STRATEGIC MANAGEMENT PRACTICES AND PERFORMANCE OF SMALL SCALE ENTERPRISES IN KITUI TOWN IN KENYA

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Abstract

Purpose: The objective of the study was to establish the strategic management practices employed by small enterprises in Kitui town, and how investment in personnel and skills, reaction to competitor actions, maintaining customer loyalty and product differentiation influenced performance of enterprises.

Research Design:The research involved a survey of 99 small enterprises in Kitui town out of a population of 7,246. Data was collected using questionnaires. Frequency tables and percentages were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science version 20 to analyse the data. Descriptive statistics like the mean and inferential statistics were used to derive meaningful findings and inferences.

Results:Results indicated that investment in personnel and skills was a key determinant strategic management practice influencing performance among small scale businesses. Results indicate that innovative products and services, levels of efficiency, ethical standards and new market entrants influenced performance to a great extent.

Conclusion: The study findings reveal that investment in personnel and skills,competitor responses, management of customer loyalty and product differentiation are some of the strategies that can be used to manage performance of small enterprises. Communication was also found to act as a pertinent element of customer loyalty.Product differentiation ensures that a small enterprise is relevant and successful even in a highly competitive environment. Delegation of duties is also a crucial aspect that facilitates for excellent standards of motivation.

Contribution of the Study: The unique contribution of this study is that it highlights the diverse strategic management practices which facilitate for the relevant methods of motivating employees for their different tasks in the long run enhancing the level of customer loyalty towards enterprises

Key Words: Strategic Management, Customer Loyalty, Kitui County

BACKGROUND STUDY AND RESEARCH PROBLEM

The rate of business failure has been on the rise due to many of the obstacles affecting businesses. These according to [2] include: lack of financial resources, lack of management knowledge or experience, laws and regulations, poor location, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services, and poverty.Performance of small businesses world over and specifically in Kenya has not been particularly excellent.The relationship between business strategy and organizational performance has been a subject of growing interest in the field of strategic management. Despite this trend, there has been little attention given to a comparative analysis of this relationship. Strategic management is typically associated with the large organizations. Small enterprises are generally run by owner-managers who make strategic decisions mostly based on pragmatic intuition than academic [13].

Leaders should be at the forefront in dealing with sensitive issues in strategy such as resource mobilization, restructuring, culture changes, technological changes, process changes, and leadership changes. A well-developed strategy coupled with proper execution will result in the organisation's success. While the contributions of Small enterprises to development are generally acknowledged, entrepreneurs in this sector face many obstacles that limit their long-term survival and development[6]. The researcher has come across several studies that have been conducted on strategic management practices in small enterprises. [5]who found out those packaging firms in Nairobi perceived poor leadership style, wrong strategic choices and poor resource management as a hindrance to strategy implementation. [10]whose findings indicated that the institution was on track in implementing its strategies. This had been made possible through having staff commitment, elaborate annual plans, sound leadership, supportive organizational structure, supportive systems and procedures, and resources/budget allocation. [1] identified the challenges to strategy in health focused Non-governmental organizations in Nairobi. The study concluded that strategy implementation was a very important aspect in health focused Non-Governmental organizations and had an imperative influence on their efficiency and effectiveness. [12]studied the challenges of implementing strategic decisions at the Kenya Armed Forces Medical Insurance Scheme (AFMIS). The study findings showed that the major challenges of strategy of the AFMIS were; lack of proper communication of and understanding of AFMIS strategy by the personnel; lack of communication and accountability by the scheme to its members; and monitoring of the health institutions that are contracted by the scheme as they are scattered all over the country.

From the above studies, none focused on strategic practices in small scale enterprises and how these practices relate to business performance. There is also a conspicuous assumption that small enterprises have formal strategies considering the focus on strategy implementation. Another gap is in the location of organisations studied, which are mainly in Nairobi and may not be general sable to those operating elsewhere. Another gap in the above studies is in the research design. Case studies have their limitations. They are ideal in rare cases where large samples of similar participants are not available. Small enterprises are unlikely to be classified as rare and surveys may be more representative. This research project seeks to bridge these gaps and specifically explore the practices of strategic management and how these affect the performance of these small enterprises in Kitui Town.This study is hinged under the resource based theory. Resource based theory focuses on the idea that resources, skills and core competences and distinctive competence are important for companies to gain competitive advantage. Costly to copy attributes of the firm as sources of business returns and the means to achieving superior performance and competitive advantage[3].

