categories: time, quality, performance and service and costs. Time refers to measuring time leaking when companies receive orders from customers and when they deliver. Quality refers to product defect level as perceived by the customers. Performance and services look at how the company's products create values for the customers. Costs refer to the extent the customers perceived the selling prices of the products and services as value for money invested.

In terms of the internal business process perspective, metrics on this perspective allow management evaluate and judge how well business is operating and how well their products and services meet customer expectations. These critical internal operations need to be focused by the managers in order to satisfy customers' needs. Core competencies should be identified and measured in order to ensure continued market leadership (Kaplan and Norton 1992).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study used correlational survey design in establishing the relationship between strategic planning and performance of medium enterprises. This design was chosen because it is an efficient method for establishing the relationship between variables (Serekan, 2004). The data collected was quantitative in nature, as it was collected data from members of a population in order to determine the current status with respect to one or more variables (Mugenda and Mugenda, 1999).

3.2 Target Population

The target population of the study was 62 medium enterprises in Nakuru County. The list of enterprises was sourced from Nakuru county offices (formerly the municipal council offices).

3.3 Sample and Sample Design

Data for the study was collected from a sample of top management of medium sized enterprises in Nakuru town.

To determine the sample size, *n*, for medium enterprises with a known population, *N*, the study adopted the formula of Israel (1992) as shown in equation 1 below.

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n = optimum sample size,

N = number of medium enterprises

e = probability of error (i.e., the desired precision, e.g., 0.05 for 95% confidence level).

The total number of medium enterprises in the 4 sectors below within Nakuru Town is currently approximately 62. Substituting N (62) in the equation gives the sample size (n). Thus the sample size (n)= as shown below:

$$n = \frac{62}{1 + 62 \ \ (0.05)^2} \approx 54$$

No.	Economic Activity/Sector	Population	Sample (n)
1.	Industrial Plants	35	31
2.	Hotels & Restaurants	8	7
3.	Trader/ Retail stores	14	12
5.	Health	5	4
	TOTAL	62	54

3.4 Data collection

Primary data was collected from the top management (the owner/proprietor, the Managing Director, the Operations Manager, and the Finance and Administration Manager), who were the key respondents, who are conversant with the organization's strategic planning process and performance levels. Structured questionnaires targeting the respondents were used. Questionnaires were preferred because of the simplicity in their administration, scoring of items and analysis (Nachmias and Nachmias, 2008).

The researcher administered the questionnaires and picked them after the respondents had filled them.

3.5 Reliability and validity

Cronbach's alpha reliability coefficients was calculated to estimate the reliability of the Strategic planning process questionnaire (SPQ) and organizational performance questionnaire (OPQ). The results are given in appendix 4. The average Cronbach's alpha reliability coefficient obtained for the SPQ does substantiate the reliability of the OPQ.

The average Cronbach's alpha reliability coefficient for the strategic planning questionnaire (SPQ) was 0.878 and 0.745 for organization performance (OPQ). These were above the threshold of 0.7 which is considered good (Sekeran, 2004). Therefore, for this research, the strategic planning instrument and organizational performance were reliable measures of strategic planning and organizational performance respectively.

3.6 Data analysis and presentation

The data collected was coded, keyed into SPSS computer software, organized and checked for any errors that could have occurred during data collection. Effects of environmental analysis, organization direction and strategy formulation on firm performance were tested using Pearson correlation analysis while multiple regression analysis was used to test the combined effect of environmental analysis, organizational direction and strategy formulation on the performance of medium enterprises in Nakuru town. To measure aspects of strategic planning (environmental analysis, organizational direction and strategy formulation) likert type scale was used as shown in appendix 2. This helps to look for the relationship between interval variables (Saunders et al., 2007). The results were presented using tables.

Multiple regression was used to determine the relationship between aspects of strategic planning and performance of medium sized enterprises.

