BUSINESS MODELS
What is their effect on the implementation of strategic plans by SMEs?
Samuel Okwachi, Roselyn Gakure, and Mary Ragui
Full Length Research Paper

Business models - What is their effect on the implementation of strategic plans by SMEs?

Samuel Okwachi, Roselyn Gakure, and Mary Ragui

Jomo Kenyatta University of Agriculture and Technology (JKUAT), Nairobi CBD Centre, Box 62000- 00200, Nairobi, Kenya.

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Strategic planning is a continuous and systematic process where decisions on intended future outcomes, their accomplishment, measurement and evaluation are made. It includes goal setting and resource allocation (Stonehouse and Pemberton 2002; O'Regan and Gnobadian 2004; Dogan, Alpkan, Elci and Aren, 2009) that stimulates pro-activity, performance improvement, long term thinking, communication, strategic issues, gaps, priorities and choices. Strategic planning in small medium enterprises (SMEs) is unique and evolves over their life cycle. Business model in this study are defined as any arrangements or agreements that an organisation would enter into so as to make it relevant to the market that it serves or intends to serve. This study seeks to investigate how a business model affects the implementation of strategic plans by SMEs in Nairobi County in Kenya. Prior studies indicated that many SMEs are practicing strategic planning but the implementation process remains a challenge leading to shelving of well-formulated strategies that fail at the implementation stage. While existing studies focused on relationships between various factors that impact on the strategy implementation, this study endeavored to establish the influence of business models on implementation. To achieve the main objective, a survey of 96 SMEs was conducted from a population frame of 810 SMEs registered by the Nairobi City Council. Both quantitative and qualitative data were collected. A questionnaire containing both open-ended and closed questions was used for data collection. The response rate of 91.67% was achieved. Data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software. The study results indicate that business models affect implementation of strategic plans in Kenyan SMEs. Based on the findings, the study has recommended that SMEs should take initiatives to adopt change in their attitudes and approaches towards vital issues such as risk appetite, saturation of existing markets, changing customer needs, resource constraints, lack of training, lack of specialist and technical knowledge, and rising costs to enable them develop business models that will earn them competitive advantage.

Key words: Strategic planning, business models, internal environment.

INTRODUCTION

Strategic planning in SMEs is unique and evolves over their life cycle. This is because initially SMEs are "simple structures" or "simple systems" in which the entrepreneur or owner directs a small number of operators on his own or with the help of a few managers. Coordination is by direct instruction and supervision, minimizing the need for formality (Lawrie, Andersen and Cobbold, 2006). This brings flexibility and responsiveness in during the early years of operation (Mintzberg, 1981). As they grow, hierarchies become inevitable and structural changes become necessary due to communication and cooordination challenges (Lawrie et al., 2006). The points of transition between organizational forms become risky periods for the SMEs during which failure isn’t uncommon (Mintzberg, 1981). Many SME’s collapse during the earlier years (Onugu, 2005) hence, the need for them to have strategic plans.

To compete effectively organizations adopt certain forms via ownership or operations such as niche market exporting, licensing, contract manufacturing, franchising, joint ventures and foreign branching (Pearce et al. 2011; Konstantopoulos, Sakas and Triantafyllopoulos, 2009).
Niche exporting tailors product to specific markets, licensing transfers property rights for specified periods and contract manufacturing exploits comparative advantages in technology, materials or labour (Camén, Gottfridsson and Rundh, 2011; Okpara, 2009; Jiang, Shiu, and Tu, 2007).

Franchising enables the use of patents or trademarks, Joint ventures involve mutual agreement on capital, production or marketing and foreign branching involves foreign entry via a strategic business units or subsidiaries (Gordon, 2011; Polo-Redondo, Bordonaba-Juste and Palacios, 2011; Tan Lu, 2008). Although beneficial, the contracts, rules and conditions involved may cede control in key areas and affect implementation of strategic plans (Sadi and Henderson, 2011; Eisenhardt, 1989; Stuart and Brownmen, 2001; Sanghavi, 1998). This study therefore seeks to find out whether the business model affects the implementation of strategic plans by SME’s in Kenya.

MATERIALS AND METHODS
The study adopted a descriptive research plan in a field setting to capture a snapshot of the topic at a point in time and also in exploration to answer who, what, where and how questions in business and management research (Rauf, 2007). The study population target consisted of the 810 SMEs based in Nairobi County following the Nairobi City Council records. Simple random sampling method was used to give 96 SMEs which is 20% of the N value of 484 from Neuman (2000) formula. This sample of the population was considered a generally acceptable method of selecting samples in such a study (Simon and Goes, 2012). A questionnaire was used as a tool for data collection. Data was edited, coded, and processed using SPSS. Reliability was tested for study instruments producing Cronbach’s Alpha coefficient scores of over 0.7.