RESEARCH METHODOLOGY

The study used a descriptive survey since the data was collected from a sample of firms selected to represent a larger population [11].The target population of the study comprised of Small Scale enterprises in Kitui Town. The total population of these enterprises was 7,246 according to Kitui Municipal Council. The researcher used stratified sampling technique to identify 99 small enterprises in Kitui town. This sample was drawn from a population of 7,247 calculated at 90% confidence level. The 99 enterprises were selected from the categories as shown in Table 3.1.

Table 3.1: Stratified Sampling table
Source: Author (2013)

Business Activity	Population	Sample
General Trade, Wholesale, Retail, Stores	4,454	61
Transport, Storage, And communication	736	10
Informal sector-Hawkers	203	3
Agriculture, Forestry, and Natural resources	404	6
Accommodation and catering	825	11
Professional & Technical Services	282	4
Private Education, Health, and Entertainment	72	1
Industrial Plants, factories, workshops	270	4
Total	**7,246**	**99**

Primary data was collected using a questionnaire. The main respondents of the questionnaire were either the owners or managers of small enterprises. The questionnaire constituted of closed ended, open ended and likert-type scale questions. The data was sorted and coded then entered into the Statistical Packages for Social Sciences (SPSS). Mean and standard deviation were used to analyse the various strategic management practices employed by small enterprises.

RESULTS AND DISCUSSIONS

This section provides the analysis of results and discussions.

Basic Information

The target sample for the study was 99 enterprises from various small enterprises operating within Kitui County. Ninety nine questionnaires in physical hard copies were circulated. Out of 99 self-administered questionnaires, 66 were duly completed and returned.Fifty nine percent(59%) were owners only, 27% were managers only and 14% were both owners and managers. This implies that the small scale enterprises were operated by the owners hence the effectiveness of the strategic management practices.

Further results indicate that the majority respondents were males who constituted (56%) while 44% were female. These results are indicative of a slightly male dominated field.The dominant age of the respondents was between 31 to 40 years who comprised 51%, another 32% was between 22-30, 9% were aged below 21 years followed by ages 41 to 50 years (8%).This implies that young people run the small scale enterprises.

The results on the education level of the respondents' shows that 51% of the respondents were at college level, 33% were at secondary level while both university and primary were 8%.This implies that college level of education is middle level education of respondents, it also implies that the respondents are neither very highly educated nor very lowly educated. It may imply that those in business may not get high paying jobs or in a culture where university education is common, they may be unable to find good paying jobs and hence resort to starting businesses. Ninety two 92% of the respondents had attended some form of business management training, structured or otherwise, while only 8% seemed not to have attended the management training. This implies that the respondents were well informed.

Figure 1 below shows the results of the kind of enterprise from which data was collected from. Fifty eight (58%) were in partnership, 30% were in sole proprietorship while 12% were others. This implies that partnerships are more ideal than sole proprietorships since the partners may take strategic positions in the business depending on each partner's strengths and also may have better decision making since they are able to critique each other's decisions, give feedback and hence avoid the problem of self-talk.

Source: Author (2013)

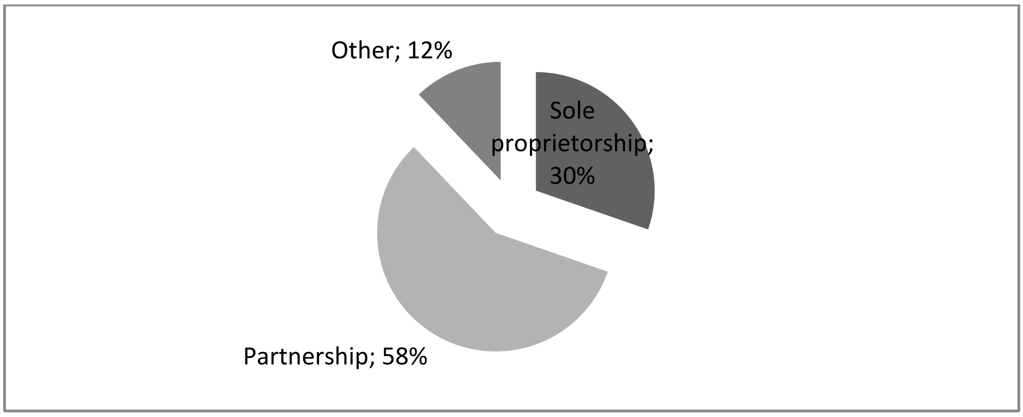

Figure 1: Kind of Enterprise

Descriptive Analysis

This section is arranged based on the objectives of the study.