$Y=a + b_1x_1 + b_2x_2 + b_3x_3 + e$

Where:

y = Organizational performance

a = constant

$b_{1, -} b_3$ = Regression coefficients

x_1 = Environment analysis

x_2 = Organizational direction

x_3 = Strategy formulation

e = Error term

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and discussions of the study on the relationship between strategic planning and performance of medium sized enterprises in Nakuru town. It comprises of the following sections; Profile of the respondents, relationship between strategic environmental analysis and firm performance, relationship between establishment of organizational direction and firm performance, relationship between strategy formulation and firm performance, combined effect of environmental analysis, establishment of organizational direction and strategy formulation on firm performance

4.2 Profile of the respondents

A sample of 54 medium enterprises was used for the study out of the total population of 62. Out of the 54 sample units that were targeted, 47 medium enterprises completed and returned the questionnaires representing a response rate of 85%. According to Mugenda and Mugenda (2007) a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and a rate of over 70% is excellent. Therefore, the return rate for this study was excellent.

The characteristics of the respondents were summarized and described. Describing a sample gives a clear picture of its characteristics and provides evidence that it has attributes of the population (Kothari, 2004).

Table 1: Category of industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Industrial Plant	16	34.0	34.0	34.0
	Health	8	17.0	17.0	51.1
	Hotel & Hospitality	11	23.4	23.4	74.5
	Trader/Retail	12	25.5	25.5	100
	Total	47	100	100	

The table 1, summarizes the breakdown of the number of firms per industry that eventually made up the total sample of 47. Out of this number, the majority (34%), were industrial plants which made up the largest portion of the sample, followed by trader/retail stores at 25.5%, hotel and hospitality 23.4% and health at 17%. This information is based on the proportion of medium sized enterprises found within Nakuru town.

In this section, the analysis focused upon the background information of the selected medium sized enterprises in Nakuru town. Such a profile is important since it helps to unravel the factors, which influence performances of these organizations. The description included: categories of industry, levels involved of strategic planning, time period covered by strategic plans, duration, consultancy, resources, age of the firms and capital size. This information helped to establish the effect of strategic planning on performance of medium sized enterprises in Nakuru town.

The results are consistent with those of Armstrong (1991) that clearly indicated that strategic planning improved performance in manufacturing firms and Robinson and Pearce (1983).

The respondents were also asked to indicate how long their businesses have been in existence. Time is considered an important factor because strategic planning requires time and it takes a number of years to see the results based on performance of the SMEs. Also, older SMEs are inclined to manage more strategically as opposed to newly established SMEs.

Table 2: Age of the firm

Age	**Frequency**	**Percentage**
6 – 9 years	4	8.5
Over 10 years	43	91.5
Total	**47**	**100.0**

The results in Table 2 indicate that most of the firms had been in existence for more than 10 or more years at 91.5% and 6-9 years at 8.5%. This gives is the reason why most of these organizations have a strategic plan for achieving their objectives. This is an indication of how well the organizations understand their operating environment.

Duration covered by strategic planning mostly shows that most of the organizations had strategic plans covering less than one year at 42% followed by between 1-3 years at 34% and 4 years or more at 24%. Most established organizations had strategic plans covering more than four years or more. This shows that most organizations understood the level of dynamism in the environment which necessitated change of short duration of strategic plans especially in the retail sector.

Table 3: Consultants

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	35	74.5	74.5	74.5
	NO	12	25.5	25.5	100.0
	TOTAL	47	100.0	100.0	

The results in Table 3, reveals that most of the firms involve planning experts and consultants in their planning exercises which indicates that managers and entrepreneurs in SMEs regard strategic planning as important. Of the total sample of response, 74.5% enterprises agreed that they did involve consultants from outside the company compared to 25.5% organizations.

Table 4: Resources

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	42	89.4	89.4	89.4
	NO	5	10.6	10.6	100.0
	TOTAL	47	100.0	100.0	

From the results, most organization also agreed that they had enough resources to implement their strategic plans at 89.4% and only five organizations (10.6%) admitted not having enough resources to implement their plans. Capital size of most firms was above 10 million at 83% and others between 1 million to 10 million at 17%, as shown in table 4.1 below.

