

**THE INFLUENCE OF INFORMAL STRATEGIC MANAGEMENT MODES
ON PERFORMANCE OF SMALL ENTERPRISES RUN BY YOUTHS IN
KISUMU COUNTY, KENYA**

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MASENO UNIVERSITY

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DECLARATION

DECLARATION BY THE CANDIDATE

I declare that this is my own work and that all the sources that I have used or quoted have been acknowledged by means of references.

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DEDICATION

To my mother, Mary,

without whose sacrifice and struggle, I would never have reached where I am today

To my wife, Karen,

whose love and support is beyond any treasure on earth.

To my children, Adam and Melissa,

whose smiles and unconditional love give me hope.

To my sister, Janet,

rest in peace

And

To my brothers and sisters

who are my clan. Thank you.

So oft in theologic wars,

The disputants, I ween,

Rail on in utter ignorance,

Of what each other mean,

And prate about an Elephant,

Not one of them has seen!

(From Mintzberg, Ahlstrand & Lampel, 1998)

ABSTRACT

Studies indicate that 75% of Small Enterprises (SEs) in the world fail during their first five years of operation. In Kenya, just about 20% grow to the next size category. To this end, scholars have prescribed formal strategic management modes but the SEs continue to, not only fail, but depict informal strategic management modes. However, no study has been done on adoption of the Informal Strategic Management modes (ISMMs) in regards to improving performance of SEs in Kenya. This study sought to examine the ISMMs that could provide better performance of SEs with specific reference to youth-run SEs supported by Youth Enterprise Fund (YEDF) in Kisumu County, Kenya. The specific objectives were to determine the different SMMs employed by the youth-run SEs; establish the factors influencing the choice of these strategies; and establish the relationship between the chosen modes and performance of the enterprises. The study was anchored on Mintzberg and Waters' theories on deliberate, emergent and reactive strategies with ISMM as the independent variable and performance as the dependent variable. The study adopted both descriptive and correlational research designs. The target population was the 242 small enterprises run by the YEDF, out of which 134 enterprises were sampled using Yamane's criteria. The study used questionnaire and interview methods as the data collection methods with the questionnaire being tested through content validity index (CVI=.818) and Cronbach's Alpha's internal consistency index ($\alpha \geq .70$) respectively. Weighted means, multiple regressions, and Pearson's r were used to analyze the objectives. The study found that the SEs employed the reactive strategic management mode most ($N = 64, M = 2.58$) and that personal, environmental and firm factors influenced the choice of mode ($R = .362, R^2 = .131, P = .000; R = .246, R^2 = .71, P = .001; R = .246, R^2 = .71, P = .001$). The study also found a positive and significant correlation between the modes and performance (Deliberate: $R = .143, P = .005$; Reactive: $R = .133, P = .008$; Emergent: $R = .133, P = .008$). These imply that the SEs are reactive. Besides, personal factors are key determinants of the choice of ISMM. Further, the informal modes all contribute to performance of the enterprises. The study concludes that the SEs use all the modes of strategic management and the personal, environmental and firm factors play an important role as to the choice of ISMM employed. Moreover, the SEs need exposure to informal modes because they address their situation best. The study, therefore, recommends formalization of elements of reactive ISMMs and the personal entrepreneurial factors in small firm curricula. The study also recommends a blend of both informal and formal strategies for better performance. The study significance is that it has informed policy makers and academia on the correct mix of ISMMs that could help the youth-run SEs attain peak performance.

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OPERATIONAL DEFINITIONS

The following terms were used in this study as follows:

Emergent Strategy: Unplanned for actions that are realized from practice; a set of consistent actions that form an unintended pattern that was not initially anticipated or intended in the initial planning phase. When these are found to work, they are adopted as organizational strategies

Deliberate strategy: Intended plans of action for the organization to realize. Patterns of action the small firm puts in place to realize their targets.

Reactive Strategies: Unplanned actions by management due to pressures from the environment that are later adopted as strategies if the actions were found to work towards the achievement of the goal

Mode: A way of doing things. A management posture and position relative to its environments.

Formal strategic management: Consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. Intended patterns of actions that a small enterprise implements in the course of running the business.

Informal strategic management modes: Unintended and unstructured decisions and actions that an entrepreneur undertakes in the course of running the business. These actions may be reactive or emergent but may be adopted as the firm's strategies when they help realize organizational targets. These actions were not in the original plans of the entrepreneur, but rather, an alignment to environmental dynamism.

Performance: Ability of an organization to achieve its objectives and meet the needs of its various stakeholders measured in this study by higher sales turnover and number of employees in the establishment

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The concept of strategic management is viewed differently by scholars of small enterprises. Indeed, an increasing amount has been written on strategic management for small enterprises (SEs), and a number of modes of strategic management have been proposed. Each of these modes, however, is unique in terms of its composition, logic and emphasis and there seems to be no consensus on how strategic management should be conducted or on whether a given plan is suitable for every small business (Hill & Gareth, 2012). Two contentious modes prevail: the Formal Strategic Management Modes (FSMM) and the Informal Strategic management Modes (ISMM).

Proponents of formal strategic management modes conform to the conventional wisdom that the management models that managers use, the patterns in actions they develop, the positions and postures they establish and therefore the performance levels they achieve must all flow from prescribed models (Mendel & Günther, 2012). The conventional wisdom holds that successful organizations are those that conform to a typical configuration of key attributes such as purpose or mission, strategies, stringent objectives and implementation procedures, managerial roles and leadership styles, as well as predetermined control systems (Stacey, 2010). This appropriate configuration then makes it possible for an organization to determine the direction it should take to a fixed point in the long term future and to maintain controlled movement along the selected path to that point (Gica, 2012). This notion has been reinforced by classical strategic management theorists such as Ansoff (1965); Hofer

and Schendel (1978); Porter (1985); and more recently, Pearce and Robinson (2011) and Ojera, (2011).

Proponents of informal strategic management modes, however, have viewed strategic management as an informal, unstructured and instinctive decision making course that does not bear the rational analytical systems of the prescriptive approaches espoused to the small enterprises by classical theorists. Key proponents here include Mintzberg (1978), Quinn (1980), Carson (1990), Verreynne (2006), Bryson (2011) and Kiruja (2011). They observe that the absence of “formality” does not mean the absence of a management process and point out that decision making process is normally present whether or not a formal process is used. Mintzberg, Ahlstrand and Lampel (1998) describe this type of management as a management posture and position in which an organization adopts a particular form of structure matched to a particular type of context which causes it to engage in particular behaviors that give rise to a particular set of strategies. It is informal, unstructured, and irregular, supported by insufficient and ineffective information, usually obtained through informal sources, and reactive rather than proactive but which form patterns that inform future strategic decisions (Moyeen, 1997).

The informality in the management of small enterprises has been the main contention floated by classical strategic management proponents for their under-performance. However as Quinn (1980),Thompson, Gamble and Strickland (2010) and Hill and Gareth (2012) observe, the most effective strategies emerge sequentially from an iterative process in which the organization probes the future, experiments, and learns from a series of partial and incremental commitments without formulations of total

strategies. Mintzberg (1978), and Gibbons and O'Connor (2005) support this view when they point out that strategies form very differently from those assumed by prescriptive models espoused by classical theorists and that strategies can be emergent. Hill and Gareth (2008) note that strategies may be viewed as organizational when they come together as patterns and affect organization-wide behavior. In this context, informal strategic management is defined as an unstructured, stochastic and experiential decision making process that are realized and adopted (Mintzberg, Ahlstrand and Lampel, 1998). Indeed Lumpkin and Dess (2006) and Mutua (2012) argue that formal planning has no potential payoff for small firms because decision making in small firms is stochastic and unstructured rather than visionary and long range. According to Hill and Gareth (2008), small firms seldom have the economic or political power to control their environment. They have to be flexible and adjust to changes in the resource situation of their environment.

While this debate on whether it is formal strategic management or informal strategic management that leads to better performance of small enterprises continues, the small enterprises continue to suffer. Indeed scholars have mulled over the informality of small enterprises with no particular solution in sight. For example, Menzel and Günther (2012) observed a lack of formal strategic management in SEs in their two year in-depth qualitative single-case study of 65 employees working in a medium-sized enterprise in Germany. Kiruja (2011) also carried out a survey on Strategic management practices in small and medium enterprises at Kariobangi Light Industries, Nairobi and also concluded that most of the firms surveyed did not have any formal strategic management mechanisms. This finding is echoed by Mutua (2012) while seeking to determine the strategic planning practices adopted by micro

and small business in Kisumu Central Business District. The study found that micro and small firms practiced strategic planning to varied degrees. While these studies had interesting findings on the strategic management practices of small enterprises, none has focused on the informal strategic management modes that could provide the panacea for small enterprise performance.

Small enterprises are the key engines of employment; alleviating poverty and improving quality of life (Gomez, 2008). SEs, by number, dominate the world business stage. More than 95% (125 million) of enterprises across the world are SEs, accounting for approximately 60% of private sector employment (BIS, 2012). For example, SEs has become increasingly important in Asia. In china, they account for 95 percent of all Chinese enterprises and have played an indispensable role in invigorating the national economy and maintaining social stability by promoting market competition, increasing job opportunities and pushing forward technological innovation (Huang, 2011). Approximately 90% of enterprises in Indonesia are SEs (Zainol & Ayadurai, 2011). There were 4.8 million businesses in the United Kingdom (UK) in the year 2012. Over 99% of these businesses were small or medium sized businesses accounting for 53.9% of employment in the UK private sector. In the United States of America, 75% of the new jobs were created by small enterprises (Koshy, 2010). However, despite their contribution to the world economy, confusion still reigns as to the key performance indicators of small enterprises. While some countries have tied performance to qualitative characteristics of the small enterprises such as the number of employees in the establishment, others predominantly use financial measures such as profit, productivity, and return of investment to gauge the performance of the small enterprises (Gresty, 2010). This study adopted the key

performance indicator used in Kenya, which describes performance of small enterprises in terms of growth in size and sales turnover (Wanjohi, 2009).

Policy towards the development of the small enterprise sector in Kenya has also varied since independence. The Sessional Paper No. 10 of 1965, released at independence, advocated a mixed economy approach to economic management. The Government policy sought to bring about the indigenization of the Kenyan economy by encouraging private enterprise (GOK, 1965). The Government intervention was in the form of financial, infrastructure, legal and regulatory support to the sector. A number of government financial institutions were created with this specific goal. The Kenya Industrial Estates, set up in 1967, had the objective of achieving industrialization by providing infrastructure and financial support to small indigenous entrepreneurs to enter into the manufacturing sector (House, Ikiara, & McCormick, 1990). Despite the limited success in creating modern small enterprises envisioned by the planners, official recognition of the informal sector came only after the ILO report of 1972 which extolled the virtues of the sector and its employment generation potential (Ronge, Ndirangu & Nyangito, 2002), but it was not until 1986 that a firm commitment to its growth and development was made (GOK, 2007).

Small enterprises are now among the major contributors to the socio-economic development of the nation; having grown tremendously over the last two decades despite the implementation bottlenecks (Stevenson & St-Onge, 2005). According to the Government of Kenya (2003), the small enterprise sector share of total nonagricultural employment in 1999 was 68.2 percent up from 48.9 percent in 1993. In 2007, employment in the small enterprises sector accounted for approximately 79

percent of total employment and an estimated 18 per cent of country's Gross Domestic Product ((UNDP, January, 2006, Government of Kenya, 2008). In the year 2012, the small enterprise sector created up to 80% of the total employment and contributed between 18 to 20% to the GDP in Kenya (Republic of Kenya, 2012). However, according to Pearce and Robinson (2011) small enterprise operations are still predominantly a local or a regional market rather than a national or international market and they tend to have a very limited share of a given market. The equity of small firms is generally owned by one person (Sarwoko, Surachman, & Hadiwidjojo, 2013), or, at most, a very few people whose management style is greatly personalized (Bangladesh, Islam, Khan, Obaidullah, & Alam, 2011). Besides, the small businesses face external environmental forces that are beyond their control. These forces come in the form of political, economic, social, technological, environmental and legal factors and can rarely be influenced by management decisions since they are external to the company (Morrison, 2006; Gica, 2012).

Empirical studies on factors affecting small enterprise performance has revealed interesting findings. For example in Bangladesh, Islam, Khan, Obaidullah, and Alam (2011) carried out a survey to find out whether firm characteristic affect the business success in small and medium-sized enterprises and found that entrepreneur's characteristics are significantly related to the business success of SEs in Bangladesh but the characteristics of small enterprises were found to have no significant effect on the business success of the SEs. However, Sarwoko, Surachman, and Hadiwidjojo (2013) found performance of small business to be determined by the characteristics of the owner/manager. Gica (2012) on the other hand found the external analysis component of the overall planning indicator to be positively correlated with a higher

level of objective achievement in his survey of 200 SEs in North Western Romania. To date, there seems to be no agreement as to the factors that lead to better performance of SEs because, while the empirical studies have delineated factors that affect small enterprise performance, no study has attempted to explore which of the factors dictate the particular informal strategic management posture a small enterprise owner would choose in order to leverage the performance of his/her enterprise.

Other than their high failure rates, the majority of the SEs are also not growth prone as most start small and remain small (Ministry of Planning and National Development, 2003). According to Mead (1999), fewer than 20% of SEs with four or less workers grow at all. Jiang (2009) also found that 50% of total net jobs in the small enterprise sector are created by a mere 4% of these firms. Gomez (2008) reports a similar pattern in Sub-Saharan Africa in his observation that the small enterprises that significantly contribute to employment growth are in fact just 1% of the SME universe. The ILO (2004) report supports this view when it observes that a majority of small enterprises in Ethiopia, Zambia, Tanzania and Kenya start very small and rarely grow beyond five workers. Lingelbach (2005) also notes that about 75% of new enterprises do not survive the first five years, and of those that do survive, just about 20% grow at all. Of those that grow, just about 1% to 4% actually develop to the next size category. Gomez(2008) concludes that 80% of SEs stay in business without growing at all and are focused on making only enough income to keep them running and meet the basic needs of their households. This failure and lack of graduation to the next size category paints a very gloomy future for small enterprises. However, it is clear that a few small enterprises do grow to the next size category. Therefore, a study of the relationship between the informal strategic management modes the SEs employ

and the performance of the enterprises would add empirical knowledge in an area that has received no attention from scholars of strategic management.

The inability of SEs to grow is not for lack of trying by the principal stakeholders. Other than the Government, there are about 105 institutions with support programs and schemes for SEs sector in Kenya. These include commercial banks, and non-governmental organizations involved in small enterprises training and mentoring, research and access to financing among others (Ronge *et al*, 2002). But with a largely unstructured operational environment, it is not clear which strategic management modes small enterprises in Kenya, and in Kisumu County in particular, employ nor are the factors that influence them to choose particular strategic management modes obvious. Tenai, Bitok, Cheruiyot and Maru (2009) carried out a study on small and medium enterprises strategies and competitiveness for international trade in Kenya. They concluded that the nature of the business environment dictates the way the firm is operated. Hence the small firm strategy may be influenced positively if the environmental factors positively moderate it. Strategic management is unlikely to be strong if the firm is weak internally thus hampering its ability to capture opportunities and satisfy them in a dynamic and uncertain market.