RESEARCH FINDINGS AND DISCUSSIONS
The study aimed to explore the relationship between effective implementation of strategic plans and the business models of the organization. Business models assessed in this study were six namely contract manufacturing, franchising, joint ventures, strategic alliances, branches and niche marketing. Advantages of various business models namely serving customers better, concentration on core duties, facilitating entry into certain markets, obtaining capital and finance, obtaining technology and expertise, management and leadership skills and competitive advantage were investigated. The effect of each on the implementation of strategic plans was analysed along with their combined effect on the implementation of strategic plans.

Factor analysis
The findings on indicated that the 7 weights present in the variable ranged between .821 and .655. All of them were greater than 0.40 hence none they were all included in further inferential analysis.

Table 1: Business models adopted by SMEs

<table>
<thead>
<tr>
<th>Business model</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract manufacturing</td>
<td>43.2</td>
</tr>
<tr>
<td>Franchising</td>
<td>5.7</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>21.6</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>9.1</td>
</tr>
<tr>
<td>Branches</td>
<td>12.5</td>
</tr>
<tr>
<td>Niche marketing</td>
<td>8.0</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Business models adopted by SMEs
From table 1, 43.2% of the respondents had adopted contract manufacturing, 21.6% had adopted joint ventures, 12.5% had adopted branches, 9.1% had adopted strategic alliances, 8.0% had adopted niche marketing and 5.7% had adopted franchising. It can therefore be concluded that the business models adopted by majority of the SMEs were contract manufacturing, Joint ventures and branches. These findings corroborate various scholars (Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Khemakhem, 2010; Pinho, 2007) who observed that SMEs foreign entry modes included Contract manufacturing, franchising, joint ventures, strategic alliances, branches of subsidiaries and niche markets. However, they contradict Nganga, Onyango and Kerre, (2011) and Bowen, Morara and Mureithi, (2009) who observed that from an entrepreneurial perspective, SMEs focus on fragmented or niche markets due to their ability to innovate.

The findings of this study in conjunction with the past studies reviewed indicated that the most common forms of business models employed by SMEs were contract manufacturing, joint ventures and branches or subsidiaries. This could be attributed to the owner’s ambitions, stakeholder requirements, education, risk appetite of SME owners, legal technicalities the size of the SME and the resource base.

Evaluation of SMEs business models
Evaluation of the business models was adopted based on six statements that highlighted the advantages gained by SMEs when they adopt various business models. They include serving customers better, concentration on core
duties, facilitating entry into certain markets, obtaining capital and finance, obtaining technology and expertise, management and leadership skills and competitive advantage.

Serves customers better
From the findings on Table 2, although majority (56.8%) of the respondents rated their business models to be good in terms of serving customers better, the mean (Mean = 4.080 on a scale of 1-5) led to conclusion that the respondents agreed that the business models they had adopted were good in terms of serving their customers better for almost the same reasons (SD = 0.689).

These findings corroborate various scholars (Sanberg, 2013; Sadi and Henderson, 2011; Lindstr and Lindbergh, 2011; and Pinho, 2007) who observed that the primary reason why SMEs adopted or chose a particular business model was to maintain proximity with customers and serve them better. Lawrie et al. (2006) established that SME’s were “simple structures” or “simple systems” in which the owner-manager directed employees through direct instruction and supervision. This brought flexibility and responsiveness that made them serve customers better.

The findings of this study in conjunction with the past studies reviewed indicated that one of the major reasons why SMEs adopted various forms of business models was to serve their customers better. This could be due to resource constraints, rising costs, elimination of competition, competitive advantage and the realization that customer loyalty is a tool that could provide a competitive edge for SMEs.

Concentration on core duties
As indicated on Table 2, although majority of the respondents (59.1%) rated their business models to be good in terms of enabling them to concentrate on core duties, the mean (Mean = 3.909 on a scale of 1-5) indicate that the respondents agreed that the business models they had adopted were fair in terms of enabling them to concentrate on core duties for almost the same reasons (SD = 0.689).

These findings corroborate various studies (Karhunen and Kosonen, 2013; Sanberg, 2013; Camén et al., 2011; Barajas, Huergo and Moreno, 2011; Khemakhem, 2010) which established that SMEs adopted some business models to enable them concentrate on their core duties. Mwaniki (2006) and Onugu (2005) observed that SMEs expanded horizontally through chains of businesses rather than vertically with one form of business. Bowen et al. (2009) noted that SME markets were within their locality and many of them didn’t look beyond their local catchment area.