Table 4.1: Capital Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Above 10,000,000	39	83.0	83.0	83.0
	Btw 1,000,00-10,000,000	8	17.0	17.0	100.0
	TOTAL	47	100.0	100.0	

4.3 Strategic planning in Medium Sized Enterprises

4.3.1 Frequencies of Environmental Analysis

To establish the effect of strategic planning the enterprises were asked to indicate by responding to aspects of environmental factors on a Likert- type scale. The responses were rated from; strongly disagree, as the lowest, to strongly agree on the higher side as shown in table 5.

Table 5: Frequencies of Environmental Analysis

No	Statements	Percentage Responses (%)				
		SD	**D**	**NO**	**A**	**SA**
1	Organization carries out SWOT analysis	**0**	**0**	**27**	**54**	**19**
2	Impacts of organizational strengths and weakness are evaluated	**0**	**0**	**17**	**50**	**33**
3	Organization carries out PEST analysis	**0**	**0**	**14**	**29**	**57**
4	Wide management participation in identifying threats and opportunities	**0**	**0**	**20**	**45**	**35**

The proportion of respondents who agreed that their organizations usually carry out SWOT analysis was 54% while 27% had no opinion about SWOT analysis with 19% strongly agreeing that their organization carried out the analysis.

In terms of organizational strengths and weakness being evaluated, 50% agreed that it was evaluated, while 17% had no opinion concerned elements.

PEST analysis was also evaluated whereby, 57% strongly agreed that PEST analysis was carried out; while 29% agreed that it was carried out. Hunger and Wheelen (1996), state that to be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide. According to Hunger and Wheelen (1996) current predictions are that environment for all organizations will become even more uncertain in the coming years, due to factors such as better information technology and the effect that it will have on competition between businesses

Wide management participation is a key factor in identifying threats and opportunities in any given organization. This is seen from the data collected, 35% strongly agreed that there was wide management participation while 45% agreed on the need for having a participatory approach.

4.3.2 Frequencies of Organizational Direction

To establish the effect of strategic planning the enterprises were asked to indicate by responding to aspects of organizational direction on a Likert- type scale. The responses were rated from; strongly disagree, as the lowest, to strongly agree on the higher side as shown in Table 6.

Table 6: Frequencies of Organizational Direction

	Statements	Percentage Responses (%)				
No	**Aspects of Organizational Direction**	**SD**	**D**	**NO**	**A**	**SA**
5	Organization has mission statement	**0**	**0**	**16**	**42**	**42**
6	Mission is compatible with organizational activities	**0**	**0**	**32**	**53**	**15**
7	Vision statement relevant to organizations activities	**0**	**0**	**11**	**44**	**44**
8	Formal statement of firms goals and objectives	**0**	**0**	**12**	**50**	**38**
9	Wide management participation in establishing goals and objectives	**0**	**0**	**0**	**33**	**67**

Most organizations believed that their vision and mission were compatible with the organization's activities at 42%. This indicated an acceptance by the staff and management that the strategic plan had helped achieve the needed performance and operations of the company. It also reflects such information as what types of products or services it produces, who its customers tend to be and what important values it holds

Moreover, these outcomes indicate that most medium enterprises have a clear articulated vision with 44% strongly agreeing. For vision and mission to be achieved, an organization has to come up with goals and objectives. This is because both visions and missions are defined within the framework of the organization philosophy and are used as a context for development and evaluation of intended and emergent strategies. One cannot overemphasize the importance of a clear vision and mission; none of the subsequent steps will matter if the organization is not certain where it is headed (Mintzberg, 1996).

This was clear as 67% of the respondents strongly agreed that there was wide management participation in establishing goals and objectives. This indicated a shared values and beliefs being shared by all employees in the organization. This "bottom up" approach results in greater commitment to the organization and a better understanding of the organization. Employees from throughout the organization can help identify the core values of the company.