Strategic Management Practices

The study had one dependent variable (strategic management practices) and four predictor variables. The results shows that (75.8%) agreed to a great extent that employing qualified staff who possesses the right skills had improved business performance, majority (93.9%) agreed to a very great extent that continuous employee training had improved employee productivity and (86.3%) agreed to a very great extent that the level of delegation of duties to staff had increased output. Another (89.4%) agreed to a very great extent that the management had ensured a highly motivated workforce to improve results, (94%) agreed to a very great extent that the business tried to sell innovative products to services makes the business stand above others while majority of the respondents (78.8%) agreed to a very great extent that the management ensured high levels of efficiency for higher returns. (93.9%) agreed to a great extent that the organization engaged in promotional activities as a reaction to competitor actions, (84.9%) agreed to very great extent that the organization tried to block new market entrants to make more profits while another (92.4%) agreed to a great extent that maintenance of Ethical standards in competing with other organizations had helped the organization improve its performance. (77.2%) agreed to a very great extent that the organization communicated with clients often as a way of ensuring their loyalty, (84.9%) of the respondents agreed to a great extent that the management actively collected feedback from customers in order to continually satisfy them, (95.5%) of the respondents agreed to a great extent that the management tried to improve standards and reliability to make customers come back for more business.

Majority (78.8%) of the respondents agreed to a great extent that the organization had maintained levels of consistency in product nature and prices to improve customer loyalty, (93.9%) of the respondents agreed to a very great extent that the organization appreciates customers through a loyalty scheme to maintain them, (90.9%) agreed to a great extent that the business sold unique products which lead to high returns while another (78.8%) of the respondents agreed to a very great that the organization lowers prices for products in order to maintain cost leadership and maintain a high turnover. The mean score of the responses was 4.29 which means that the respondents agreed with the statements on the questionnaire regarding strategic management practices. The responses were spread within 0.88 standard deviation.

The findings agree with those in Reed & Buckley (1988) who found out that implementation of strategy is a way in which an organisation creates the organizational arrangement that allows it to pursue its strategy most effectively. Successful strategy implementation therefore must consider issues central to its goals. Some strategies used by small organisations include investment in personnel and skills, reaction to competitor actions, ensuring customer loyalty, product differentiation.

Investment In Personnel And Skills

The first objective of the study was to examine the effect of investment in personnel and skills as a strategic management practice to performance of small enterprises operating in Kitui Town. Results indicate that majority (80.3%) agreed to a great extent with the statement that employee qualifications and skills affected strategic management practice to performance of small enterprises, (89.4%) of the respondents agreed to a great extent that continuous employee training affected strategic management practice to performance of small enterprises, majority (74.3%) agreed to a great extent that the level of delegation of duties to staff affected strategic management practice to performance of small enterprises to a great extent, and another (89.4%) agreed to a great extent that employee motivation affected strategic management practice to performance of small enterprises. This is supported by a mean score of 4.08 and a standard deviation of 0.89.This implies that majority agreed with the statements regarding investments in personnel and skills affects strategic management practices.

The findings agree with those in[14] who asserted that skilled employees are highly innovative, and this is greatly beneficial to an enterprise. An effective workforce is an essential catalyst for cost mitigation. All enterprises aim at reducing operational costs in order to boost performance. Based on such perspectives, it is vital to have a workforce that is aligned to the company's values and missions. This is facilitated for by strategic management by investing in sills and personnel. Skilled personnel alleviate total costs because they are highly efficient in using minimal resources for maximum performance. From another angle, an effective workforce is also vital in that it boosts internal marketing.

The findings concur with those in[8] who asserted that delegation of duties is also a crucial aspect that facilitates for excellent standards of motivation. Delegation acts as an indicator of the organization's confidence with its workforce [8]Consequently, the high ranking executives must integrate other employees into the decision-making process. Teamwork is also an essential platform that promotes the efficiency of employees. When employees work in teams, they develop one another while also establishing professional relationships. This can easily steer an enterprise towards success. Investment in personnel is also strongly associated with excellent standards of innovation. In the modern business sector, innovation is crucial in terms of productivity and competitiveness in the market.

Reaction To Competitor Actions

The second objective of the study was to examine the import of reaction to competitor actions as a strategic management practice to performance of small enterprises operating in Kitui Town. The results indicate that majority (51.5%) agreed to a great extent that innovative products and services affected strategic management practice to performance of small enterprises, (80.3%) of the respondents agreed to a very great extent that the levels of efficiency affected strategic management practice to performance of small enterprises, majority (94%) agreed to a great extent that the maintenance of ethical standards affected strategic management practice to performance of small enterprises, and another (83.3%) agreed to a great extent that new market entrants affected strategic management practice to performance of small enterprises. This is supported by a mean score of 4.02 and a standard deviation of 0.96.This implies that majority agreed with the statements that reaction to competitor action as strategic management practice affects performance of enterprises.