Facilitating entry into new markets
The findings on facilitating entry into certain markets in Table 2 showed that 52.3% of the respondents rated their business models to be good, 33.0% indicated fair, 11.4% indicated excellent, 3.4% indicated poor and 0% indicated very poor. Although majority (52.3%) of the respondents rated their business models to be good in terms of facilitating entry into certain markets, the mean (Mean = 3.716 on a scale of 1-5) led to conclusion that the respondents agreed that the business models they had adopted were fair in terms of facilitating entry into certain markets for almost the same reasons (SD = 0.710).

These findings corroborate various scholars (Olejnik and Swoboda, 2012; Camén et al., 2011; Polo-Redondo et al., 2011; Konstantopoulos et al., 2009; Pinho, 2007) who observed that SMEs adopted various business models because they facilitated their entry into new markets. Bowen et al (2009) noted that SME markets were within their locality and many of them did not look beyond their local catchment area and hence missed out on the challenge and opportunities of globalization.

Obtaining capital and finance
From Table 2, on obtaining capital and finance, 52.3% of the respondents rated their business models to be good, 27.3% indicated fair, 15.9% indicated excellent, 4.5% indicated poor and 0% indicated very poor. Although

<table>
<thead>
<tr>
<th>Statement</th>
<th>% Very Poor</th>
<th>% Poor</th>
<th>% Fair</th>
<th>% Good</th>
<th>% Excellent</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serves customers better</td>
<td>0</td>
<td>1.1</td>
<td>15.9</td>
<td>56.8</td>
<td>26.1</td>
<td>4.080</td>
<td>0.682</td>
</tr>
<tr>
<td>Concentrate on core duties</td>
<td>0</td>
<td>2.3</td>
<td>21.6</td>
<td>59.1</td>
<td>17.0</td>
<td>3.909</td>
<td>0.689</td>
</tr>
<tr>
<td>Facilitates entry into Certain Markets</td>
<td>0</td>
<td>3.4</td>
<td>33.0</td>
<td>52.3</td>
<td>11.4</td>
<td>3.716</td>
<td>0.710</td>
</tr>
<tr>
<td>Obtain Capital and Finance</td>
<td>0</td>
<td>4.5</td>
<td>27.3</td>
<td>52.3</td>
<td>15.9</td>
<td>3.795</td>
<td>0.761</td>
</tr>
<tr>
<td>Obtains technology and expertise</td>
<td>1.1</td>
<td>5.7</td>
<td>36.4</td>
<td>44.3</td>
<td>12.5</td>
<td>3.614</td>
<td>0.823</td>
</tr>
<tr>
<td>Management and leadership skills</td>
<td>0</td>
<td>6.8</td>
<td>27.3</td>
<td>44.3</td>
<td>21.6</td>
<td>3.807</td>
<td>0.856</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>1.1</td>
<td>4.5</td>
<td>26.1</td>
<td>45.5</td>
<td>22.7</td>
<td>3.841</td>
<td>0.869</td>
</tr>
<tr>
<td>Average</td>
<td>3.823</td>
<td></td>
<td>0.770</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
majority (52.3%) of the respondents rated their business models to be good in terms of obtaining capital and finance, the mean (Mean = 3.716 on a scale of 1-5) lead us to conclude that the respondents agreed that the business models they had adopted were fair in terms of obtaining capital and finance for almost the same reasons (SD = 0.761).

These findings corroborate past studies (Sandberg, 2013; Olejnik and Swoboda, 2012; St-Pierre and Audet, 2011; Lindstr and Lindbergh, 2011; Khemakhem, 2010) which observed that SMEs adopted some forms of business models to enable them access to capital and finance. Various scholars (Tambunan, 2011; Su and Adams, 2010; Mwaniki, 2006) agreed that SMEs in Africa, Asia and Latin America were owner managed by the poor, obtained capital from personal savings and friends. Kwamboka (2010) observed that SMEs access to loans from banks and micro lenders was limited as the requirements were too high and they considered SME lending as high risk.

Obtaining technology and expertise

From table 2, obtaining technology and expertise showed that 44.3% of the respondents rated their business models to be good, 36.4% indicated fair, 12.5% indicated excellent, 5.7% indicated poor and 1.1% indicated very poor. Although majority (44.3%) of the respondents rated their business models to be good in terms of obtaining technology and expertise, the mean (Mean = 3.614 on a scale of 1-5) lead us to conclude that the respondents agreed that the business models they had adopted were fair in terms of obtaining management and leadership skills for almost the same reasons (SD = 0.823).