4.3.3. Frequencies of Strategy Formulation

To establish the effect of strategic planning the enterprises were asked to indicate by responding to aspects of strategy formulation on a Likert- type scale. The responses were ranked from; strongly disagree, as the lowest, to strongly agree on the higher side as shown in Table 7

Table 7: Frequencies of Strategy Formulation

No	Statement	Percentage Responses (%)				
	Aspects of Strategy Formulation	**SD**	**D**	**NO**	**A**	**SA**
10	Wide management participation in developing strategic alternatives	**0**	**0**	**8**	**66**	**26**
11	Strategic planning process clearly spells results	**0**	**0**	**0**	**72**	**28**
12	Long-term implication is considered when selecting a strategy	**0**	**0**	**8**	**46**	**46**

From the data, there is a general agreement among staff and management of medium enterprises which serves as the foundation on which there is a wide management participation in developing strategic alternatives at 66% while 25% strongly agreed. In addition, 72% agree that strategic planning clearly spelled the required results while 46% strongly agreed that long-term implication is considered when selecting a strategy that the organization will undertake. The study is supported by American Management Association (2007) which identified strategy formulation as one of the five integrated components of a high-performance organization. It further states that high-performance organizations are superior to their low-performance counterparts in the area of strategy in that their strategies are more consistent, are clearer, and are well thought out

4.4 Performance measurement in Medium Sized Enterprises

The respondents were asked to indicate the extent to which they disagreed or agreed with various aspects of firm performancein their respective organizations. The five-point Likert scale using the key (Where: 1 – Bottom 20%; 2 – Next 20%; 3 – Middle 20%; 4 – Next 20%, and; 5 – Top 20%) as shown in Table 8.

Table 8: Performance measurement in medium sized enterprises

No.	**Statement**	**Rating (%)**				
		1	**2**	**3**	**4**	**5**
1.	Shareholders’ equity	0	0	45	25	30
2.	Increase in profits	0	25	56	12	7
3.	Market share	0	32	46	11	11
4.	Customer growth rate	0	12	57	31	0
5.	Customer Satisfaction	0	0	12	24	64
6.	Product and service innovation	0	45	17	38	0
7.	Employee satisfaction	0	3	51	34	12

The study findings reveal that strategic planning strategies undertaken by the organization, contributed to 45% of shareholder’s equity while there was an increase of 56% of profit. Which implies that there is a positive relationship between strategic planning and firm performance. It has been seen that organizational performance is the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz & Donnell, 1993). From the findings most enterprises did perform well which is a clear indication that most of them did have strategic planning.

4.5 Hypotheses Testing

The study sought to determine the relationship between strategic planning and firm performance. The overall index score of the processes of Strategic Planning (environmental analysis, organizational direction and strategy formulation) were correlated with overall index scores of firm performance (dependent variable) as shown in Table 9. The study was determined using two-tailed Pearson correlation analysis. This provided correlation coefficients which indicated the strength and direction of linear relationship. Thus, both the strength of the relationship between variables and the level of statistical significance were assessed. The p-level represents the probability of error that is involved in accepting the observed result as valid, that is, as a representative of the population (MacColl, 2004). Devore and Peck (1993) provided a guideline for assessing resultant correlation coefficients as follows: coefficients less than 0.5 represent a weak relationship, coefficients greater than 0.5, but less than 0.8, represent a moderate relationship and coefficients greater than 0.8 represent a strong relationship.

The results of these correlational analysis are given in table 9.

Table 9: Correlation Analysis

Correlation

		EA	OD	SF	PERF
EA	Pearson Correlation	1	-.166	.066	.597**
	Sig. (2-tailed)		.264	.661	.000
	N	47	47	47	47
OD	Pearson Correlation	-.166	1	-.093	.127**
	Sig. (2-tailed)	.264		.532	.035
	N	47	47	47	47
SF	Pearson Correlation	.066	-.093	1	.140**
	Sig. (2-tailed)	.661	.532		.047
	N	47	47	47	47
PERF	Pearson Correlation	.597**	.127**	.140**	1
	Sig. (2-tailed)	.000	.035	.047	
	N	47	47	47	47

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

$H_0$1: There is no relationship between strategic environmental analysis and firm performance.