This scenario has fueled the continual enigmatic relationship between formal and informal strategic management modes leading to the study contention on whether strategic management leads to superior performance of organizations. In a study to find out factors influencing performance of youth group micro and small enterprises in Kisumu West District, Kisumu County, Okungu (2012), concludes that even though most youth groups MSEs in Kisumu West district perform commendably,

most of them die within the first three years of operation despite having several opportunities which if exploited can enhance their profitability and sustainability. For example, the government of Kenya established the Youth Enterprise Development Fund (YEDF) in June 2006 as one of the strategies of addressing youth unemployment. The Fund is one of the flagship projects of Vision 2030, under the social pillar. The Fund is a strategy of gainfully engaging the youth, a majority of whom are unemployed (Republic of Kenya, 2007). This vision is to be achieved through provision of credit and equipping the youth with appropriate skills to creatively engage in economically viable activities (Youth Enterprise Development Fund, 2012). By the year 2012, the Fund had advanced loans worth Kshs. 5.2 billion to 144,000 youth enterprises. About Kshs. 545.3 million was advanced to 12,407 group projects and Kshs. 54.2 million was disbursed to 2111 individual enterprises at the constituency level. Through financial intermediaries, the Fund financed 129,385 group and individual enterprises to the tune of Kshs. 4.6 billion in the year 2011 (Amenya, Onsongo, Guyo, & Onwong'a, 2011). Besides ensuring that the youth have adequate business skills, YEDF also assists the youth in identifying and tapping into business opportunities while embracing modern business management techniques. To date the Fund has provided entrepreneurship training to over 200,000 youth and supported two national business plan competitions in which over 10,000 youth entrepreneurs have been trained and winners awarded. However, according to Amenity et al (2011) a majority of groups still find it difficult to repay their loans. Besides, the YEDF is yet to make an impact in society. This is despite the famed management training and provision of funds to the small businesses. The foregoing creates doubt as to whether the continual formal strategic management skills, currently being espoused for the small enterprise sector does not need rethinking. It is

therefore imperative that the relationship between informal strategies currently being deployed by the youth run small enterprises be critically examined. To do this, this study makes particular reference to small enterprises run by YEDF beneficiaries in Kisumu County.

Kisumu County is one of the 47 counties in Kenya. It is located in the Western side of Kenya. The county was chosen because it typifies the other counties in Kenya in terms of YEDF administration. It is also endowed with a myriad of business opportunities ranging from agricultural to small scale commercial activities. However, these activities have not yielded much benefit to the communities in the county. It is estimated that over 60 per cent of the population are poor compared with the national average of 46 per cent as at 2006. The main causes of poverty include HIV and AIDS pandemic, collapse of local industries, unemployment, low agricultural and fish production. Food insecurity, inaccessibility to affordable healthcare, lack of proper storage facilities, erratic and unreliable rainfall, poor and inaccessible road network, frequent floods, problems with the sugar, rice, cotton and fish industries, lack of title deeds, poor water and sanitation systems, malaria, and water borne diseases worsens poverty situation in the county(County Government of Kisumu, February 2015).

Despite efforts both by the National Government and the County Government, Youth run small enterprises productivity in Kisumu County remains low and their sizes remain small (Bloom and Van Reenen, 2010; Okungu, 2012). Previous related studies have examined the relationship between formal strategic management and performance of small enterprises, but the relationship between informal strategic management and performance of the youth run small enterprises remains largely

unknown. For example, Turgay and Kassegn (2012) surveyed small and medium size enterprises in Northern Cyprus and found that the SEs that displayed planning in their approach to the management of their ventures experienced a higher level of financial performance as compared to SEs who displayed no planning intensity. Sola (2012) also affirmed that there is a substantial level of strategic management approach practiced, though to varying degrees, in small scale industries in Nigeria. In another study survey in Cape Town, South Africa, Le Roux (1998) also found a positive relationship between strategic management and increased performance. However, none of the studies sought to understand the relationship between informal strategic management modes and performance of small enterprises, especially with specific reference to youth run small enterprises. This study seeks to understand this informality and to recommend the informal modes, if any, that can be used in the unstructured environments of SEs to the betterment of their performance

1.2 Statement of the Problem

Hitherto, both theory and practice have focused on formal strategic management as a means of leveraging the performance of small enterprises. However, formal strategic management practices adopted from the formal sector have not produced the intended effect. Indeed, the small enterprise in Kenya continues to suffer high failure rates and stunted growth. Three out of five small businesses (75%) still fail within their first five years of operation, while the bulk of the surviving ones have remained the same size as when they were started. This situation is replicated among enterprises run by youths in Kisumu County. This is despite the reality that small enterprises are important for economic growth. In the year 2012, the small enterprise sector created up to 85% of the total employment to the GDP in Kenya. Prior scholars have

prescribed formal strategic management modes but the small enterprises continue to, not only fail, but to depict informal strategic management modes. Scholars have mulled over this failure with some pointing out the informal nature of SE management as being responsible for the SE predicament. Others recommend formal strategic management modes as a panacea for the SEs. However, few studies have been done to examine what influences the SEs to employ an informal mode neither whether the dismal performance of SEs is due to other factors unrelated to the management of the enterprises, especially in the context of a developing country like Kenya. Besides, the relationship between the elements of the informal strategic management modes and the performance of small enterprises is still largely unknown. Without this information, the SEs could continue to suffer stagnation and high failure rates. Therefore, this study sought to explore what contribution informal strategic management makes to the effective performance of small enterprises in Kisumu County with reference to youth run enterprises.

1.3 Research Objectives

This study investigated the influence of informal strategic management modes on performance of small enterprises in Kisumu County by taking a study of SEs run by youths, with a view of recommending the strategic management modes exclusive for SEs in Kenya.

The specific objectives were:

1. Find out informal strategic management modes employed by Youth Run small enterprises in Kisumu County that could leverage their performance.
2. Establish Factors influencing Youth Run small enterprises in Kisumu County to choose informal strategic management modes to leverage their performance

3. Establish the relationship between the informal strategic management modes and performance of Youth Run small enterprises in Kisumu County

1.4 Research Question and Hypotheses

For objective one, the research question was:

What are the informal strategic management modes being employed by small enterprises in Kisumu County that could leverage their performance?

For objective two and three, the study hypothesized as follows:

- I. *Personal Entrepreneurial Characteristics (PEC), Environmental Characteristics (ENV), and Firm Characteristics (FIRM) are not significant determinants of choice of a Deliberate strategic management mode among Youth Run small enterprises in Kisumu County*
- II. *Personal Entrepreneurial Characteristics (PEC), Environmental Characteristics (ENV), and Firm Characteristics (FIRM) are not significant determinants of choice of a Reactive strategic management mode among Youth Run small enterprises in Kisumu County*
- III. *Personal Entrepreneurial Characteristics (PEC), Environmental Characteristics (ENV), and Firm Characteristics (FIRM) are not significant determinants of choice of a Emergent strategic management mode among Youth Run small enterprises in Kisumu County*
- IV. *There is no relationship between the informal strategic management modes and performance of the Youth Run small enterprises in Kisumu County?*

1.5 Scope of the Study

This study investigated the influence of informal strategic management modes on the performance of youth run small enterprises in Kisumu County, Kenya. It was conducted in Kisumu County using a cross sectional survey research design, on a stratified and purposive sample of 131 SEs, data being collected using questionnaire and interview methods in May 2014 from Youth run SEs supported by YEDF. Data was analyzed using weighted means, multiple regressions and Pearson's Correlation Coefficient. Only SEs that were started by the year 2007 and were being supported by YEDF were included in the study.

A decision was also made about the geographical area to be covered for the purpose of the study. The samples were selected from Kisumu County, Kenya. Ideally, the study should have covered all the counties in Kenya but financial constraints restricted the study to only one county. However, because of the homogeneity of the administration of the YEDF across the country, the findings in Kisumu County could still be generalizable across the counties in Kenya.

Further, although the study population is all the youth run small enterprises in Kenya, this study has focused on small enterprises run by the YEDF beneficiaries only. Because of the nature of the study, all the small enterprises included in the study had to have had strategic management training and must have received funds for running their businesses. This was in order to control for variances in exposure to strategic management training and financial limitations.

1.6 Significance of the Study

The study has contributed to the field of strategic management in several significant ways. First, it is the only study that has attempted to investigate an empirical relationship between each of the informal strategic management modes and the performance of small enterprises. As such, it has produced novel information on the areas which makes it useful as a reference material to students of strategic management, teachers, researchers in the areas of strategic management and the general readers.

Moreover, as a result of the study, the relationship between informal strategic management and performance of SEs is now known. The study found that the small enterprises did not employ the formal modes they were currently being exposed to. Instead, they used both formal and informal modes of strategic management but they were more reactive in their management. The study also found that out of the factors influencing whether a small firm employed strategic management, personal entrepreneurial characteristics played a leading role. The personal entrepreneurial characteristics have been suggested. To this extent, the SEs, donors of SEs projects and other stakeholders are now able to identify the suitable mix of informal strategies that can produce performance. With the model in place, trainers can now determine correct mix of strategies to attain peak performance without having to rely on conventional methods. Further, the strategies could be adopted into policies by the ministries concerned especially the ministry of trade and the ministry of industrialization and by the YEDF as guiding principles for enhanced performance of SEs.

Lastly, it is now clear, based on empirical findings, the SEs need not be modeled like formal enterprises. They work in their unique environments and require unique models which this study has availed. Management being the basic foundation for improved performance, this study could provide the basis for improved performance of SEs. This is a sure way of turning the economy around as SEs are the backbone of local, national and global economies.

1.7 Conceptual Framework

Guided by the theory of emergent and reactive strategies of Mintzberg (1985), the study will be modeled on the conceptual framework in figure 1.

The dependent variable in this study is small enterprise performance. Performance can be characterized as the small enterprise's ability to create acceptable outcomes and actions (Pasanen, 2003). However, performance has been conceptualized, operationalized, and measured in several ways (Jiang, 2009). Often, performance has been measured by growth (turnover, number of employees, market share), profitability (profit, return on investment), and survival (Dess & Robinson, 1984). In this study, performance was measured by sales turnover. While growth in sales represents one of the most fundamental goals of businesses, it is also an accurate and available measure of performance (Dess & Robinson, 1984). The study conceptualizes that when performance improves, then the informal strategies will have been realized, that is, a higher turnover signifies a realization of either an emergent, reactive or a deliberate strategic management mode

The independent variable for this study is the informal strategic management mode. Three informal strategic management modes are pertinent in business management literature: emergent, reactive and deliberate (Mintzberg, Ahlstrand & Lampel, 1998). According to Mintzberg (1985), emergent strategies are strategies which appear without preconception, since many small enterprises tend to focus on daily operations or operational activities, with strategies emerging from practice. However, in the face of a turbulent business environment or crisis, the SE manager can employ a reactive mode of decision making and implementation. A reactive strategy making and management mode involves unplanned actions by management due to pressures from the environment that are later adopted as strategies if the actions were found to work towards the achievement of the goal. Nevertheless, the SE manager will often come up with short term deliberate strategies in the course of managing the small business. In this study, deliberate, emergent and reactive strategies are conceptualized as the combination of informal strategies that may be viewed as organizational when they are modeled together as patterns to improve the performance of the enterprise. Further, deliberate strategies are measured by the presence of formal written down plans and strict adherence to those plans, while the emergent strategies are measured by absence of formal plans and reliance on learning from past experiences. The reactive strategies are measured by both absence of formal plans and reliance on instincts as strategic issues arise.

Relations between variables are often more complex than simple bivariate relations between a predictor and a criterion. According to Baron & Kenny (1986), Mediation is a hypothesized causal chain in which one variable affects a second variable that, in turn, affects a third variable. Baron and Kenny (1986) proposed a four step approach

in which several regression analyses are conducted and significance of the coefficients is examined at each step. Of particular interest to this study was the question as to whether other factors mediate the choice of informal strategic management modes employed by small enterprises in Kisumu County.

In small enterprises, successful strategy formulation and implementation is related to the firm factors, owner's personal factors and the external environment in which the small enterprise operates (Menzel & Gunther, 2012). In this study, firm characteristics are measured by scope of operations in terms of markets served-Local, regional or international; scale of operations in terms of production or operational capacity; Ownership structure in terms of decision making system; and size in terms of small number of employees. The Personal Entrepreneurial Competency (PEC) test is used to measure owner's personal factors. The test contains ten questions that have been found to measure the competency of an entrepreneur (see appendix 3). The macro environment is measured using the political, Economic. Socio-cultural, technological and ecological factors (PESTE model). These are the intervening variables to the realization of performance as a result of the strategic management modes employed by the entrepreneurs. Figure 1 presents this relationship.

The Figure shows that a small enterprise may employ any of the informal strategic management modes. The realization of the adapted mode may lead to higher performance of the enterprise. However, the realization of performance is possible if the firm characteristics and the external environment are favorable, and the entrepreneur has the competency to harness environmental opportunities. The study therefore conceptualizes that the correct choice of informal strategic management

mode would lead to higher performance, but this choice of strategic management mode may be mediated by other factors.

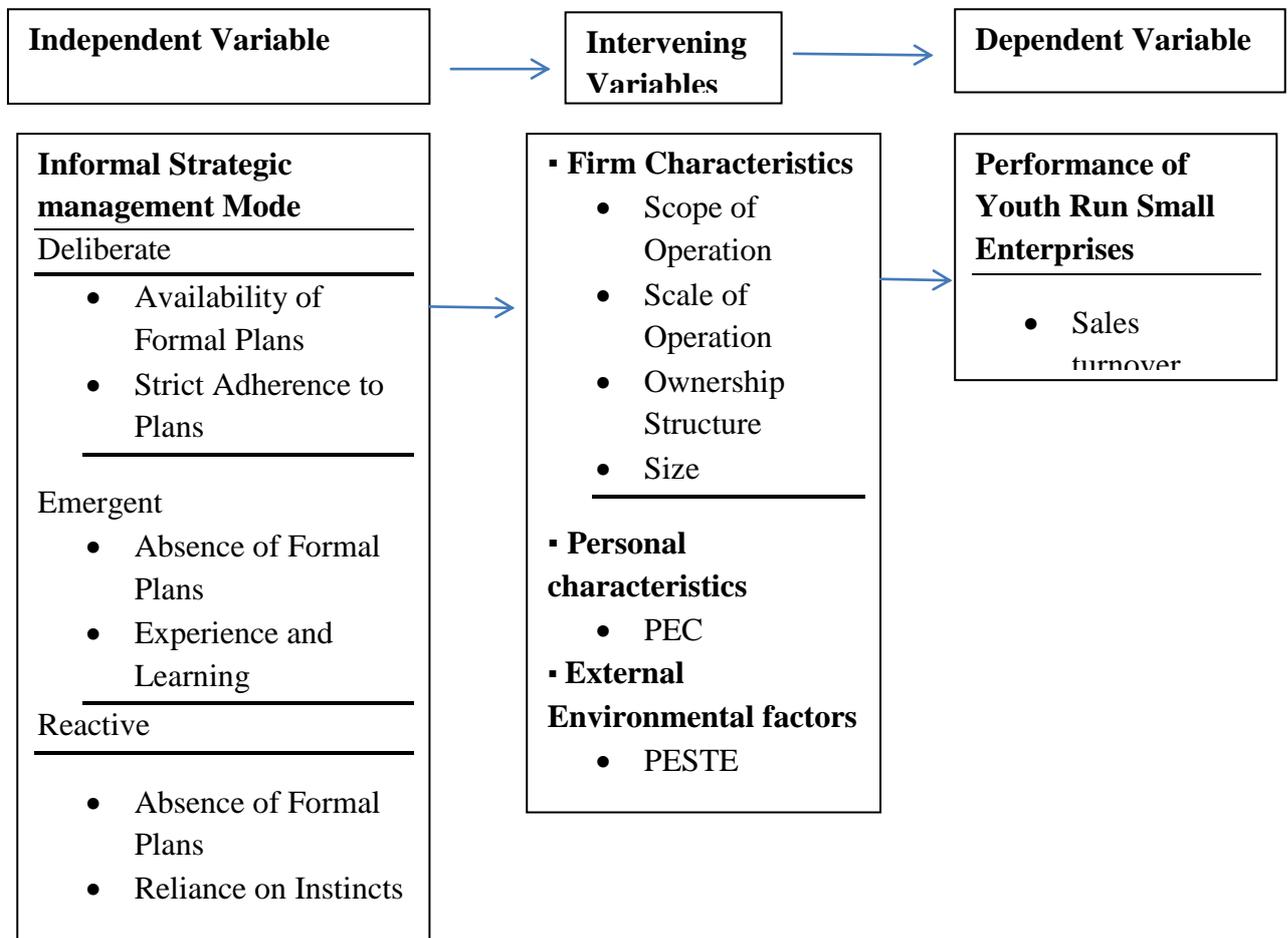


Figure 1: Conceptual Framework on the Interaction between Informal Strategic Management Modes of SEs and Performance (Adapted from Menzel & Günther, 2012)

CHAPTER TWO

LITERATURE REVIEW

This section is divided into 3 broad sections: theoretical review, empirical review and summary of gaps in the literature review. The theoretical review section explores literature pertaining to informal strategic management modes while the empirical review section delves into studies related to the objectives of the study. Finally, identified gaps are presented in the summary section. Our aim is to contribute to an area of literature which is of increasing significance but relatively underdeveloped in terms of the scholarly reviews and critiques.