These findings corroborate various scholars (Sandberg, 2013; Barajas et al., 2011; Sadi and Henderson, 2011; St-Pierre and Audet, 2011; Mwaniki, 2006) who observed that SMEs adopted some forms of business models to enable access to technology as their activities were either inefficient or labour intensive. Other scholars (Kyobe, 2011; Haug, Pedersen and Arlbjørn, 2011) noted that although SMEs utilized technology to reduce costs and improve products and services, many SME managers were ignorant of what more technology would do for them because they did not assess their readiness before they invested in technology.

Management and leadership skills

The findings on management and leadership skills in table 2 showed that 44.3% of the respondents rated their business models to be good, 27.3% indicated fair, 21.6% indicated excellent, 5.7% indicated poor and 1.1% indicated very poor. Although majority (44.3%) of the respondents rated their business models to be good in terms of management and leadership skills, the mean (Mean = 3.807 on a scale of 1-5) lead us to conclude that the respondents agreed that the business models they had adopted were fair in terms of management and leadership skills for almost the same reasons (SD = 0.856).

These findings corroborate Ndambuki (2010) who attributed satisfactory management and leadership practices to strategic management practices that had been embraced by SMEs in a study of strategic management practices in SMEs. Wiklund, Patzelt and Shepherd (2005) noted that deficiencies management and leadership skills arose from the fact that most SMEs operated as “extensions” of their owner-managers which affected building of an integrative model of small business growth. Various scholars (Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Pinho, 2007; Khemakhem, 2010) observed that familiarity with current markets and customers prevented SME managers from improving their management and leadership skills. Therefore they acquired new challenges, training and experience through the business models that they adopted.

The findings of this study in conjunction with the past studies reviewed indicated that SMEs adopted various forms of business models to enable them to obtain management and leadership skills. This could be due to saturation of existing markets, changing customer needs, resource constraints, lack of training, lack of specialist and technical knowledge, rising costs, elimination of competition and the pursuit of competitive advantage.

Competitive advantage

From table 2, the findings on competitive advantage shows that 45.5% of the respondents rated their business models to be good, 26.1% indicated fair, 22.7% indicated excellent, 4.5% indicated poor and 1.1% indicated very poor. Although majority (45.5%) of the respondents rated their business models to be good in terms of competitive advantage, the mean (Mean = 3.841 on a scale of 1-5) lead us to conclude that the respondents agreed that the business models they had adopted were fair in terms of competitive advantage for almost the same reasons (SD = 0.770). The findings of this study indicated that SMEs valued competitive advantage and adopted various forms of business models to enable them attain a competitive edge over their competitors.

These findings corroborate Birdthistle (2008) who noted that SMEs that lacked adequate systems for monitoring information from their environments gave a competitive advantage to their competitors in his study on knowledge management in Ireland. Various other studies (Karhunen and Kosonen, 2013; Olejnik and Swoboda, 2012; Barajas et al., 2011; Sadi and Henderson, 2011; St-Pierre and Audet, 2011) established that most SMEs adopted various business models in the pursuit of competitive advantage.

Overall, we can conclude that the respondents agree that business models adopted by SMEs were fair in terms...
of the advantages that they availed to the respondents for almost the same reasons. Any variations in business models would yield different results hence we can make an observation that this would affect the implementation of strategic plans.

**Importance of SME business models in strategic planning**

The respondents were asked to state the importance of business models in their strategic planning. It was noted that 44.3% of the respondents indicated significant importance, 30.7% indicated moderate importance, 18.2% indicated very important, 4.5% indicated not important and 2.3% indicated little importance. Although majority (44.3%) of the respondents indicated that business models had significant importance in their strategic planning, the mean (Mean = 3.693 on a scale of 1-5) lead us to conclude that the respondents agreed that their business model had significance importance in their strategic planning (SD = 0.951).

These findings corroborate various studies (Karhunen and Kosonen, 2013; Barajas et al., 2011; Khemakhem, 2010) who observed that business models were important to SMEs because they enabled them serve customers better, concentrate on their core duties, facilitated entry into certain markets, obtain capital and finance, obtain technology and expertise, obtain management and leadership skills and obtain competitive advantage in their studies on internationalisation and foreign entry modes by SMEs in Finland, Spain and France.