From Table 9, the results reveal that there is a relatively positive relationship between environmental analysis and firm performance ($r = 0.597$, $p < 0.05$). Hypothesis ($H_0$1) states that there is no relationship between strategic environmental analysis and firm performance. Therefore the hypothesis was rejected and concluded that there is sufficient evidence at 5% level of significance that there is a positive relationship between strategic environmental analysis and organizational performance. The finding is consistent with previous studies (Daft, 2009; Rudd et al, 2008; Combe and Greenley, 2004; Grewal and Tansuhaj, 2001) that established that there is a relationship between environmental analysis and firm performance. These studies further found that successful organizations will anticipate and address environmental turbulence through strategic planning, will demonstrate flexibility in strategically planning decision options about how they will adapt when the environment changes, in a preparatory or "ex-ante" state and will enable organizations to be better prepared to cope with environmental turbulence, enhancing the influence of their strategic planning on performance.

$H_0$2: There is no relationship between establishment of organizational direction and firm performance.

The results from table 9, shows that organizational direction significantly affects firm performance ($r = 0.127$, $p<0.05$). Hypothesis ($H_0$2) states that there is no relationship between establishment of organizational direction and firm performance. Therefore the hypothesis was rejected and concludes that at 5% significant level there is a weak positive relationship between organizational direction and firm performance. This implies that when organization have direction of its undertaking , the more it influences the firms performance, and therefore enterprises need to put in place mechanisms of inculcating the mentality of direction to its personnel in order to perform well. This is consistent with the result of Akinyele & Fasogbon, (2007) that strategic direction enhances better organizational performance, which in the long run has impact on the survival of the organization. Furthermore, strategy formulation will encourage favorable attitude to change, stimulates cooperative, integrated and enthusiastic approach to tackling problems and opportunities, encourage forward thinking and the integration of the behavior of individuals in the organization into a total effort. The findings also conform to what Rhodes & Keogan, (2005) found about the role of missions in organizations which have a long lasting effect on strategic planning practices.

$H_0$3: There is no relationship between strategy formulation and firm performance.

Study results from table 9, indicated that strategy formulation and firm performance is significantly correlated (r =0. 140, p<0.05). Therefore, the null hypothesis ($H_0$3) was rejected and concluded that at 5% significance level, there is a weak positive relationship between strategy formulation and firm performance. This implies that although strategy formulation was positively correlated to firm performance it does significantly influence performance of the enterprises. The result of this hypothesis also confirms that the level of compliance with strategic plan has significant effect on corporate performance. The is in line with the findings of Mankins and Steele (2005) that companies typically only realize 63% of the potential value of their strategy because of defects in planning and execution. If full compliance is achieved, performance will increase. It is also consistent with the findings by Dauda et al, (2010), Danso (2005) and Phillip & Petterson, (1999). They all agreed that compliance with plans has positive correlation with performance.

$H_0$4. The combined effect of environmental analysis, organizational direction and strategy formulation has no relationship with performance of medium sized enterprises.

In order to determine the effect of the independent variables (Strategic Planning) on the dependent variables (Organizational Performance), regression analysis was done. In this regard, the independent variables; Environment Analysis, Organization Direction and Strategy

Formulation were regressed on the dependent variable, Organizational Performance. The results of the regression analysis were presented in Tables 10 and 11

Table 10: Regression Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651[a]	.424	.384	.396

The results in table 10, shows that there is a positive relationship between strategic planning and organizational performance (R=0.651). Coefficient of determination (R^2) is 0.424.This shows that 42.4% variation of organizational performance is explained by strategic planning while the remaining percentage could be explained by other factors not included in the study model.

Table 11: Full Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.219	.540		2.256	.029		
EA	.409	.076	.630	5.362	.000	.970	1.031
OD	.140	.068	.243	2.065	.045	.965	1.036
SF	.090	.086	.122	1.045	.002	.989	1.011

a. Dependent Variable: PERFORMANCE

From the regression Coefficients in table 11, the regression equation is therefore expressed as:

$Y = 1.219 + 0.409x_1 + 0.140x_2 + 0.090x_3 + e$

As shown in table 11, elements of strategic planning namely; environmental analysis (β=0.630, p=0.000), organizational direction (β=0.243, p=0.045), and strategy formulation (β=0.122, p=0.002) were found to significantly influence organizational performance of the enterprises. From the study, it is evident that environmental analysis has greater effect (β=0.630), organizational direction (β=0.243) and lastly strategy formulation (β=0.122). This means that the independent variables did contribute significantly to the organizational performance but at different levels. Dauda et al, (2010) concluded that strategic planning practices enhance both organizational performance and therefore suggest that strategic planning concepts should be adopted by business organizations. The result agrees with the submission of Arasa & Machuki (2011) that participatory orientation of strategic planning does influence the realization of the strategic planning outcome significantly. The results are also consistent with those of McIlquham -Schmidt (2010) that found that there is a positive relationship between strategic planning and corporate performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study reveals that, there is an existence of strategic planning in most medium enterprises. The various dimensions used for the assessment of strategic planning show a consistency of the factors in use in the medium enterprises, whereby the respondents were highly in agreement with most variables indicating efficient and effective operations of strategic planning and organization performance.

The first hypothesis (H_01) was rejected because this study shows that environmental analysis was positively related to performance of medium enterprises ($r=0.597$, $p<0.05$). This shows that most medium size enterprises usually analyze their external environment which is important for researchers and firms as it helps researchers understand the motivation of firms' activities and helps firms take appropriate action with the changing environment. There must be a strategic fit between what the environment wants and what the business has to offer, as well as between what the business needs and what the environment can provide.

The second hypothesis (H_02) on organizational direction showed that it was positively related to performance of medium enterprises although weak ($r = 0.127$, $p<0.05$). Through an interpretation of information gathered during the environmental analysis, managers can determine the direction in which an organization should move. Entrepreneurial businesses are driven by vision and high aspirations. Developing a mission statement will help the small business realize their vision. By developing a strategic plan that incorporates the mission statement, entrepreneurs are more likely to be successful and stay focused on what is important.

The mission statement encourages managers and small business owners alike to consider the nature and scope of the business.

The third hypothesis ($H_0$3) on strategy formulation showed that it was positively related to performance of medium enterprises although dismally where ($r = 0.140$, $p<0.05$). In designing strategy, it is necessary to determine the necessary culture with which to support the achievement of the lines of business, critical success indicators, and strategic thrusts. Typically an organization will choose some mixture of these or other predefined culture roles that it feels is suitable in helping it to achieve is mission and the other components of strategy design.

The fourth hypothesis ($H_0$4) on the effect of the combined elements of strategic planning it was determined that they have an effect on performance as seen by $R^2 = 42.4\%$ .This means that the model explains the variation in the dependent variable up to 42.4 while 57.6% can be explained by other factors not included in the study model.

Finally, the study revealed that although strategic planning variables tend to have impact on performance of medium enterprises, environmental analysis tend to have more impact ($\beta= 0.597$), organization development ($\beta=0.243$), and strategy formulation ($\beta=0.140$).

5.2 Conclusion

As revealed by the findings, every step in the strategic planning process is important. If the organizational direction is not clear, then workers and employees will not know if they are on the right track. If the business environment has not been critically examined, then organizations will not understand its internal competences or business opportunities from where appropriate strategies are crafted to facilitate a fit and success. In a nutshell, the process of strategic planning should be given its deserved attention in terms of all the prescribed steps within the existing literature.

Strategic planning in medium enterprises is an essential instrument for planning and forecasting which positions the organization to meet demands and changes which might come up in the course of discharging its services. This study reveals that most enterprises have clear strategic plan which is articulated to all of its employees at various levels and department within the enterprises. From the results, quality dimension shows that, customer of small and medium size business show a satisfaction level of service delivered by the enterprises and hence helps the medium enterprises to achieve its target which is part of its performance measure, hence a positive strategic planning was found to affect organization performance. It reveals that, the strong agreement of factors of various dimension of strategic planning indicate the effectiveness and efficiency of such planning by these enterprises and hence affect their performance positively.

5.3 Recommendations

Existing investigations are difficult to compare due to their differences in terms of enterprise type, industry, sample size, company size or period of time. Thus, it would be interesting to examine whether there are differences in the degree of strategic planning with regard to industry affiliation and size or time period.

This study mainly focused on the connection between the strategic planning process and organizational performance, it would be of interest to investigate the role of the moderating variables in translating the strategic planning intentions into reality.