2.1 Theories and Concepts on Strategic Management

The strategy and strategic management literature in small enterprises borrows largely from the business and corporate literature. Many authors have applied the word strategy differently. For example, while Craig and Grant (1993), drawing from the Greek word Strategies from the composition of army and lead, define strategy as the art of war, especially, planning of movements of troops and ships into favorable positions, the Oxford Pocket Dictionary (2011) defines strategy as the determination of the long term goals and objectives of an enterprise, and the courses of action and allocation of resources necessary for carrying out these goals. Chandler (1962) and Hill and Jones (2007) define it as the policies and key decisions adopted by management that have major impacts on financial performance. To Ohmae (1983) and David (2006), it is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in, and the kind of company it is or is to be. However, Quinn (1978) and Mintzberg (1978, 1987) see strategy as emerging over time in an

incremental way. This incremental way is not random but logical as top managers make changes and take strategic decision as they learn by implementing small steps of strategies. There is constant critical evaluation of all the decisions that are taken to come to a realized strategy for businesses. Thus, emergent strategies are not necessarily bad and deliberate strategies good; effective strategists mix these in ways that reflect the conditions at hand, notably the ability to predict as well as the need to react to unexpected events (Mintzberg, Ahlstrand & Lampel, 1998).

Strategic management on the other hand is conventionally defined as a formal process whereby managers establish an organization's long term direction, set specific performance objectives, develop strategies to achieve these objectives in light of all the relevant internal and external circumstances, and undertake to execute the chosen action plans (Freeman, 2010). As might be inferred from this definition, strategic planning is a subset of strategic management. Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy (Allison and Kaye, 2005; Crosby, 2011). According to Drucker (1974), the prime task of strategic management is thinking through the overall mission of a business and asking the question; what is our business? This leads to setting of objectives, development of strategy and making of today's decision for future benefits. Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. This is as opposed to the alternative thinking which sees strategic management as involving experiential learning with an organization adapting to changes in the marketplace. The view is that formalized processes cannot produce strategies effectively and it is not realistic to think that we can predict market positions in the

future. If structured and managed properly, organizations can learn and adapt to changes in the market. Strategies are therefore determined in an unstructured and informal way. It is what employees do on a daily basis that forms strategic choices.

The two views on strategic management, therefore, present two modes of strategy making and management. This study sought to examine the informal strategic management modes that could provide the alternative management models that could influence better performance of SEs. A strategic management mode was operationalized as a management posture and position relative to its environments. The next section reviews literature on the schools of thought that gave rise to the contentious modes of strategic management pertinent to this study.

2.1.1. Schools of thought Prevalent in Strategic Management

Ten schools of thought have been espoused in strategic management thought. For the purpose of this study, the ten schools are summarized into three, namely; the prescriptive, the descriptive, and the configuration school.

The prescriptive school of thought was the first school proposed as the conventional strategic management mode recommended for small enterprises for better performance. It combines three different schools of thought: The Design School, the Planning School, and the Positioning School. These three schools are prescriptive in nature-more concerned with how strategies should be formulated than with how they necessarily do form. Proponents include: Chandler (1962), Porter (1985), Chaffee (1984), Miles and Snow (1978) and Pryor, White and Toombs (1998). It has been reinforced by later writings of Pearce and Robinson (2009), Stacey (2007),

Thompson, Gamble and Strickland (2008) and Ojera (2011). This mode is linear, methodical, directed, and sequential and action involves detailed planning. According to this linear view, strategy consists of integrated decisions, actions, or plans that will set and achieve viable organizational goals. Both goals and the means of achieving them are results of strategic decision. Indeed strategic management has commonly been portrayed as revolving around the discrete phases of formulation, implementation, and control, carried out in almost cascading steps. This bias is heavily reflected in practice, particularly in the work of corporate and governmental planning departments as well as of many consulting firms.

This conventional school of thought has been criticized by the descriptive schools of thought. The descriptive school loosely combines six schools of thought each of which have appeared at different stages in the development of strategic management. According to Mintzberg, Ahlstrand and Lampel (1998) the six schools have been concerned less with prescribing ideal strategic behavior than with describing how strategies do, in fact, get made. While some writers have described the process in terms of the creation of personalized vision by the great leader (the Entrepreneurial School), others have understood it as the process of concept attainment in a person's head (the Cognitive School). For the Learning School, the world is too complex to allow strategies to be developed all at once as clear plans or visions. Hence strategies must emerge in small steps, as an organization adapts, or learns. Similar to this, but with a different twist, is the power school, which treats strategy formation as a process of negotiation, whether by conflicting groups within an organization or by organizations themselves as they confront their external environments. While the Power School focuses primarily on self-interest, the Culture School promotes

common interests. The Culture School considers strategy formation to be rooted in the culture of the organization. Hence the process is viewed as fundamentally collective and cooperative. Strategy formation is a process of social interaction, based on the beliefs and understandings shared by the members of an organization. An individual acquires these beliefs through a process of acculturation, or socialization, which is largely tacit and nonverbal, although sometimes reinforced by more formal indoctrination. Finally, there are the proponents of an environmental school; organization theorists who believe strategy formation is a reactive process in which the initiative lies not inside the organization, but with its external context. Accordingly, they seek to understand the pressures imposed on organizations (Mintzberg, Ahlstrand & Lampel, 1998).

The Configuration School sees strategy formation as a process of transformation. Most of the time, an organization can be described in terms of some kind of stable configuration of its characteristics: for a distinguishable period of time, it adopts a particular form of structure matched to a particular type of context which causes it to engage in particular behaviors that give rise to a particular set of strategies. These periods of stability are interrupted occasionally by some process of transformation, a quantum leap to another configuration. These successive states of configuration and periods of transformation may order themselves over time into patterned sequences (Mintzberg, Ahlstrand & Lampel, 1998). The key to strategic management, therefore, is to sustain stability or at least adaptable strategic change most of the time, but periodically to recognize the need for transformation and be able to manage that disruptive process without destroying the organization. Accordingly, the process of strategy making can be one of conceptual designing or formal planning, systematic

analyzing or leadership visioning, cooperative learning or competitive politicking, focusing on individual cognition, collective socialization, or simple response to the forces of the environment (Balogun, 2007).

While these debates on schools of thought continue, no study has delineated the actual informal strategic modes that can leverage the performance of organizations, much less the performance of small enterprises. This study anchors itself on the Learning School of thought.

2.1.2. The Elements of the Learning School of Thought

The deliberate strategic management mode (DSMM) was proposed as the only acceptable management mode for all enterprises. The DSMM is linear, methodical, directed, and sequential and involves detailed planning. According to this linear view, strategy consists of integrated decisions, actions, or plans that will set and achieve viable organizational goals. Both goals and the means of achieving them are results of strategic decision. However, there is the dichotomy in the trains of thought among theorists as to the modes of strategic management of organizations. The DSMM perspectives have been criticized to present an idealistic view of the strategic management process, far removed from the practical and realistic side of management in organizations (Gibbons & O'Connor, 2005). According to the proponents of other forms of strategic management, strategy is not a fixed plan. It changes systematically at pre-arranged times and solely at the will of the decision maker. The process of planning produces an indented plan, but which does not always become practice.

According to the Learning school however, strategies emerge as people, sometimes acting individually but more often collectively, come to learn about a situation as well

as their organization's capability of dealing with it. Eventually they converge on patterns of behavior that work (Lindblom, 1959; Quinn, 1980). Hofer's (1973) and Chaffee's (1985) adaptive model of strategy typifies the emergent and reactive mode of strategy making and implementation. According to this model, the organization is expected continually to assess external and internal conditions. Assessment then leads to adjustments in the organization or in its relevant environment that will create satisfactory alignments of environmental opportunities and risks, on the one hand, and organizational capabilities and resources, on the other. The concern is the development of a viable match between the opportunities and risks present in the external environment and the organization's capabilities and resources for exploiting these opportunities (Nagel, 1981; Ansoff *et al.*, 1991). This mode has been viewed as more suitable for small enterprises. Figure 2 summarizes the interaction between the strategic management modes and provides the guiding theory of this study.

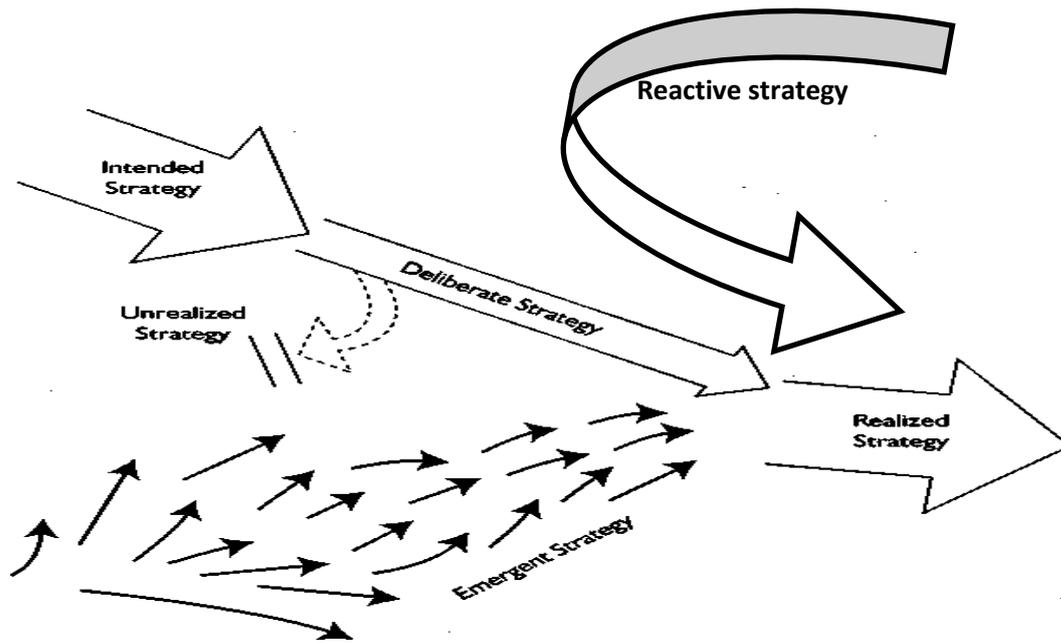


Figure 2: Flow of Emergent, Reactive and Deliberate Strategies towards Realization of the Strategy Firm Performance (adapted from *Strategy Safari; a Guided Tour through the Wilds of Strategic Management*, by Mintzberg, Ahlstrand, & Lampel. 1998, United States of America: the Free Press

The figure 2 depicts a culmination of the three modes leading into a realized strategy. Mintzberg et al. (1998) propose that small enterprises often react to threats from the business environment. When the reaction toward the threat succeeds, this reaction becomes a mode of operation for similar future threats, that is, it becomes a realized strategy alongside deliberate strategies. Further, the stock of knowledge arising from daily practice will also enable the small enterprise managers to learn from doing and the success deriving from practice will become part of the deliberate strategy to become realized strategies. Each of these modes is presented below:

Quinn (1980) suggests that the most effective strategies of major enterprises tend to emerge step by step from an iterative process in which the organization probes the future, experiments, and learns from a series of partial (incremental) commitments rather than through total formulations of total strategies. Rather than growing like ‘tomatoes in a hothouse’, strategies tend to grow more like ‘weeds in the garden’. Like weeds, strategies can spring up anywhere, and these strategies may be viewed as organizational when they come together as patterns and effect organization-wide behavior (Mintzberg & McHugh 1985; O'Regan & Ghobadian, 2004). Consequently, the role for managers given this context is not to preconceive strategies but instead to recognize them and to intervene when appropriate (Poole, 2000). No amount of elaboration will ever enable formal procedures to forecast discontinuities, to inform managers and to create novel strategies (Mintzberg, 1994). This is because hard data cannot miraculously conceive creative or novel strategies, as many in the rational school seem to assume. Second, managerial work is more simultaneous and “messy” than orderly and sequential, so that strategy-related managerial work must similarly take place in this disorderly setting. Managers thus cannot simply sit in a quiet place and develop the kinds of strategies required in contemporary organizations because strategies of an emergent nature may be just as important, if not more so, than deliberate strategies. Joffe (2011) views strategies as the result of an evolving-emergent-process, driven by learning. Strategy emerges when people-individually or collectively-come to learn from a situation and from the particular way the organization uses resources to deal with it. Eventually, common patterns of successful behaviour will emerge and converge, paving the way to common learning. Learning does not follow a pre-established path since it can arise in totally unexpected ways. In spite of this unpredictable behaviour, successful initiatives always create streams of

experiences that can converge into patterns that become emergent strategies that once recognized, should be purposefully formalized and deployed. Therefore, the role of leadership is not to deliberately create strategies but to manage the process of strategic learning from which new strategies can arise.

According to Nonaka and Takeuchi (1995), managers need to get out of the old mode of thinking that knowledge can be acquired, taught, and trained through manuals, books, or lectures. Instead, they need to pay more attention to the less formal and systematic side of knowledge and start focusing on highly subjective insights, intuitions, and hunches that are gained through the use of metaphors, pictures, or experiences. They (ibid) argue that managers must recognize the importance of tacit knowledge (what we know implicitly). Tacit knowledge is personal, context-specific, and therefore hard to formalize and communicate. Explicit knowledge, on the other hand, refers to knowledge that is transmittable in formal, systematic language. The important part is the conversion of tacit knowledge into explicit knowledge. The theory is built around four modes of knowledge conversion as shown in Figure 3.