The findings agree with those in [9] who asserted that when a new enterprise has not complied with the stipulated guidelines, its entry into the market can be questioned. The identification of such entrants would be difficult if the enterprise does not have adequate platforms for strategic management. Apart from compliance, it is crucial that the new entrant does not jeopardize or threaten other businesses. In the event that a new enterprise threatens the existing entities in any way, legal action may be taken. Consequently, strategic management is massively crucial from the perspectives of blocking new entrants into the market.

The findings concur with those in[4] who found out that when an enterprise produces innovative products on a consistent basis, it becomes easier to gain an excellent foothold in the market. Additionally, innovativeness is also vital in terms of accentuating the overall intent of an enterprise in the market. When competitors introduce new products in the market, strategic management caters for the relevant mechanisms of introducing a better product. In essence, this is an indicator of the massive role played by strategic management in order to remain competitive in a highly dynamic environment. If a business fails to respond to competitor actions, it can easily be rendered uncompetitive

Customer Loyalty

The third objective of the study was to determine the outcome of customer loyalty as a strategic management practice to performance of small enterprises operating in Kitui Town. Eighty three (93.3%) agreed to a great extent that communications with clients affected strategic management practice to performance of small enterprises, (97%) of the respondents agreed to a very great extent that response to customer feedback affected strategic management practice to performance of small enterprises, majority (78.8%) agreed to a great extent that the standards of reliability affected strategic management practice to performance of small enterprises, (93.9%) agreed to a great extent that consistency of products and services affected strategic management practice to performance of small enterprises and another (72.7%) agreed to a great extent that business reciprocityaffected strategic management practice to performance of small enterprises. This is supported by a mean score of 4.24 and a standard deviation of 0.96.This implies that majority agreed with the statements that customer loyalty as strategic management practice affected performance of enterprises.

The findings are concur with those [14] who asserted that Communication is widely considered in the business world as the single-most important determinant of customer loyalty. All customers want to stay in touch with the enterprise. Communication makes the clients to feel as though they are integral role players in the enterprise. This emphasizes why strategic management facilitates for excellent levels of customer loyalty through communication. Additionally, communication with customers makes them to feel valued by the enterprise.The findings also agree with those in Cesnovar (2006) who found out that the quality of services and products offered by an enterprise should always match the expectations of clients. Quality enhances customer loyalty because it makes them feel confident about the enterprise. In essence, quality facilitates for some sense of trust from the client towards the enterprise. In the absence of strategic management practices, it is massively complex for any enterprise to maintain the quality expected by customers (Cesnovar, 2006). Such an aspect undermines the entire framework for reliability and hence customer loyalty. Consistency acts as another pertinent ingredient of customer loyalty. Consistency applies to both quality and the nature of prices set by the enterprise for different products and services. Strategic management provides an elaborate plan for the enterprise to attain high standards of consistency and hence customer loyalty [7]

Product Differentiation

The fourth objective of the study was to determine the effect of product differentiation strategic management practice to performance of small enterprises operating in Kitui Town. The results indicate that majority (95.5%) agreed to a great extent that uniqueness of products affected strategic management practice to performance of small enterprises, (78.8%) of the respondents agreed that to a very great extent that product improvement affected strategic management practice to performance of small enterprises, while (94%) agreed to a great extent that cost leadership affected strategic management practice to performance of small enterprises. This is supported by a mean score of 4.26 and a standard deviation of 0.81.This implies that majority agreed with the statements that product differentiation as strategic management practice affected performance of enterprises.The findings agree with those in[8] who found out that product differentiation underlines another important platform that encompasses strategic management. Fundamentally, product differentiation ensures that a small enterprise is relevant and successful even in a highly competitive environment. The most notable aspect of product differentiation in strategic management is that it facilitates for the development of unique products which are just slightly different from what is being offered by competitors.

The findings also agree with those in[7]) who notes that On the other hand, the lack of product differentiation hampers the competitive attributes of a small enterprise. In an environment dominated by numerous enterprises that offer similar products, it is more or less inevitable that an enterprise must be associated with some sense of uniqueness in order to remain competitive [7]The fundamental principles of strategic management provide a reliable blueprint for evaluating the most suitable ways of improving a product. This might include packaging a product differently, changing the color, or even the promotional framework. Such strategies make a massive difference in terms of gaining an upper-hand in the modern competitive market.

Inferential Statistical Analysis

This section presented the correlation and regression analysis.

Bivariate Correlation

Table 1displays the results of correlation test analysis between the dependent variable (business performance) and independent variables and also correlation among the independent variables themselves. This results show that business performance was positively correlated with all the independent variables. This reveals that any positive change in personnel skills, competitor action, customer loyalty and product differentiation led to increased performance of small scale enterprises.