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APPENDIX 1: LETTER OF PERMISSION TO CARRY OUT RESEARCH WORK

Egerton University

P.O. Box 536-20115

EGERTON

Dear Sir/Madam,

RE: PERMISSION TO CARRY OUT ACADEMIC RESEARCH

I am a Master of Business Administration student at Egerton University conducting a research study entitled ***"Relationship between Strategic planning and organizational Performance of Medium Sized Enterprises in Nakuru Town, Kenya".*** The purpose of this letter is to request you for permission to interview members of your organization using the questionnaire copies attached. You are kindly requested to fill in the questionnaire with precision and accuracy. The questionnaire is supposed to assist in answering specific objectives of the research which is being undertaken as part of the University requirement. Any information given herein will be treated with utmost confidentiality and only be used for the purpose of research. So kindly feel free to fill the questionnaire.

Thank you.

Yours faithfully,

Jackline C. Langat

APPENDIX 2: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

This questionnaire collects information concerning the nature and scope of strategic planning in your firm. Please describe the planning practices as you see in your firm.

Data collected with this questionnaire will be treated confidentially and presented only in summary form without disclosing the name of the respondent.

Please indicate the industry category that best describes your firm:

☐ Industrial Plant

☐ Health

☐ Hotel and Hospitality

☐ Trader/Retail store

PART "I"

1. Please indicate the person or unit that develops strategic plans in your firm:

☐ The Chief Executive Officer (CEO)

☐ A strategic planning committee made up of all or selected members of top management

☐ A centralized planning department

☐ Top management

☐ Different managerial levels participate in firm strategic planning

2. Does your firm prepare written strategic plans?

☐ Yes ☐ No

a) If yes, check the appropriate space concerning the time period covered by these strategic plans

Less than one year ☐

1 – 3 years ☐

☐ 4 years or more

b) How long has your firm been using strategic plans?

☐ Less than one year ☐ 1 – 3 years

☐ 4 – 6 years ☐ 7 or more years

3. Does your firm use outside consultants in developing strategic plans?

☐ Yes ☐ No

4. Does your firm allocate adequate resources for carrying out strategic plans?

Yes ☐ No ☐

5. Age of the firm

☐ 1 – 3 years

☐ 3 – 6 years

☐ 6 – 9 years

☐ 10 or more years

6. Firm's capital size by (KES)

☐ Less than 1,000,000

☐ Above 10,000,000

☐ Between 1,000,000 – 10,000,000

SECTION B: STRATEGIC PLANNING

DIRECTIONS:

For each of the statements below, please circle the number that best describes how much you agree or disagree with the statement:

Strongly Disagree (SD) Disagree (D) No Opinion (NO)

Agree (A) Strongly Agree (SA)

Environmental Analysis:

No	Statements	SD	D	NO	A	SA
Environmental Analysis						
1.	The Organization carries out a SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)					
2.	The long term impacts of organizational strengths and weaknesses are evaluated					
3.	The Organization carries out PEST Analysis (Political, Economic, Social & Technological)					
4.	There is wide management participation in identifying threats and opportunities of external environment					
Organizational Direction						

5.	The Organization has a formal mission statement.					
6.	Your current mission is compatible with the activities carried on by the organization.					
7.	The Organization has a formal vision statement.					
8.	The vision statement is relevant to the organization's activities and mandate and is future oriented.					
9.	You have a formal statement of firm goals and objectives					
10.	There is wide management participation in establishing goals and objectives					
Strategy Formulation						
11	There is wide management participation in developing strategic alternatives					
12.	The results of your strategic planning process clearly spell out what will be done, when and by whom					
13.	When selecting a strategy, your firm is concerned with long-term implications.					