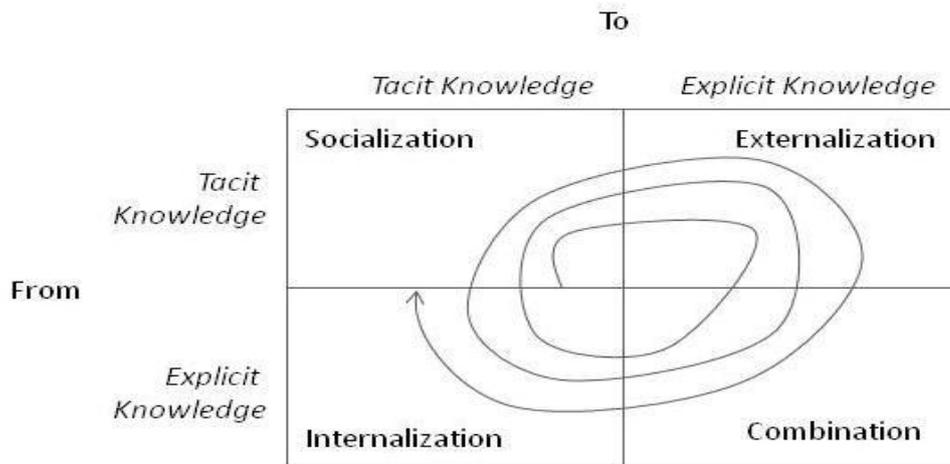


Figure 3: Conversion of Tacit Knowledge into Explicit Knowledge (Nonaka& Takeuchi, 1995).

Socialization describes the implicit sharing of tacit knowledge, often even without the use of language for example, through experience. It is prevalent in Japanese corporate behavior. Externalization on the other hand converts tacit to explicit knowledge, often through the use of special uses of language. Combination, favored in western corporations, combines and passes formally codified knowledge from one person to another. Internalization takes explicit knowledge back to the tacit form, as people internalize it, as in learning by doing. The essence of strategy lies in developing the organizational capability to acquire, create, accumulate, and exploit tacit knowledge|| (Mintzberg et al., 1998). In sum, given the characteristics of SEs, formal strategic management processes are irrelevant to such organizations. To implement formal techniques in these loosely coupled organizations has resulted in, at best, a great deal of waste, trying to fit the square pegs of planning into the round holes of organization (Poole 2000).

Proponents of the reactive strategic management modes postulate that organizations have no real strategic choice. For example, the signal model proposed by Nagel (1981) is based on the philosophy that the manager is not likely to sit down and plan without concrete signals. The manager must perceive a threat, opportunity, strength or weakness indicating a gap that hurts and the need for a plan. The model is presented in figure 4 below.

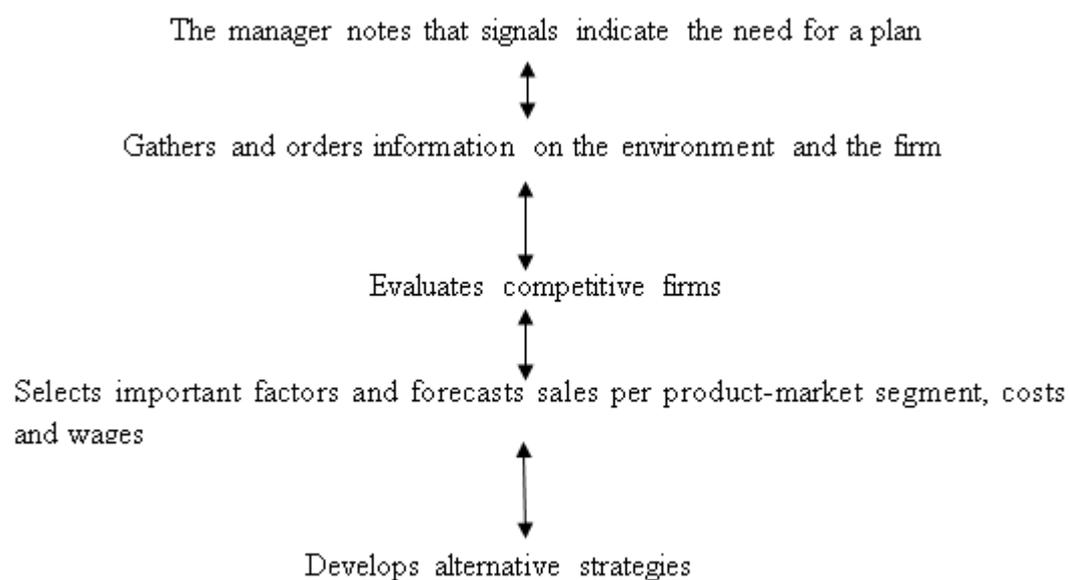


Figure 4: The signal Model (Adopted from Organizing for Strategic Management by Nagel (1984). Long Range Planning, Volume 17, Issue 5, October 1984, pp 71-78)

The signal model is largely realistic in that many owner-managers of small businesses do not plan unless they absolutely have to. The Adaptive Strategy, proposed by Chaffee, (1984) and Metts (2011) is similar to the signal model in its reactionary approach to strategic management. The adaptive model of strategy is concerned with the development of a viable match between the opportunities and risks present in the external environment and the organization's capabilities and resources for exploiting

these opportunities. The organization is expected continually to assess external and internal conditions and respond to it appropriately.

The Strategic Issue Management (SIM) as proposed by Ansoff (1980) espouses the same stream of thought as shown in figure five below:.

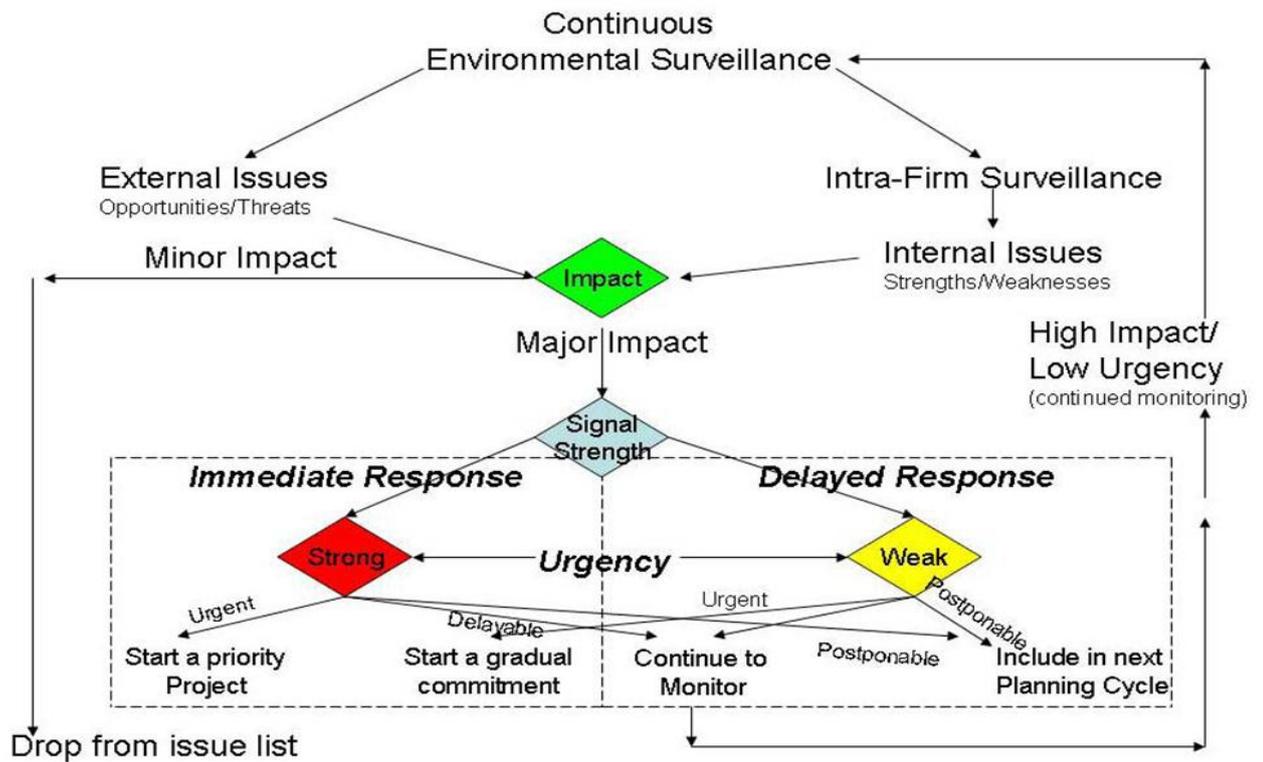


Figure 5: Priority Assignment Using SIM (Adopted from The Scalability of H. Igor Ansoff's Strategic Management Principles for Small and Medium Sized Firms, by Kipley & Lewis, 2009, Journal of Management Research, ISSN 1941-899X, 2009, Vol. 1, No. 1: E6

Ansoff (1980) defines SIM as a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the firm to meet its objectives. Senior management continuously surveys their potential future external environment (technology, economic, political, social, competition) and intra-

firm environment (strengths and weaknesses) from which management will evaluate which issue will likely have a significant effect on the firm. Management evaluates each discontinuity on the firm, its effect, level of urgency, and immediacy of response required. Those determined as high impact on the firm are labeled as strategic issues. Schlesinger (2010) identifies four functions of a Strategic Issue Management system: Early detection of trends and issues in the environment, understanding the discontinuities which are imminent because of the trends and issues, assessment of the resulting strategic implications and taking measures.

The purpose of this study was to explore the influence of informal strategic management modes on the performance of small enterprises. Because of the highly complex environmental context business organizations operate today, a study of the Learning school seems a necessary choice of theory for this study. Studies indicate that the business environment is becoming ever more turbulent (Dess, 2006; Bryson, 2011). Yet confusion still reigns as to the right strategic management mode that would yield superior performance (Hill & Gareth, 2012). While previous research has suggested that as an organization's environment becomes more turbulent, an organization's strategy should become more deliberate, studies that have used the learning school reveal a different scenario (Metts, 2011). In a survey of Hungarian enterprises, Roland (2010) posits that organizational adaptation is the answer to environmental challenges, hence the real challenge for companies is not the pure implementation of ideas as proposed by the design and position schools, but the successful running and construction of the existing and new fields at the same time (Nonaka and Takeuchi, 1995). In another survey conducted among the chief executives of manufacturing organizations in the UK, Veetil (2008) concludes that

the results of the previous studies examining the relationship between strategy formulation and performance and strategy content and performance have been inconclusive. Some studies have reported positive relationships, while others found no relationship. Indeed Atai (2004) investigated the theoretical and empirical relationships between strategy formation, management's role and the business environment within different organizations and at different times using sixteen cases concluded that companies operating in a complex business environment were implementing an intended strategy formation process, while companies operating in a dynamic business environment were identified as having a more emergent strategy process. Amidst this confusion, some scholars have viewed the learning school as offering an informal and unstructured mode of management which could not deliver superior performance (Menzel & Günther, 2012; Stacey, 2010; Quinn, 1980). In contrast, followers of the Learning School aver that strategy should be a result of a collective, constant learning process, based on the assumption that the environment is complex and unpredictable (Thompson, Gamble & Strickland, 2010). From the ongoing, no particular school of thought has been identified as offering the most suitable solution to running a business successfully. However, the Learning School models seem to offer the most viable prospects in the face of environmental complexity. Despite this viability, no study has been carried out to explore the modes in the learning school in relation to performance of business enterprises.

2.2 Review of Studies Relating to Informal Strategic Management in SEs

The theories reviewed have revealed different views on what mode the strategic management process should take. While deliberate (rational) strategic management modes in which analysis and extensive access to information play a pivotal role have

long been viewed as the central premise of strategic management theory, their importance to small firms is now being questioned (Lumpkin & Dess, 2006). The critics argue that traditional perspectives present an idealistic view of the strategy-making process, far removed from the practical and realistic side of day to day management of organizations (Gibbons & O'Connor, 2005). Nagel (1984) stated that, small organizations are less likely to utilize conventional strategic management models and strategic planning concepts than large organizations. Gibb and Scott (1985) also found an absence of formal strategic management in small businesses for the organization, in the large company planning sense.

In a survey of small engineering firms in Bangladesh, Moyeen (1997) found the reasons for lack of formal strategic management as: small business leaders are often more focused on day-to-day operations as opposed to management models and strategic management systems; small businesses have less money to spend on training; and their competitors generally operate the way they do without using management models and implementing improvement systems. Also, entrepreneurs who develop small businesses usually have little desire to establish routine processes and procedures. On the other hand, large organizations often have strategic planning departments, more people who have encountered management models and strategic concepts when they completed their management or other college degrees, more money to spend on training, and large competitors which are strategically-focused and competitively-driven.

Leitner (2007) carried out a longitudinal survey of small and medium-sized enterprises (SMEs) in Austria in two surveys in 1995 and 2003. The purpose of the

research was to find out the role and nature of different strategy-making modes in 91 SMEs. The results revealed that most of the SMEs had, at the same time in at least one area, a deliberate strategy. Interestingly, only one company was found to be a pure emergent strategist. The conclusion was that companies were combining different strategy making modes simultaneously. These findings are consistent with findings of Menzel and Günther (2012) who also observed a lack of formal strategic management in SEs in their two year in-depth qualitative single-case study of 65 employees working in a medium-sized enterprise in Germany. They concurred that strategy-making in small firms is emergent, adaptive and based on personal relationships. While these studies revealed the informal strategic management modes employed by small enterprises in Australia and Germany, they did not tie the informal modes to performance of the small enterprises.

In another survey of 500 small and medium scale manufacturing concerns in the United States of America, Metts (2011) investigated the role of adaptive decision making and its potential significance in strategy making in small and medium-sized manufacturing companies and found that adaptive decision making plays a significant role in the formation of strategy in manufacturing SMEs. He proposes an adaptive decision making where the managers try to avoid uncertainty by searching for reactive solutions to existing problems. However, the study was also conducted in the context of a developed country. Besides, the study did not compare whether the adaptive processes led to better performance than other informal modes of strategic management which this study addresses.

On a slightly different vein, Sidaya (2006) carried out a study whose main purpose was to analyze what strategies small and medium businesses actually adopt when confronted with a major crisis such as a fire, flood or similar catastrophe, and determine what factors proved vital to the survival of the business in Australia. A qualitative approach was taken, which involved interviews and in-depth analysis of twelve case studies. To develop a model, many components of earlier models of strategic management were tested for relevance to the manager during a major crisis in the business. The study found that the owners and managers of small and medium businesses rated the development of a Crisis Management Model (CMM) as a crucial management tool to assist them to fight for the survival of their business following a crisis. Though the study findings were consistent with reactive strategies in the context of strategic issue management, it concentrated only on a one off crisis management and not on the day to day management experience of small enterprises which this study intends to reveal.

In another survey exploring the adoption of formal strategic management practices among the small and medium enterprises within Mombasa County in Kenya, Irungu, (2011) found out that a majority (53%) of the SEs had documented their strategy process in form of written plans and objectives. However, the communication of the plans was not elaborate as 53% communicated by word of mouth indicating an informal communication system. The study thus concluded that the extent of adoption of formal strategic management practices among SMEs within Mombasa County was still low. This study goes a step further by examining why small enterprises resort to informal strategic management practices.

In his study seeking to determine the strategic planning practices adopted by micro and small business in Kisumu Central Business District, Mutua (2012) also found that micro and small firms practiced strategic planning to varied degrees. However, the average rate of adoption of the strategic planning practices still fell below levels required for spur sustained growth and survival especially for those firms within Kisumu Central Business District. The study also revealed a gap between formulation of strategic plans and their implementation. The study noted that SMEs seemed to over-concentrate on short term operational issues as at the expense of long term strategic issues. Further, in a survey on Strategic management practices in small and medium enterprises at Kariobangi Light Industries, Nairobi, Kiruja (2011) also concludes that most of the firms surveyed did not have any formal strategic management mechanisms.