**Pearson correlation - Business models and implementation of strategic plans**

Table 3 indicates that the correlation coefficient between business model and implementation of strategic plans is 0.678 and a p-value of 0.000. This depicted a strong positive and significant relationship between business models and the implementation of strategic plans by SMEs.

These findings corroborate various studies (Sadi and Henderson, 2011; Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Khemakhem, 2010; Pinho, 2007) which observed a relationship between business models and the implementation of strategic objectives and plans in their studies in the Middle East, Africa and Europe.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient Type</th>
<th>Implementation of Strategic Plans</th>
<th>Business Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of Strategic Plans</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Models</td>
<td>Pearson Correlation</td>
<td>0.678</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Goodness of fit model – Business models and implementation of strategic plans**

Table 4 represents the goodness of fit of model \( Y = \beta_0 + \beta_1 X_1 + e \) being the linear model involving business models (\( X_1 \)) as the only independent variable. The coefficients show that the correlation coefficient (R) between business models and the implementation of strategic plans is 0.678 which indicates a strong positive relationship. The coefficient of determination (R Square) of 0.453 indicates that the model can explain 45.3% of the variation or change in the dependent variable. This means that business models on its own explains 45.3% of the variation in the implementation of strategic plans by SMEs.

These findings corroborate various studies (Sadi and Henderson, 2011; Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Khemakhem, 2010; Pinho, 2007) which observed a relationship between business models and the implementation of strategic objectives and plans in their studies in the Middle East, Africa and Europe.

The findings of this study along with the review of past studies indicated that business models could explain 45.3% of the variation in the implementation of strategic plans by SMEs.

These findings corroborate various studies (Sadi and Henderson, 2011; Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Khemakhem, 2010; Pinho, 2007) which observed a relationship between business models and the implementation of strategic plans. The Beta coefficients were positive indicating that a unit change in the independent variable lead to a positive change the dependent variable. This meant that a unit change in business models lead to 0.678 units of positive change in implementation of strategic plans.

These findings corroborate various studies (Karhunen and Kosonen, 2013; Barajas et al., 2011; Khemakhem, 2010) who observed that business models were important to SMEs because they enabled them serve customers better, concentrate on their core duties, facilitated entry into certain markets, obtain capital and finance, obtain technology and expertise, obtain management and leadership skills and obtain competitive advantage in their studies on internationalisation and foreign entry modes by SMEs in Finland, Spain and France.

**Table 3: Correlation between business models and implementation of strategic plans**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.678</td>
</tr>
<tr>
<td>R Square</td>
<td>0.459</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.453</td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>3.46693</td>
</tr>
</tbody>
</table>

**Table 5: Coefficients that explained the relationship between business models and the implementation of strategic plans**

Table 5 shows the coefficients that explained the relationship between business models and the implementation of strategic plans. The Beta coefficients were positive indicating that a unit change in the independent variable lead to a positive change the dependent variable. This meant that a unit change in business models lead to 0.678 units of positive change in implementation of strategic plans. This indicated a
positive relationship between the business models and implementation of strategic plans by SMEs. The p-value for business models is 0.000 which is less than 0.05 and therefore fail to reject the null hypothesis. Therefore, we observed that business models had a significant positive relationship with the implementation of strategic plans.

These findings corroborate various studies (Sadi and Henderson, 2011; Olejnik and Swoboda, 2012; Lindstr and Lindbergh, 2011; Khemakhem, 2010; Pinho, 2007) which observed a relationship between business models and the implementation of strategic objectives and plans in their studies in the Middle East, Africa and Europe.

The distribution the scatter plots seem to clearly fall along a line, indicating that there is constant variance. The mass of the scatter points are found towards the middle from either side. There is no skewness to either side indicating that there is a constant variance on the residuals. Therefore a straight line can be fit among these scatter points to suggest that there is a linear relationship between business models and implementation of strategic plans in the form $Y = \beta_0 + \beta_1 X_1 + \epsilon$. This relationship has been illustrated in figure 1.

CONCLUSION AND RECOMMENDATION
The study concluded that business models enabled SMEs to serve their customers better, concentrate on core duties, enter certain markets, obtain capital, finance, technology, management and leadership skills and a competitive edge. It also concluded that business models had an effect on the implementation of strategic plans by SMEs in Kenya. The study recommended that SMEs should take initiatives to adopt change in their attitudes and approaches towards vital issues such as risk appetite, saturation of existing markets, changing customer needs, resource constraints, lack of training, lack of specialist and technical knowledge, and rising costs to enable them develop business models that will earn them competitive advantage.

REFERENCES