SECTION C: FIRM PERFORMANCE

The following are statements on performance. Using the key (Where: 1 – Bottom 20%; 2 – Next 20%; 3 – Middle 20%; 4 – Next 20%, and; 5 – Top 20%) tick as appropriate to indicate the extent to which the statements characterize performance in your firm in the medium enterprise sector and or in relation to other similar firms in the last three years.(2011, 2012, 2013)

No.	Statement	Rating				
1.	Shareholders' equity	1	2	3	4	5
2.	Increase in profits	1	2	3	4	5
3.	Market share	1	2	3	4	5
4.	Customer growth rate	1	2	3	4	5
5.	Customer Satisfaction	1	2	3	4	5
6.	Product and service innovation	1	2	3	4	5
7.	Employee satisfaction	1	2	3	4	5

APPENDIX 3: LIST OF MEDIUM SIZED ENTERPRISES IN NAKURU TOWN

NO	MEDIUM SIZED ENTERPRISES
	Industrial Plants
1.	Bedi Investments
2.	Betpet Investments
3.	Buds and Blooms Limited
4.	Bunda Cake and Feeds ltd
5.	Coil Products Ltd
6.	Doru Industries Ltd
7.	E.A Bagging Co Ltd
8.	Ever Bright Ltd
9.	Happy Cow Ltd
10.	Khagrams Kantilal
11.	Mega Distillers Industries Ltd
12.	Mega Pack Ltd
13.	Mega Spin Ltd

14.	Menegai Investments
15.	Menengai Oil Refineries Ltd
16.	Nakuru Cabro Works
17.	Nakuru Crater Pure Water Bottlers
18.	Nakuru Plastics Ltd
19.	Nakuru Tanners
20.	P.Z Fibre Ltd
21.	Reliable Concrete Works
22.	Reliance Plastics Ltd
23.	Rift Valley Products Limited
24.	Rosin Kenya Ltd
25.	Sun Knit Manufacturers Ltd
26.	Tek Products ltd
27.	Texpro Ltd
28.	Unga Farm Care Ltd
29.	United Millers Ltd

30.	Valley Confectionery ltd
31.	Veer Fibres ltd
	Hotels
32.	Bontana Hotel
33.	Hotel Cathay Ltd
34.	Hotel Kunste
35.	Hotel Water Buck
36.	Lake Nakuru Lodge
37.	Merica Holdings ltd
38.	Midlands Hotel
	Trader/Retail
39.	BakersMart Ltd
40.	C.K Patel Ltd
41.	Caltubox Industries Ltd
42.	Dalbit Petroleum
43.	Gilani Butchery

44.	Kilimo Feeds Ltd
45.	Meems Ltd
46.	Nakuru Wool shop
47.	Plutos Holdings
48.	RESMA Commercial Agency Ltd
49.	Rift Valley Electrical Hardware Shop
50.	Shah Outfitters Ltd
	Health Facilities
51.	Evans Sunrise Hospital
52.	Menengai Nursing Home
53.	Nakuru Nursing & Maternity Home
54.	Valley Hospital

APPENDIX 4: RELIABILITY TEST

Cronbach's Alpha Reliability Coefficient Scores for Strategic Planning

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.878	.884	22

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Q1	69.67	187.900	.515	.711	.872
Q2	70.17	186.107	.485	.689	.872
Q3	70.10	185.498	.458	.761	.873
Q4	70.08	176.196	.707	.783	.865
Q5	70.07	185.301	.536	.715	.871
Q6	69.69	186.843	.458	.684	.873
Q7	70.10	187.651	.328	.517	.878
Q8	69.61	186.104	.532	.659	.871
Q9	70.07	180.233	.518	.731	.871
Q10	69.44	188.774	.345	.608	.877
Q11	70.17	184.243	.669	.742	.868
Q12	69.65	178.705	.706	.854	.865
Q13	69.82	177.220	.685	.738	.866

Table 13 Cronbach's Alpha Reliability Coefficient Scores for the Firm performance of Medium enterprises Questionnaire

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.704	.745	7

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Q1	23.07	74.707	0.587	.345	0.795
Q2	23.19	72.901	0.630	.396	0.792
Q3	23.10	73.040	0.605	.366	0.794
Q4	22.78	74.920	0.619	.383	0.793
Q5	23.26	75.269	0.492	.242	0.700
Q6	23.36	75.674	0.523	.273	0.798
Q7	23.43	71.791	0.630	.396	0.792