Earlier on, Mintzberg and Waters (1985) had carried out a study which involved 11 intensive cases, including a food retailer, a manufacturer of women's undergarments, a magazine, a newspaper, an airline, an automobile firm, a mining company, a university, an architectural firm, a public film agency and a government fighting a foreign war in America. Their conclusion was that strategy was emergent; forming patterns of decisions and actions distributed across multiple organizational levels, and only partially shaped by managerial intentions and that strategy-making in small firms was an informal process resulting in a pattern of decisions by top management. Similarly, Quinn (1980), drawing on a survey of 10 major corporations in America demonstrates how top management typically forge their strategies for change only gradually as events unfold, keeping their options open and steering their organizations incrementally toward a consensus view of the major important goals to be attained.

He posits that effective strategies tend to emerge from a series of “strategic subsystems” each of which attacks a specific class of strategic issues (e.g. acquisition, divestiture, or a major reorganization) in a disciplined way, but which is blended incrementally and opportunistically into a cohesive strategy.

These studies revealed interesting findings on the adoption of formal strategic management practices among small enterprises. These study findings therefore remain at discovering whether small enterprises practice formal strategic management or not. However, the studies did not examine whether informal strategies played a role in leveraging performance of small enterprises neither did they delineate the particular informal strategies small enterprises employ. This study therefore goes a step further by examining each of the informal strategies against performance of the small enterprises. Besides, the studies were undertaken in developed countries with none being done in the context of a developing country

2.2.1. Factors Influencing Choice of Strategic Management Mode

According to Cragg and King (1988) and Rutherford and Oswald (2000) the factors that influence whether a small enterprise chooses a particular strategic management mode may be due to own personal characteristics; as captured in personal entrepreneurial Competency, small firm characteristics; in terms of scope, scale, ownership structure and size and external environmental factors; in terms of political, economic, socio-cultural, technological and ecological. Each of the factors is discussed below:

2.2.1.1. Small Firm Characteristics

Small firm characteristics have been explored by various authors in different contexts. For example in Bangladesh, Islam, Khan, Obaidullah, and Alam (2011) carried out a survey whose purpose was to find out whether firm characteristic affect the business success in small and medium-sized enterprises. Interestingly, the findings of the study revealed that while entrepreneur's characteristics are significantly related to the business success of SEs in Bangladesh, the Characteristics of small enterprises were found to have no significant effect on the business success of the SEs. In contrast to these findings, Monsicha and Nantana (2011), in a survey of 410 travel agencies in Thailand, examined the relationships between firm characteristics such as corporate image, unique attributes, service and service professionalism) that influence customer satisfaction and customer loyalty and found out that the firm characteristics have greater business outcomes, including customer satisfaction, customer loyalty and business performance.

Further, Pasanen, (2003) carried out a survey of entrepreneurs of 145 independent SEs in eastern Finland operating in the manufacturing, business services, and tourism sectors. Analysis of the SMEs revealed that they constitute a heterogeneous group with a large variety of characteristics, though they also have some common characteristics. However, the study does not conclusively delineate the actual characteristics of the SEs that predispose them to particular strategic modes.

On his part, Jiang (2009) carried out a case study of SEs in China and Indonesia. The objective of the study was to find out how strategic management influences SEs performance in South East Asia and specifically in China and Indonesia. According

the empirical findings, they found some common characteristics of strategic management of SEs in China and Indonesia. Firstly, all the companies interviewed had their decision making system centralized. In most occasions, the general managers or owner made the final decisions. Secondly, all the companies had a clear vision and mission for the company, and they made sure all the employees within the organization knew the company's objectives. Thirdly, all of the SEs used a combination of formal and informal structure during the strategic implementation process. Fourthly, they paid great attention to government policy and changed their strategies according to government policy. Last but not the least; they all believed that strategic management could affect company performance from financial and non-financial aspects. However, the findings of the study are rather inconsistent with reviewed theoretical literature. According to Gibbons and O'Connor (2005) and Johnson et al (2011) small firms' managers are so inundated with immediate financial problems that they ignore or even misunderstand the link between sound strategic management practices and business success rendering formal strategic management modes irrelevant to small firm managers. For example, in an empirical review of implications of strategic planning in SEs for international entrepreneurship research and practice, Kraus, Reiche, and Reschke, (2007) posit that considerable strategic differences exist between small and large enterprises. Because of their small size, small firms are not structured formally and the decision making process is centralized.

Le Roux (1989) also conducted a survey of 300 SEs in the greater Cape Town area, South Africa and found that the managers and owners of SE's value strategic management as a management tool but for various reasons, such as a lack of time, they did not devote as much time as they would like towards managing strategically.

The study also found no support for the assumption that size would be an important factor distinguishing SE's that made use of strategic management from those SE's that did not use strategic management but rather the process of strategic management itself was more important than the actual formal plans and documentation that are normally associated with strategic management in large organizations.

Although these studies help us to understand that a majority of SEs do not perform well because of the very nature of their firms, they did not examine whether the small firms were, in fact, not doing well because the nature of the firms militated against being formal in their management. The studies therefore did not explore the connection between firm characteristics and informality of the small firm management. This study explored whether small firm characteristics militated against their performance because the firm characteristics made it difficult to manage the firms strategically. The small enterprises need an all-inclusive intervention which these studies did not offer and which this study intends to explore. In summary, there is a general dearth of empirical literature on the link between firm characteristics and informal strategic management modes.

2.2.1.2. The External Factors

Despite their role in terms of their contribution to exports, employment and economic growth, there is a wide recognition in the literature about the environmental challenges and barriers facing SEs (Verreynne. & Meyer (2007). These prevent them from growing further and put them in a critical position to face the external challenges that are arising from globalization, liberalization and technological change. According to Morrison (2006), businesses are so affected by external macro-environments that

they cannot plan political, economic, social, technological, environmental and legal factors facing them.

Gica (2012) surveyed 200 SEs in North Western Romania and found the external analysis component of the overall planning indicator to be positively correlated with a higher level of objective achievement with a confidence level of 99%. The variables used to measure the external environmental components were the political, economic, socio-cultural, technological, and ecological factors. The conclusion was that the extent to which objectives are met is influenced by an analysis of opportunities and threats facing the organization as well as an assessment of strengths and weaknesses.

Tenai, Bitok, Cheruiyot and Maru (2009) carried out an exploratory survey on the external variables moderating SE's strategies and competitiveness for international trade in Kenya. The survey covered 50 horticultural traders in urban and peri-urban areas of Uasin Gishu District in the month of September, 2007. These findings suggest that the nature of the business environment dictates the way the firm is operated. Hence the prevailing strategy may be influenced positively if the moderating factors from both sides positively moderate it. The strategic management is unlikely to be strong if the firm is weak internally thus hampering its ability to capture opportunities and satisfy them in a dynamic and uncertain market. Such opportunities may include credit access, severe price competition and learning ability.

In China, Huang (2011) carried out a case study whose purpose was to examine the process and characteristics of strategic decision making (SDM), and their influencing factors in 20 Chinese small- and medium-sized firms. The findings of the study

revealed that the steps involved in the SDM process in Chinese SEs are less complex than the theoretical models; second, Chinese SME owners/managers rely heavily on their personal networks for identifying opportunities in the business environment and for information search and advice; third, a firm's ownership significantly influences the degree of participation and the level of political activities in the SDM process; and fourth, decisions made in Chinese SEs can be implemented quickly partly due to slack legal enforcement in China. The purpose of the study was to examine the process and characteristics of strategic decision making (SDM), and their influencing factors in Chinese small- and medium-sized firms. However, the study did not delineate informal strategic management modes that small enterprises have been found to prefer. Further, the study did not reveal the actual strategic management mode influenced by each of the external environmental variable.

Ghani et al. (2010) carried out a descriptive research study to identify critical internal and external factors towards firm strategic planning among private housing developers of Kedah and Perlis in Malaysia and found out that pro-active involvement of government and its support did have an impact on firms' external critical factors thereby creating stable conditions for structured planning. However, the study did not address whether this proactive environment facilitates strategic management. Besides the study dealt only with private housing developers while this study takes a holistic approach to strategic management of small enterprises. In an exploratory study on government policy and critical success factors of small businesses in Singapore, Siow and Teng (2011) also report that the government plays a very critical role in assisting businesses in general by providing a conducive environment for the growth and development of the businesses and this may facilitate strategic planning.

Martínez (2009) surveyed 72 Spanish footwear entrepreneurs in Spain in the year 2000. The survey was a cross-sectional empirical analysis whose purpose was to test the contribution of different types of entrepreneurship development programs to new business performance and growth. The study reinforced earlier research that sound SE policy environment significantly favors new business profitability and growth. In a multiple-case study design involving three companies four organizations cooperating with SEs and two academic institutions, Grimsholm and Poblete's (2010) carried out a study whose purpose was to examine external environmental aspects of SEs that were hampering the growth of SEs in Thailand and summarized the factors as lack of access to finance, competition, barriers to trade, lack of skilled labor and new technology.

The studies investigated the extent to which external factors influence the achievement of objectives, but did not enquire the influence of the external factors on informal strategic management modes. The studies therefore concentrated only on the effect of formal strategic management and did not explore the informal strategic management practices neither did the studies explore how the factors moderated the types of informal strategic management modes being employed by small enterprises which this study investigated. This study attempted to reveal how external factors influenced the informal strategic management small enterprises employed

2.2.1.3. Personal characteristics

In a survey on the impact of personality traits on firm performance in Malay family businesses, Zainol and Ayadurai (2011) concluded that although it is difficult to measure entrepreneurial orientation (EO) through personality traits due to the many

aspects involved, entrepreneurs who had a higher tolerance of ambiguity than non-entrepreneurs, a higher level of self-efficacy, a more proactive personality, an internal locus of control, and a stronger need for achievement were more likely to plan for the success of their businesses. They observed that even in more complex decisions involving the need to develop careful plans, values played a relevant role. More goal orientation induced a stronger motivation to plan thoroughly. The higher the priority given to a value, the more likely people will form action plans that can lead to its expression in behavior, namely, performance. They conclude that owner's personality has a direct relationship with the performance of firms in Malaysia.

In study conducted with 147 SE owners in Malang Regency East Java Indonesia using the survey method, Sarwoko, Surachman, and Hadiwidjojo (2013) found performance of small business to be determined by the characteristics of the owner/manager. They define the entrepreneurial characteristics in terms of risk taking, innovation, and proactiveness. Baba and Elumalai (2011) also investigated the relationship between entrepreneurial orientation dimension and organizational performance indicators such as product performance, customer performance and sales growth among SMEs in Labuan. A total of 101 SMEs were selected. These sampled establishments were involved in service related business, retail business and also wholesale. The study concluded that risk taking, innovation, pro-activeness and competitive aggressiveness have significant positive relationship with organizational performance.

Qureshi (2012), confining himself to five research variables i.e. motivation, family support, social networking, personal characteristics and culture examined the factors that influenced the small business performance among the males and females in

Pakistan. The analysis was based on a survey of 200 micro businesses owned by males and females in two cities of Pakistan, namely, Lahore and Faisalabad. The results showed that female owned businesses in Punjab-Pakistan were less successful than male owned businesses because females possessed less such personal characteristics which were critical for success in business. He also found that females encountered barriers in making social networks as compared to males. The study also revealed that culture of the society also limited opportunities for female entrepreneurs to grow and outperform male owned businesses.

Moog, Mirabella, and Schlepffhorst (2009) basing their research on six qualitative case studies conducted in Germany in 2008 observed that personal or individual orientations of the owners, predecessors and successors affect the strategy and performance of their family businesses. They concluded that the individual orientation of previous, current and future owners of a family business might be the key to those differences in performance of such businesses. They also found out that in small entrepreneurial organizations the strategic decision making is vested with the entrepreneur or limited number of trusted individuals. The strategy formulation for growth is driven by the vision and motivation of the entrepreneurs. Again, the two were interested in the determinants of strategic planning and not the modes of strategic management the small enterprises were using

In a study carried out in Australia to explain the apparent problem of why SMEs do not strategically plan Wang, and Walker (2012) postulate that ownership motivations are central to understanding the planning practices in SMEs. They found that levels of strategic planning are higher in SMEs which have owner-managers who are growth

orientated and lower in those which have owner-managers who pursue non-economic personal agendas. However, they noted that many owner-managers of SMEs do not want to grow, are happy with staying small and at one end of the continuum, some were simply keeping themselves gainfully employed. They pointed out that although this was not necessarily a bad thing many businesses were not 'entrepreneurial' and never engage in active growth activities including strategic planning. Consequently, ownership motivation, not organizational barriers to planning, must be taken as a starting point to understanding and solving the issue of why most SMEs do not engage in strategic planning. However, from the various literature reviewed, it has been posited that lack of conventional strategic planning is not necessarily a lack of strategic planning per se (Chia, 2011). The two researchers also did not examine the link between informal strategic management modes, Owner characteristics and SE performance.

Using the survey method, Hajipour and Ghanavati (2012) also analyzed small to medium-sized industrial manufacturing firms in Tehran province in Iran and found a relationship between education and small firm performance. They observe that education is important in the upbringing of the entrepreneurs. Its importance is reflected not only in the level of education obtained but in the fact that it continues to play a major role in helping to cope with problems and correcting deficiencies in business training. Entrepreneurs need education in the areas of finance, strategic planning, marketing (particularly distribution), and management. The ability to deal with people and to clearly communicate in the written and spoken word is important in any entrepreneurial activity. Although the findings reveal that education as a personal entrepreneurial factor affects business performance, this study takes a

broader look by questioning the link between personal characteristics, planning acumen and performance of small enterprises.

Franczak, Weinzimmer and Michel (2009) also surveyed 857 respondents from 21 small- and medium-sized companies in the UK and found a strong correlation between culture and organizational performance. In another study involving a sample of 60 Fortune 1000 firms representing both dominant and lesser members of their respective industries, Hansen and Wernerfelt (2007) found a relationship between people factors such as skill, personality, age and firm performance. In yet another study involving a sample of 300 employees from SMEs in Bangladesh, Islam *et al* (2011) found out that entrepreneurs' characteristics have significant effect on business performance of SMEs in Bangladesh. The study was based on survey methodology through a questionnaire administered on the owners and employees of small firms. They observed that small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details. Antecedent influences on owner-managers showing a significant association with the possession of a business plan included an above average level of education, previous work experience in a large firm immediately before setting up their firm and running firms in sectors outside their previous experience. Not surprisingly, possession of a business plan showed a positive association with those owner-managers with a growth orientation. It is concluded that owner-manager characteristics can be important in explaining the presence/absence of a business plan within the small firm.

Although these empirical studies had far reaching implications on personal characteristics that may hinder small business success, they did not address the strategic management aspect of performance, neither did they explore if the performance was due to the informality of their management which this study strives to reveal. This study therefore goes a step further by exploring the relationship between owner characteristics, the informal strategic management mode employed and the performance of small enterprises.

2.3 Informal Strategic Management Modes and Performance of SEs

Managers employ strategy to achieve results and according to Menzel and Günther, (2012), strategic management modes of practice and organization performance in small business enterprises go together, but most small business enterprises place less emphasis on making effective strategy for improved performance. Many small enterprises tend to focus on daily operations with the top-management mostly acting intuitively, and there is a clear tendency towards autocratic instructions with regard to strategic decisions.