Source: Author (2013)

Table 1: Bivariate Correlation

Variable		Personnel Skills	Competitor Action	Customer Loyalty	Differentiation	Performance
Personnel skills	Pearson Correlation	1				
	Sig. (2-tailed)					
Competitor action	Pearson Correlation	0.787	1			
	Sig. (2-tailed)	0.000				
Customer loyalty	Pearson Correlation	0.649	0.515	1		
	Sig. (2-tailed)	0.000	0.000			
Differentiation	Pearson Correlation	0.919	0.681	0.687	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Performance	Pearson Correlation	0.711	0.759	0.603	0.596	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

Regression Analysis

In order to establish the statistical significance of the independent variables on the dependent variable (Business Performance) regression analysis was employed. The regression equation took the following form.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$

Where

Y = Business Performance

X_1 = Investment in personnel and skills

X_2 = Reaction to competitor actions

X_3 = Customer loyalty

X_4= Product differentiation

In the model, β_0 = the constant term while the coefficient β_ii= 1….4 was used to measure the sensitivity of the dependent variables (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model.

Table 2 shows that the coefficient of determination also called the R square is 66.8%. This means that the combined effect of the predictor variables (investment in personnel skills, competitor action, customer loyalty and product differentiation) explains 66.8% of the variations in business performance. The correlation coefficient of 81.8% indicates that the combined effect of the predictor variables has a strong and positive correlation with business performance.

Source: Author (2013)

Table 2: Regression Model Fitness

Indicator	Coefficient
R	0.818
R Square	0.668
Std. Error of the Estimate	0.287

Analysis of variance (ANOVA) on Table 3 shows that the combined effect of investment in personnel skills, competitor action, customer loyalty and product differentiation was statistically significant in explaining changes in business performance. This is demonstrated by a p value of 0.000 which is less that the acceptance critical value of 0.05.

Source: Author (2013)

Table 3: ANOVA(Analysis of Variance)

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.126	4	2.532	30.745	0.000
Residual	5.023	61	0.082		
Total	15.149	65			

Table 4 displays the regression coefficients of the independent variables. The results reveal that investment in personnel skills; competitor action, customer loyalty and product differentiation are statistically significant in explaining business performance.

Source: Author (2013)

Table 4: Regression Coefficients

Variable	Beta	Std. Error	T	Sig.
Constant	1.349	0.294	4.588	0.000
Personnel skills	0.428	0.182	2.348	0.022
Competitor action	0.348	0.089	3.904	0.000
Customer loyalty	0.27	0.089	3.019	0.004
Differentiation	0.312	0.0147	21.22449	0.038

CONCLUSION AND RECOMMENDATION

Investment in personnel and skills is a key determinant on performance of small enterprises. It has been supported by other scholars and hence highlighting the intensity of investing in personnel and skills to improve business performance. It is also possible to conclude that delegation of duties is also a crucial aspect that facilitates for excellent standards of motivation.Reaction to competitor actions was found statistically significant in explaining business performance. It is also possible to conclude that the entry of new entities in any market increases the levels of competition and the identification of such entrants would be difficult if the enterprise does not have adequate platforms for strategic management.

It is possible to conclude that communication acts as a pertinent element of customer loyalty, it also benefits the enterprise in terms of acquisition of feedback and that quality enhances customer loyalty because it makes them feel confident about the enterprise.It is possible to conclude that product differentiation ensures that a small enterprise is relevant and successful even in a highly competitive environment.

It is recommended that businesses owners should adopt strategic management practices that facilitate for the relevant methods of motivating employees for their different tasks as this helps in terms of enhancing their loyalty towards the enterprise.It is recommended that businesses organizations should enhance communication as this will make the clients to feel as though they are integral role players in the enterprise; business should offer good quality and services to customers and should always match the expectations of clients. It is recommended that businesses organizations must develop new methods to overcome customer loyalty and retention challenges while identifying new customer purchasing and behaviour insights. It is recommended that businesses organizations need to continually differentiate their products from their competitors.

AREAS FOR FURTHER STUDY

Arising from the findings and the gaps in the study a replica study is recommended in another town, in order to test whether the conclusions of this study will hold true. In addition, further studies should focus on the internal aspects of small business. These internal aspects enhance the internal efficiency of the business and may have positive spillover effects on customer loyalty, employee skills and competitive advantage. For instance future studies should concentrate on the effect of internal controls on the performance of the businesses. In addition, the influence of working capital management on business performance is also an internal aspect of the organization that can be researched on.

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