In their quest for a strategic management model for small businesses in the Turkish Republic of Northern Cyprus, Turgay and Kassegn (2012) surveyed 323 small and medium size enterprises and found that participating small and medium size enterprises who displayed planning in their approach to the management of their ventures experience a higher level of financial performance in their ventures as compared to SEs who display no planning intensity but caution that too formal a strategic management process could hinder the operation of the small and medium size enterprises instead of enhancing it. Their general perception was that strategic

management in small enterprises is informal, that is, it is sporadic, unstructured, irregular and incomprehensive.

Taking the Factor Analysis Approach, Sola (2012) affirmed that there is a substantial level of strategic management approach (SMA) practiced, though to varying degrees, in small scale industries in Nigeria. He concludes that there is a significant incidence between the level of SMA practiced and the level of corporate performance of small scale industries. Further, Adeleke, Ogundele and Oyenuga (2008) also examined the influence of strategic management on corporate performance in selected small scale enterprises and how strategy could be used for improved performance of small scale enterprise in Lagos, Nigeria. A Cross sectional survey research method was adopted for the study and 140 participants were randomly selected among SSEs in Lagos metropolis. Findings revealed that strategic management practices enhance both organizational profitability and company market share. The study recommends that investors and managers should make use of strategic management to improve their organizations' actual performance at all times.

In another study survey of 300 small enterprises in Cape Town, South Africa, Le Roux (1998) also found a positive relationship between strategic management and increased performance. However, no concrete evidence could be found substantiating the assumption that strategic management orientated SME's would significantly outperform non-formal planning SME's. The study also found that for SME's, the process of strategic management itself was more important than the actual formal plans and documentation that are normally associated with strategic management in large organizations. Again although these studies found a positive relationship

between formal strategic management and increased performance, they did not address the informality of small enterprises. The context of this study is also different. These studies were very informative as they examined the influence of formal strategic management on performance of small scale enterprises. However, none of the studies examined the specific informal strategic management modes employed by small enterprises. This study seeks to understand this informality and to recommend models, if any, that can be used in the unstructured environments of SEs to the betterment of their performance.

2.4 Summary

The foregoing review of literature has attempted to present a comprehensive coverage of theory and practice of strategic management modes among SEs and their organizational consequences. The theoretical review explored the contestation as to whether small enterprises practice strategic management. Two opposing views were revealed. On the one hand the view is that formal strategic management is irrelevant in the context of small enterprises. The argument is that the classical models are based on the assumption that all firms have characteristics and configurations similar to those of the large firms yet the management of small enterprises is so different from that of large firms that the processes of management need many changes in order to be useful to the small enterprises. To these critics, strategy is not a fixed plan. It changes systematically at pre-arranged times and solely at the will of the decision maker. On the other hand, classical strategic management proponents remain of the opinion formal strategic management is the panacea to the small enterprises since it involves organized forecasting, planning and implementation. Further, empirical reviews of literature reveal gaps in the methodologies used. The studies reviewed

employed qualitative and descriptive methodologies while this study will use both quantitative and qualitative methodologies for purposes of triangulation.

Therefore, given that the link between the use of strategic instruments and corporate success seems to be so pervasive in SEs, it is essential to foster a respective awareness among entrepreneurs. Since SEs are rarely small-sized large enterprises, the existing concepts and instruments have to be adapted accordingly. It appears doubtful to develop standard strategies and instruments that are equally effective in large companies and SEs. Accordingly, research needs to devote more time to analyze the idiosyncrasies of this sector in order to advance our understanding of strategic management in SEs and derive valuable recommendations for research and practice. It is therefore hoped that this research has produced the much needed documentation of strategic management modes for small enterprises and thereby make contribution towards both theory and practice in the context of emerging economies.

CHAPTER THREE

METHODOLOGY

Having reviewed literature, this chapter now sets out the methodological approach to the study. A description of the research process and the rationale for why each of the research methods was chosen is provided. In choosing the right research design, this study was guided by the ontological research paradigm. The approach informed the choice of the study population, the sampling design and the research tools and techniques employed. These and issues of validity and reliability are addressed. Finally the statistical tools used to analyze the data are provided.

3.1 Study Design

A research design is the methodology and procedures employed to conduct scientific research (Sharma, 2005). The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible (Oso, 2013).

This study adopted the descriptive research design for objective one and correlational research design for objectives two and three. According to Gall and Borg (2003) descriptive research designs portray accurately the characteristics of a particular individual situation or group. The specific descriptive research designs adopted was the cross-sectional survey design. Cross-sectional survey designs represent one of the most common types of descriptive studies where the researcher selects a sample of respondents from a population and administers a standardized questionnaire to them (Creswell, Plano, Gutmann & Hanson, 2003). This study therefore collected data on objective one in an attempt to describe as accurately as possible the current situation

of the small enterprises .Correlational research on the other hand aims at investigating the existence and the degree of a relationship between two or more quantitative variables. If two variables are highly related, scores on one variable could be used to predict scores on the other variable (Mugenda & Mugenda, 2013).Therefore, the study will collect data to find out which of the delineated factors contributes to choice of a particular informal strategic management strategy and the relationship between performance and the informal strategic management strategies

According to Tuli (2012) the selection of research methodology should depend on the paradigm that guides the research activity, more specifically, beliefs about the nature of reality and humanity (ontology), the theory of knowledge that informs the research (epistemology), and how that knowledge may be gained (methodology). The aim of this research was to explore the influence of informal strategic management on the performance of SEs in Kisumu County with particular reference to beneficiaries of Youth Enterprise Development Fund in rural Kenya. Being a descriptive cross sectional research design, the ontological orientation of the study is that of the realist assumption. In descriptive cross-sectional research design the researcher records information that is present in a population but does not manipulate variables (Creswell, 1998). The ontological paradigm is that there is a reality that can be apprehended. It is possible to determine the way things are and, often, discover the cause effect relations behind social reality and find meaningful indicators of what is really happening. Ontology describes a view (whether claims or assumptions) on the nature of reality, and specifically, if this is an objective reality that really exists, or only a subjective reality, created in the mind (Guba & Lincoln, 1994).

3.2 The Area of Study

The study was carried out in Kisumu County, Kenya. Kisumu County is one of the 47 newly created counties in Kenya. The county covers an area of approximately 2085.9 km². It lies within longitudes 33° 20'E and 35° 20'E and latitudes 0° 20'South and 0° 50'South the county is bordered by Kisii County and Homa Bay County to the South, Nandi County to the North East, Kericho County to the East, Vihiga County to the North West and Siaya County to the West

The County of Kisumu is expected to be the nerve center of Western Kenya and at the same time the gateway to East and Central African countries of the East African Community member states. The county covers six parliamentary electoral constituencies of Nyakach, Nyando, Muhoroni, Kisumu Town East, Kisumu Town West and Kisumu Rural. Two of these constituencies namely: Kisumu Town East and Kisumu Town West are cosmopolitan (Map is attached as Appendix 1).

The population of the county is 968,909 with a Surface area of 2,086km². The poverty rate of the county is high at 47.8% (Kenya National Bureau of Statistics, 2009). Further, high unemployment is one of the greatest challenges to the county (ILO, 2008), with an estimated 64% of unemployed Kenyans being the youth (Kenya National Bureau of Statistics, 2007). The main economic Activities include subsistence farming, livestock keeping, fishing, rice farming, sugar cane farming, and small scale trading, but save for sugarcane farming, the rest of the economic activities were not large scale commercial ventures.

At the time of the study, there were many local and international initiatives aimed at direct job creation, skills development and provision of credit facilities to youth groups. In addition the government of Kenya was implementing many sectoral policies that sought to grow the economy and create jobs. One such initiative was the Youth Enterprise Development Fund, but even this had not had a significant impact in growing economic ventures and alleviating the unemployment situation of the youth (Kenya National Bureau of Statistics, 2009).

3.3 Unit of analysis

The unit of analysis for this study was the small enterprises; the collective name for privately owned and operated businesses which typically have a small number of employees of between 10 and 50 and a turnover of between Kshs. 500 000 to ksh5 million (GOK, 2009). As has been pointed out in this study, small enterprises are important for youth employment and are a dominant force in the world business stage (Gomez, 2008). More than 95% of enterprises across the world are SEs, accounting for approximately 60% of private sector employment (BIS, 2010). As of the year 2013, the total number of SEs in Kisumu County was 7324. The unit of analysis for this study was therefore all the 7324 small enterprises in Kisumu County (Mutua, 2013).

3.4 Target Population

The target population was all the 242 small businesses that had been funded by the Youth Enterprise Development Fund in Kisumu County since the year 2007 and 6 District Youth Officers. Mugenda and Mugenda (2013) observe that the target

population is the group that a researcher actually can measure. It is from the target population that researchers draw their samples.

First, the year 2007 was deemed critical because a number of studies have suggested that 75% of small Scale Enterprises fail during the first five years of their operations (Mead, 1999; Wanjohi, 2007). The study therefore focused on small enterprises that had been in existence for more than 5 years since 2007. The Youth Enterprise Development Fund was a critical case because the beneficiaries had been offered the conditions recommended by small enterprise scholars and practitioners for success, namely business training and finance (Karlan & Valdivia, 2011). For one, the small enterprise owners had been assisted in identifying and tapping into business opportunities. They had also been offered formal strategic management training as well as funds with which to run their businesses, yet, according to Ameyia *et al* (2011), the YEDF was yet to make an impact in society despite the strategic management training and provision of funds. This study queried the appropriateness of the formal strategic management training being recommended to the small enterprises

Further, 6 District Youth Officers (DYOs) were targeted because they were deemed informative. The youth officers were the managers of each of the six constituencies making up Kisumu County.

Table 1: Distribution of YEDF Beneficiaries in Kisumu County

| Constituency | Population |
|------------------|------------|
| Kisumu Town East | 42 |
| Nyando | 40 |
| Nyakach | 37 |
| Kisumu Central | 42 |
| Muhoroni | 40 |
| Kisumu Town West | 41 |
| TOTAL | 242 |

(Republic of Kenya, 2008)

3.5 Sampling Design

3.5.1 Sample Size

This study adopted Yamane's (1967) formula to calculate the sample size for the youth groups. From the onset, YEDF beneficiaries from Kisumu Town west were set aside for pilot testing of the survey instrument. This left a total of 201 beneficiaries drawn from Kisumu Town East, Nyando, Nyakach, Kisumu Central and Muhoroni. When this formula was applied to the above population, a total number of 134 respondents were arrived at as the study sample as shown below:

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

Where:

n is the sample size,

N is the population size, and

e is the level of precision.

Therefore,

$$n = \frac{201}{1+201(0.05)^2} = 134$$

3.5.2 Sampling Method

The study adopted stratified, simple and purposive sampling techniques to select the SEs and the individual respondents. These designs were selected based on the nature of the population. Stratified random sampling was used to select the number of SEs that had benefited from the Youth Enterprise Development Fund. Stratified random sampling is a technique that involves dividing the population into homogeneous subgroups and then taking a simple random sample of $f = n/N$ and multiplying by the sample size in each subgroup (Mugenda & Mugenda, 2003) as shown below:

Table 2: Sample Distribution of Youth Enterprise Fund beneficiaries in Kisumu

| County | | |
|-------------------------|--------------------------|---------------|
| Constituency | Target Population | Sample |
| Kisumu Town East | 42 | 28 |
| Nyando | 40 | 26 |
| Nyakach | 37 | 25 |
| Kisumu Central | 42 | 28 |
| Muhoroni | 40 | 27 |
| TOTAL | 201 | 134 |

(Source: Own)

Simple random sampling was used to select the individual SEs in each constituency. According to Sekaran (2003), simple random sampling is a technique that assures

each element in the population an equal chance of being included in the sample. In this study, the list YEDF beneficiaries were obtained from the respective constituencies. The samples were then selected from each constituency by putting all the names from each constituency into a bowl and then selecting a subset as shown in table 2. The managers of each of the 134 SEs were included as respondents for this study.

Purposive sampling was used to select the key informants. Purposive sampling is a procedure in which a researcher selects the sample based on some appropriate characteristic of sample members (Sharma, 2005). The sample is selected based on the knowledge of a population and the purpose of the study (Oso, 2013). In this study, the key informants were the six DYOs. They were chosen because they were the ones in charge of disbursing the funds as well as training of the beneficiaries.

3.6 Data Collection Methods and Tools

The study adopted questionnaire and interview methods as the basic data collection methods. Questionnaires were used to gather data from the managers of the small enterprises run by the beneficiaries of YEDF. According to Creswell, (1998), questionnaires are one of the most reliable research methods because large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way. The questionnaire method was particularly useful for the YEDF beneficiaries because it was easy for the researcher to standardize the questions. It also enabled the researcher to enlist the help of assistants with limited effect to validity and reliability of results. The questionnaires were both

closed and open ended. This enabled the researcher to collect both quantitative and qualitative data (Sharma, 2005).

In order to test the factors that may predisposition the respondents to choose a particular choice of strategic management mode, three models were adopted in the questionnaire: the Personal Entrepreneurial Competency (PEC) Test, the PESTE model and Small Firm Characteristics. First developed by McClelland and Winter in 1969, the PEC test has been hailed across cultures as a valid method of measuring the potential performance of an entrepreneur (McClelland & Winter, 1969). The PESTE model developed by Aguilar (1967) refers to a mnemonic for four sectors of the taxonomy of the environment: economic, technological, political, and social. It has been used widely by scholars across decades as a complete technique for scanning and understanding the macro environment (Porter, 1980). To measure the firm characteristics, D'Amboise and Muldowney, (1988) developed a typology of the firm to aid in understanding the small firm characteristics. Generally, the variables are observable, testable, and measurable. The typology includes a description of the firm in terms of scope of operations, scale of operations, ownership structure and size.

The interview method was used to collect data from Key informants. According to Mugenda (2003) and Sharma (2005), the purpose of key informant interviews is to collect information from a wide range of people who have firsthand knowledge about the issue. This study selected the 6 DYOs because of their expertise, knowledge and understanding of the sampled SEs could give that they were in direct contact with the SEs. They could therefore provide insight on the management of the small enterprises

and give recommendations. The Key Informant Interviews (KIIs) were administered personally by the researcher assisted by one recorder.

3.7 Research Procedure

Six (6) research assistants were trained on the purpose and aim of the study. The data collection tools were discussed to ensure all research assistants understood all the questions and methods of delivery. This also ensured uniformity. Standardization of the format for administering the tools and familiarization with the codes were also done in order to minimize cases of wrong entry. Interviewing skills, confidentiality and ethical issues were also discussed. KIIs were administered personally by the researcher assisted by one recorder.

3.8 Validity and Reliability of Instruments

The concepts of validity and reliability are closely linked to the measurement scales employed in any given study. Validity refers to how far the operationalization and scoring of the variables reflect the concept being measured. Reliability is the extent to which measurements are repeatable and that any random influence which tends to make measurements different from occasion to occasion is a source of measurement error (Weezel, 2009).

3.8.1 Content Validity

This form of validity subjectively assesses the correspondence between the individual items and the concept through rating by expert judges. To this end the designed instruments were counter checked by two lecturers in the department of Marketing and Management in order to ensure content validity of the instruments. The content

validity index (CVI) was then calculated. According to Waltz, Strickland, and Lenz (2005), the CVI is defined as the proportion of items given a rating of quite/very relevant by both raters involved or the proportion of items given a rating of 3 or 4 by both raters involved. According to this definition, both judges have to agree that any individual item is relevant in order for it to count towards the CVI. In this study, 17 out of 22 items were judged to be quite or highly relevant (a ratings of 1= not relevant; 2 = somewhat relevant; 3 = quite relevant and; 4 = highly relevant) by both experts, and so the CVI was computed to be .818 as shown in figure 5. Researchers have indicated that a CVI of .70 or higher is acceptable (Oso, 2013; Waltz, Strickland, & Lenz, 2005). The CVI for this study was 81%.

Table 3: Computation of CVI for a 22-Item Scale with Two Expert Raters

| | | Expert Rater 2 | | |
|----------------|---------------------|----------------------|---------------------|--------|
| | | Items rated 1 and 2 | Items Rated 3 and 4 | Totals |
| Expert Rater 1 | | | | |
| | Items rated 1 and 2 | 4 | 0 | 4 |
| | Items Rated 3 and 4 | 0 | 18 | 18 |
| | Totals | 4 | 18 | 22 |
| | | CVI = $18/22 = .818$ | | |

(Source: Own)

Further, the principle of triangulation was employed. Two different research instruments were used: a questionnaire and Key informant interview guide. The results from each instrument were collated with each other.

3.8.2 Reliability

Pre-testing of the tools was undertaken to test whether the questions were clear and easily understood. This ensured that the questions and issues regarding the subject of the study were included in the schedules and cleared from any ambiguities. The pretest also helped in identifying the exact numbers of enumerators required, number of days and also in estimating the cost. The pre testing of the interview schedule was carried out on thirty managers of YEDF group beneficiaries in Kisumu County before administering the full scale interview. Pre-testing is the administration of the data collection instrument with a small set of respondents from the population before the full scale survey (Fraenkel & Wallen, 2001). Therefore, 30 questionnaires were selected from Kisumu Town West for the purpose of pretesting. The internal consistency of the interview questions were then determined via Cronbach's

coefficient alpha (Cronbach, 1951): $\alpha = \frac{k}{(k-1)} \left(1 - \frac{s(s^2 i)}{(s^2 sum)}\right)$ where:

- k = the number of individual questions;
- $s^2 i$ = the variances for all the individual questions, and
- $s^2 sum$ = the variance for the sum of all the questions.

According to Weezel, (2009), a commonly accepted rule of thumb for describing internal consistency using Cronbach's alpha is:

$\alpha \geq .9$, Excellent; $.9 > \alpha \geq .8$, Good; $.8 > \alpha \geq .7$, Acceptable; $.7 > \alpha \geq .6$,

Questionable and $.6 > \alpha \geq .5$, Poor

Ideally, the Cronbach's alpha coefficient of a scale should be above .70. However, Sekaran (2003) observes that Cronbach's alpha values are quite sensitive to the number of items in the scale. Pallant (2012) also observes that with short scales (for example, scales with less than ten items) it is common to find as low Cronbach's

values of .5 In this study, the Cronbach's alphas for the each of the variables scales was tested and found to be:

- Personal Entrepreneurial Competency Test (PEC) = .889 (89%),
- PEST = .70 (70%) and
- Firm Factors = .697(70%)

These were within the minimum accepted reliability as suggested by Sekaran (2003) and Pallant (2012).

3.9 Data Analysis and Presentation

This study collected and analyzed both quantitative and qualitative data. Quantitative data was analyzed using descriptive statistics, multiple regressions and Pearson's Correlation coefficient (r). Qualitative data was analyzed using content analysis. The analysis was done along the study objectives.

Objective 1 Determination of informal strategic management modes

Descriptive statistics was used to determine the different informal strategic management modes employed by small enterprises in Kisumu County. The informal strategic management modes were grouped into deliberate, emergent and reactive strategies. In this respect, measures of central tendency such as frequency tables and the means were used to analyze which of the delineated modes was most preferred by the small enterprises. Questions that were based on a 5-point Likert type scale were weighted using Fraenkel and Wallen (2001): Strong= 3.34- 5.00; Satisfactory= 1.67- 3.33 and Weak = 1.66. The mean weight was calculated using the formula: $X = \frac{\sum fx}{N}$ (where: X = weighted arithmetic mean, $\sum fx$ = the sum of weighted score, x = the weight of each operation and, N = representing the total number of respondents.

Content analysis was used to analyze key informant interview data. According to Anderson (2007), content analysis is a procedure of systematic and objective identification of selected characteristics of a message that allows inferences to be made which can then be corroborated using other methods of data collection. In this study, data collected from key informants was coded and categorized under five specific themes generated from literature review, namely: whether the small enterprises used formal strategic planning techniques, whether the formal strategic plans were implemented, opinions on whether the formal planning techniques yielded business performance, whether the environment in which the small enterprises operated influenced the performance of their businesses and whether the owners' backgrounds and the type of firms they operated influenced their performance. A research assistant was used to record the interview proceedings. The qualitative key informant interview data was used to triangulate the results.

Objective 2. Choice of strategic management mode

Multiple regression equation was used to test the factors influencing the particular choices of strategic management modes employed by small enterprises in Kisumu County. According to Lucky (2012), multiple regression analysis is a useful tool for investigators to examine the impact of multiple factors (independent variables) on a single outcome of interest (dependent variable). The technique can predict what proportion of variance between variables is due to the dependent variable, and what proportion is due to the independent variables. The predictors delineated from the literature review for this study were the small firm characteristics (x_1), the external environmental factors (x_2) and the small firm owner's personal factors (x_3) while the strategic management modes were the emergent strategies (y_1), reactive strategies

(y_2) and deliberate strategies (y_3). These variables were tested from a general multiple regression equation of the form:

$$y_i = a_i + b_i x_i + e \dots\dots\dots \text{Eq. 1 Source: (Own)}$$

Where

y_i → Dependent Variable (y_1, y_2, y_3)

a_i → Constant performance (a_1, a_2, a_3)

b_i → Coefficients of the predictors

x_i → Independent variables (x_1, x_2, x_3)

e → Error margin (e_1, e_2, e_3)

The general multiple regression equation (eq. 1) was disaggregated to capture analysis of objective two (2) as follows:

Objective 2a: Analysis of Deliberate Strategies

$$y_1 = a_1 + d_1 x_1 + d_2 x_2 + d_3 x_3 + e_1 \dots\dots\dots \text{Eq. 3.1 Source: (Own)}$$

Where,

y_1 → Deliberate Strategies

a_1 → Constant performance

d_1, d_2, d_3 → Coefficients of the independent variables

x_1 → Owner's Personal Factors

x_2 → Firm Characteristics

x_3 → External environmental factors

e_1 → Error margin that may arise from other factors that influence choice

Objective 2b: Analysis of Reactive Strategies

$$y_2 = a_2 + c_1x_1 + c_2x_2 + c_3x_3 + e + e \dots\dots\dots\text{Eq. 3.2Source: (Own)}$$

Where,

y_2 → Reactive Strategies

a_2 → Constant performance

c_1, c_2, c_3 → Coefficients of the independent variables on reactive strategies

x_1 → Owner’s Personal Factors

x_2 → Firm Characteristics

x_3 → External environmental factors

e → Error margin that may arise from other factors that influence choice

Objective 2c: Analysis of Emergent Strategies

$$y_1 = a_1 + b_1x_1 + b_2x_2 + b_3x_3 + e \dots\dots\dots\text{Equation 3.3Source: (Own)}$$

Where

y_1 → Emergent Strategies

a_1 → Constant performance

b_1, b_2, b_3 → Coefficients of the independent variables on emergent strategies

x_1 → Owner’s Personal Factors

x_2 → Firm Characteristics

x_3 → External environmental factors

e → Error margin that may arise from other factors that influence choice

3.10 Diagnostic Tests

Objective 2a: Analysis of Deliberate Strategies

In the analysis of the factors influencing deliberate strategies, preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Multicollinearity occurs when the predictor variables are too strongly related, which degrades regression's ability to discern which variables are important to the model. Tests to see if the data met the assumption of collinearity indicated that multicollinearity was not a concern (Firm Factors Scores: Tolerance = .88, VIF = 1.1; PEC factors Scores: Tolerance = .90, VIF = 1.1; Environmental factors Scores: Tolerance = .81, VIF = 1.2). According to Pellant (2007) tolerance indicates how much of the variability of the specified independent variable is not explained by the other independent variables in the model and is calculated using the formula $1 - R^2$ for each variable. If this value is small (less than .10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The VIF (Variance Inflation Factor), which is the inverse of Tolerance, indicates multicollinearity when its values are above 10.

The White's test was then used to examine presence of heteroscedasticity using the formula $n \cdot R^2$ and the result compared with the critical value of the Chi-square distribution ($113 \cdot .131 = 14.9; \chi^2 = 7.8$). According to Pellant (2004), if the calculated value is greater than the critical value we can reject the null hypothesis of no heteroscedasticity. The study therefore confirmed no problem of homoscedasticity.

The next assumption was that the residuals were not correlated serially from one observation to the next. To this end the Durbin -Watson test statistic, which tests for

correlations between errors was carried out to test whether the assumption of independent errors was tenable. According to Field (2009), the test statistic can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated. A value greater than 2 indicates a negative correlation between adjacent residuals whereas a value below 2 indicates a positive correlation. For our problem, the value of Durbin-Watson is 1.640, approximately 2, indicating low serial correlation

Objective 2b: Analysis of Reactive Strategies

Again, preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Multicollinearity was not a concern (FIRM Scores: Tolerance = .88, VIF = 1.1; PEC Scores: Tolerance = .90, VIF = 1.1; ENVT Scores: Tolerance = .81, VIF = 1.2) since the values were less than .10 and the VIF were above 10. The White's test revealed a value greater than the critical value ($113 * .071 = 8.023$; $\chi^2 = 7.8$) which led to the rejection of the null hypothesis of no heteroscedasticity. Finally the Durbin-Watson test statistic value was 1.533, approximately 2, indicating no serial correlation

Objective 2c: Analysis of Emergent Strategies

Preliminary analyses revealed that Multicollinearity was not a concern (FIRM Scores: Tolerance = .88, VIF = 1.1; PEC Scores: Tolerance = .90, VIF = 1.1; ENVT Scores: Tolerance = .81, VIF = 1.2) since the values were less than .10 and the VIF were above 10. The White's test revealed a value greater than the critical value ($113 * .071 = 8.023$; $\chi^2 = 7.8$) which led to the rejection of the null hypothesis of no heteroscedasticity. Finally the Durbin-Watson test statistic value was 1.533, approximately 2, indicating no serial correlation

Objective 3: informal strategic management modes and performance of the SEs

Pearson's Correlation coefficient (r) was employed to analyze objective three (3) which ascertained the link between the informal strategic management modes and performance of the small enterprises. All the statistical tests and analyses were conducted at the conventional significance level $\alpha = .05$

CHAPTER FOUR

RESULTS AND DISCUSSION

The chapter is divided into four sections. Section one analyzes the general background information of participating respondents by analyzing the demographic profile of respondents and responding firms. The next section presents the analysis of the research question relating to the study by determining the involvement of the small enterprises in planning and preference in particular strategic management modes. Section three examines the factors influencing the small firms to choose particular strategic management modes in running their firms. In section four, the contribution of each strategic management mode to the performance of the small enterprises are tested by means of Pearson Product Moment Correlation.

4.1 Response Rate

The study investigated the influence of informal strategic management modes on the performance of small enterprises in Kisumu County being driven by the fact that small enterprises continue to suffer high failure rates and stunted growth despite intervention efforts by the government and stakeholders in the small enterprise sector. The researcher was concerned that unless alternative management strategies exclusive for small enterprises was found, the small enterprises would continue to suffer stagnation and high failure rates currently being experienced. Data was collected from 134 respondents but only 113 returned complete responses. This represented a response rate of 84%. According to Sekaran (2003), a response rate of 70% or higher is acceptable in social science research. The response rate is given in table 5

Table 4: Response Rate obtained from interviews of SE managers in Kisumu

| County | | | |
|---------------------|---------------|-----------------|------------------------|
| Constituency | Sample | Response | Response Rate % |
| Kisumu Town East | 28 | 20 | 71% |
| Nyando | 26 | 24 | 92% |
| Nyakach | 25 | 23 | 92% |
| Muhoroni | 27 | 25 | 92% |
| Kisumu Central | 28 | 21 | 75% |
| TOTAL | 134 | 113 | 84% |

4.2. General Background Information

The backgrounds of respondents were studied in terms of their gender, age, and education level. As Hisrich, Peters, and Shepherd (2008), note, these factors play an important role in ensuring the success of small enterprises. All the participating SEs had to have been in operation for more than five years because most studies and reports on SEs performance indicate that 75% of small businesses fail within the first three years of operation (Ministry of Planning and National Development, 2003; ILO report, 2004; Mead; 1999). Further, all the SEs selected had benefited from both funding and strategic management training from the YEF to control for variations in finance and strategic management exposure.

4.2.1. Distribution of Respondents by age

The respondents were asked to indicate their age. This was necessary because YEDF provides support to businesses based on the ages. It was also necessary to establish

the respective ages because, as Hisrich, Peters, and Shepherd (2008) points out, age is useful in determining the entrepreneurial orientation towards success of the small enterprise. The responses are summarized in table 6

Table 5: Distribution of Respondents by Age

| | Frequency | Percent |
|--------------|------------------|----------------|
| 18-25 | 18 | 16.4 |
| 26-30 | 66 | 58.6 |
| 31-35 | 19 | 16.9 |
| above 35 | 10 | 8.2 |
| Total | 391 | 100.0 |

Table 6 shows that the majority (58.6%) of the respondents was between the ages of 26-30. Only 16.9% of the respondents came from the age group between 31-35 while the other 16.4% came from the age group of between 18-25. Only 8.2 were above 35 years of age. According to key informants interviewed, many of the youths join business as a last resort due to unemployment. The youth in the ages of above thirty years were not represented because most had acquired for themselves some other forms of formal employment or joined colleges to further their education while those who were between the ages 18-25 were not selected for group leadership because they lacked experience. They also shied away from leadership because they were still hoping for other forms of formal employment. This view is shared by Scarborough, Wilson and Zimmerer (2009), Hisrich (2008), Kokinis (1997) who also observe that although age variation seems to have no direct relation to business success, it implies extensive experience. This means that the concentration of the age of the group

managers around 26-30 was more about perceived experience and lack of formal employment rather than performance orientation

4.2.2 Distribution of Respondents by Gender

The study also enquired into the gender of respondents. Since the small business sector is one of the largest employees, it was necessary to assess if there is a gender particularly popular with small enterprises as a way of examining the nature of the sector in Kisumu County. The results are reported in table 7

Table 6: Distribution of respondents by gender and by Performance

| | | Sales turnover 2012 | | | | | |
|--------|-----------|---------------------|------|------|---------------|------------|-------|
| | Frequency | Extremely high | High | Low | Extremely low | Don't know | Total |
| Male | Count | 12 | 31 | 16 | 4 | 11 | 74 |
| | Percent | 62.1 | 61.1 | 60.4 | 100.0 | 95.1 | 66.0 |
| Female | Count | 7 | 20 | 10 | 0 | 2 | 39 |
| | Percent | 37.9 | 38.9 | 39.6 | .0 | 4.9 | 34.0 |
| All | Count | 19 | 51 | 26 | 4 | 13 | 113 |
| | Total | 16.7 | 45.0 | 23. | 3.3 | 11.5 | 100.0 |

Table 7 shows that a majority (66%) of the respondents were males while females formed the remaining 34%. This may compare reasonably with the gender imbalance prevalent in the leadership structure in the country today (Kenya Republic, June 2007; Kinyanjui & Munguti (2000). Table 6 also shows that males had higher performance (62.1%) as opposed to small enterprises headed by females (37.9%). This seems to suggest that male headed small enterprises did better than those headed by females.

This view is also expressed by McCormick (2001) and (Gomez, 2008) that women owned SMEs are smaller, less likely to grow, less profitable, and begin with less capital investment than those owned by men. However, Pasanen (2003) posits that, although a huge proportion of successful SEs are led by men, there seems to be no association between the gender of an entrepreneur and SE performance, but rather, women entrepreneurs tend to underutilize their potential because of cultural mindsets (Gomez, 2008). McCormick (2001) also observes that the major reasons for this difference are institutional in nature. Marriage institutions discourage investment in women's education and the division of labor assigns a greater share of household responsibility to girls. Because they have lower educational attainment, they are also less likely to benefit from management and technical training programs, the result of which is that they were left out of competitive undertakings.

4.2.3. Distribution of Respondents by Level of Education and by Performance

The study investigated the educational levels of the respondents and the relationship between the education levels of the respondents and performance in business. Education is key in exposing entrepreneurs to different types of management techniques. This study sought to ascertain if the education levels of the respondents were adequate enough to understand the formal planning and management techniques they were being exposed to. The results of the analysis are presented in table 7.

Table 7: Distribution of respondents by Level of Education and by performance

| Sales turnover 2012 | | | | | | | |
|---------------------|-------------------|------|-----|------------------|---------------|-------|---------|
| Level | Extremely high | High | Low | Extremely low | Don't know | Total | Percent |
| Primary | 4 | 14 | 8 | 2 | 6 | 34 | 30 |
| O-level | 11 | 21 | 12 | 1 | 5 | 50 | 44.2 |
| Diploma | 4 | 15 | 5 | 1 | 0 | 25 | 22.2 |
| University | 0 | 1 | 2 | 0 | 1 | 4 | 3.5 |
| Total | 19 | 51 | 27 | 4 | 12 | 113 | 100 |

Table 8 shows that the majority of the respondents were well educated with either “O” level (44.2%) or diploma level (22.2.0%) education. Only 30% of the groups had primary level education. Further, the groups with higher education performed better than those with primary level education. This confirms Sarwoko, Surachman and Hadiwidjojo's (2013) and Hajipour and Ghanavati's (2012) views that the level of education of the founder/owner of a small business is positively associated with business performance. Higher education is considered to have a better impact in entrepreneurship because it reflects the fact that they are on average more capable of planning.

4.2.4. Views of Respondents on Quality of Training Being Recommended

The study analyzed how the respondents rated the strategic management training they had received from the government. The findings are presented in table 9

Table 8: Views of Respondents on Quality of Training Being

| | Frequency | Percent |
|------------|-----------|---------|
| Excellent | 27 | 24.3 |
| Very good | 47 | 41.7 |
| Fair | 21 | 18.2 |
| Poor | 3 | 2.8 |
| Very Poor | 9 | 7.7 |
| No Comment | 6 | 5.4 |
| Total | 113 | 100.0 |

Table 9 shows that 41.7% of the respondents felt that the training they were receiving was very good, 24.3% felt that the training was excellent, while the remaining indicated that the training was fair (18.2%), poor (2.8%) and very poor (7.7%) respectively. From the data, it can be concluded that those charged with training the business enterprises were doing a good job in imparting strategic management skills. The question was whether they were employing the strategic management knowledge they were getting in the classrooms.

4.3 Strategic Management Modes

Having determined and described background characteristics of the respondents, the study now describes the informal strategic modes. The informal strategic modes were conceptualized as deliberate, emergent and reactive strategies. Deliberate strategies were measured by the presence of formal written down plans and strict adherence to those plans, while the emergent strategies were measured by absence of formal plans

and reliance on past experiences and industry tradition. The reactive strategies were measured by both absence of formal plans and reliance on instincts as strategic issues arise. In order to establish the presence/absence of objectives and plans, the study employed frequency tables and percentages. The study then sought to establish the most preferred mode of strategic management using the weighted mean.

4.3.1 Availability of Objectives

The respondents were asked if they had objectives for their small businesses. The findings were presented in table 10:

Table 9: Availability of Objectives

| | Frequency | Percent |
|-----------|-----------|---------|
| Valid Yes | 84 | 74.2 |
| No | 29 | 24.6 |
| Total | 113 | 100.0 |

Table 10 shows that 74.2% of the respondents had objectives while 24.6% did not have any objectives for their businesses. This finding shows that a majority of the small enterprises understood what they wanted to achieve for their respective businesses. Indeed, as Bryson (2011) also observes, all businesses are started with a purpose, whether formally outlined or not. Grand (2001) concurs when he observes that the existence of a set of business objectives in a firm may indicate that its managers are using strategic management but not necessarily a formal procedure.

4.3.1 Availability of formal Plans

The respondents were then asked if they had any formal written down plans on how they were going to attain their objectives. The results were presented in Table 11.

Table 10: Availability of Formal Plans

| | | Frequency | Percent |
|-------|-----|-----------|---------|
| Valid | Yes | 60 | 53.1 |
| | No | 53 | 46.9 |
| Total | | 113 | 100.0 |

Table 11 shows that the majority of the groups (53.1%) had written down plans while 46.9% had no formally written down plans. According to Key informants interviewed, the groups were expected to have written down plans in order to qualify for the group loans offered by the YEDF. This may explain the high number of respondents indicating that they had written down plans.

The respondents were therefore asked if they believed that written down plans were necessary for better performance of their firms. The results were presented in table 12

Table 11: Views of The Respondents on the Necessity of Written Down Plans

| | | Frequency | Percent |
|-------|--------------------|-----------|---------|
| Valid | Not at all | 21 | 19 |
| | To a little extent | 135 | 34.5 |
| | To a great extent | 114 | 29.2 |
| | Don't Know | 68 | 17.4 |
| Total | | 113 | 100.0 |

Table 12 shows that 19% of the respondents felt that the plans were not necessary at all while 17.4% of the respondents did not have any idea about whether the plans were necessary for their firm performance. However, 34.5% of the respondents thought that written down plans were necessary for their firm performance only to a little extent. This means that, altogether a good 68% of the respondents were running their businesses with little commitment to formal plans. Only 29.2% of the groups knew that written down plans were necessary to a great extent. These findings support the proposals of Metts (2011), Mintzberg and Waters (1985) that SE strategy may not necessarily be written down but can exist as strategic thoughts that express future orientations of the enterprises. As a consequence, entrepreneurial strategy formation might rather be conceptualized as unconscious and imaginative, only partially relying on analytical procedures, tangible processes and explicit decision making (Rumelt, Schendel & Teece, 1994).

4.3.2 Use of Contingency Plans

The study further sought to find out if the respondents had any alternative plans to follow if their objectives were not being met. The results were presented in table 13.

Table 12: Availability of Alternative Plans

| | | Frequency | Percent |
|-------|-----|-----------|---------|
| Valid | Yes | 70 | 61.9 |
| | No | 43 | 38.1 |
| Total | | 113 | 100.0 |

Table 13 reveals that 61.9% of the groups actually had an idea what else to do should their plans fail with 38.1% not having any alternative ideas. This finding supports

Chaffee's (1984) view that businesses often develop a viable match between the opportunities and risks present in the external environment and the organization's capabilities and resources for exploiting these opportunities. The organization is expected continually to assess external and internal conditions and respond to it appropriately. Sidaya (2006) also observes that the owners and managers of small and medium businesses rate the development of a contingency plans as a crucial management tool to assist them to fight for the survival of their businesses. Consultations with key informants revealed that the imperfect market conditions in developing countries may require a small business owner to have more than one plan of action. This finding means that the respondents understood the importance of not relying on the written down plans

4.3.3 The Preferred Strategic Management Mode

The respondents were asked to choose which mode suited their operations most. The results were analyzed and presented in the table 14:

Table 13: Views on the Preferred Strategic Management Mode

| Strategic | | | |
|-----------------|------------|------|--------------|
| Management Mode | N | Mean | Percent |
| Deliberate | 9 | 2.22 | 8.2 |
| Emergent | 40 | 2.28 | 35.0 |
| Reactive | 64 | 2.58 | 56.8 |
| Total | 113 | | 100.0 |

Table 14 shows that all the respondents were satisfactorily disposed to use all the strategic management modes to a great extent with most (56.8%) of the respondents rating the reactive strategic management mode as the most preferred mode of strategic management (N = 64, mean = 2.58) followed by the emergent strategic management mode (N = 40, mean = 2.28) and the least preferred mode was the deliberate strategic management mode (N = 9, mean = 2.22). This shows that although the deliberate strategic management mode has been the preferred perspective of strategy making and implementation for government functionaries and other agencies involved in molding small scale enterprise, this study revealed mixed reactions to this form of management. Thus, the small enterprises have a preference for the reactive strategic management mode. The implication of this finding is that, despite their training in formal strategic management, the small enterprises preferred to make decisions based on their instincts as strategic issues arose. This resounds with the views of Chaffee (1984) and Metts (2011) that also saw an organization as continually assessing external and internal conditions and this leads to adjustments in the organization to its relevant environment that will create satisfactory alignments of environmental opportunities and risks, on the one hand, and organizational capabilities and resources, on the other. This strengthens the hypothesis that although the small enterprises could be exposed to deliberate strategies where formality of strategic management is espoused, they do not plan formally, and for those that plan, only a few follow these plans. Rather, the small business owner operates along market conditions and reacts to opportunities and threats as they come. This means that small firm sector players need to critically examine models that address the reactive nature of small enterprises and train the managers on reactive models that can lead to better performance

4.4. Factors determining Choice of Strategic Management Modes

The second objective of this study was to assess the factors that influenced the choice of any of the strategic management modes to leverage the performance of the small enterprises in Kisumu County. To do this, multiple regressions were used to test each of the factors delineated for the study against each of the strategic management modes. The predictors were therefore the small firm characteristics (FIRM), the external environmental factors (ENVT) and the small firm owner's personal factors (PEC) while the dependent variables were the strategic management modes, namely: deliberate strategic management mode (DEL), reactive strategic management mode (RE) and. emergent strategic management mode (EM)

4.5.1 Multiple Regression Analysis of Factors influencing Choice of Deliberate management mode

Pearson product-moment correlation coefficient was used to investigate the relationship between the factors that influence the choice of deliberate strategies. The results of the Pearson's r are presented on Table 15:

Table 14: Analysis of Factors Influencing Choice of Deliberate Strategic Management Mode

| | DEL | FIRM | PEC | ENVT |
|------|-----|------|----------|----------|
| DEL | 1 | .077 | .348(**) | .204(**) |
| FIRM | | 1 | .132(**) | .340(**) |
| PEC | | . | 1 | .315(**) |
| ENV | | . | . | 1 |

Note: $p < .05$

Table 15 presents the correlation coefficient between the factors and Deliberate Strategic Management Mode (DEL). The table shows that there is a positive and significant correlation between DEL and all the variables with Personal Entrepreneurial Characteristics (PEC) showing the strongest positive relationship with DEL ($r = .348$) followed by ENVT ($r = .204$). This indicates that the personal characteristics of a manager of a SE play a significant role in the choice of deliberate strategic management mode. This finding supports Zainol and Ayadurai (2011) views when they observe that the entrepreneurial orientation of the owner manager of a SE plays a significant role in whether or not formal planning and management takes place in a small business

There being a significant correlation, the study then proceeded to test the individual predictors against DEL. The individual predictors were regressed on DEL under the hypothesis that:

Personal Entrepreneurial Characteristics (PEC), Environmental Characteristics (ENV), and Firm Characteristics (FIRM) are not significant determinants of choice of a deliberate strategic management mode. The results of the analysis were summarized in table 15

Table 15: Factors Influencing Choice of Deliberate Strategy

| Model | B | Beta | R | R ² | Adj. R ² | Std E | F | t | Sig. (e) |
|------------|------|------|------|----------------|---------------------|-------|--------|-------|----------|
| (Constant) | .351 | | | | | .154 | | 2.287 | .023 |
| FIRM | .000 | .000 | | | | .014 | | -.006 | .995 |
| PEC | .025 | .315 | | | | .004 | | 6.309 | .000 |
| ENV | .020 | .105 | | | | .010 | | 1.998 | .046 |
| Summary | | | .362 | .131 | .124 | | 19.471 | | |

Table 16 presents the summary of regression analysis of factors influencing choice of Deliberate Strategic Management Mode. The table shows that the overall regression model is significant (F [3, 109] =19.471, p = .000) which led to the rejection of the null hypothesis. The study therefore established that at least one of the factors (FIRM, ENVT and PEC) is a significant determinant of deliberate strategy.

The individual factors were further investigated using t values to determine the significant determinants since the F value indicated that not all the predictors are significant. The t analysis indicates that both PEC (t [113, 109] = 6.309, p = .000) and ENV (t [113, 109] = 1.998, p = .046) are significant determinants. But FIRM (t [113, 109] = -.006, p = .995) is not significant. Thus PEC and ENVT are significant determinant of the deliberate strategic management mode. A regression model for predicting deliberate strategic management mode was then generated using the B values and the constant as:

$$DEL = .351 + .025*PEC +.020*ENVT.....Eq 1.4$$

The $R^2 = 0.131$ indicates the total variance in deliberate strategy explained by the regression model in Eq. 1.4. It indicates that 13.1% of the total variance in DEL is explained by PEC and ENVT. Thus, SEs managed by people who are entrepreneurially competent tend to employ formal plans and vice versa but this is made possible if the environment is stable. For a SE managed by a manager high in personal entrepreneurial competence, there is 13.1% chance that s/he will adopt a deliberate mode if the external environmental factors are stable, but 87.6% of the variance would be due to other factors. According to Pallant (2012), if the R-squared value is low but you have statistically significant predictors, you can still draw important conclusions about how changes in the predictor values are associated with changes in the response value. Therefore, regardless of the R-squared, the significant coefficients still represent the mean change in the response for one unit of change in the predictor while holding other predictors in the model constant. Indeed, Interview data revealed that the very personal entrepreneurial orientation of the owner manager as well as the nature of the environment contributed most as to whether an individual was predisposed to plan. This finding is confirmed by Wang, and Walker (2012); Zainol and Ayadurai, (2011) and De Koning and Brown (2001) when they observe that the entrepreneurial orientation of the owner manager of the firm plays a big role in whether or not formal planning and management takes place in a small business. However, Personal characteristics notwithstanding, Tenai, Bitok, Cheruiyot and Maru (2009) suggest that the nature of the business environment dictates the way the firm is operated. Hence the prevailing strategy may be influenced positively if the moderating factors from both sides positively moderate it. As De Koning and Brown (2001) also point out, high performing, entrepreneurial-oriented firms are successful in exploiting business opportunities. Wang and Walker (2012) also observe that levels

of strategic planning are higher in SEs which have owner-managers who showed entrepreneurial competency.

4.5.2 Multiple Regression Analysis of Factors Influencing Choice of Reactive Management Mode

Having established that personal entrepreneurial competency and environmental factors are significant determinants of a deliberate strategic management mode, the study sought to find out which of the factors influenced the respondents to employ the a reactive strategic management mode (RE). Pearson product-moment correlation coefficient (r) was used to investigate the relationship. The results of the Pearson's r are presented on table 17:

Table 16: Factors Influencing Choice of Reactive

| Strategic Management Mode | | | | |
|----------------------------------|----|----------|----------|----------|
| | RE | PEC | ENVT | FIRM |
| RE | 1 | .172(**) | .093 | .196(**) |
| PEC | | | .315(**) | .132(**) |
| ENVT | | | | .340(**) |
| FIRM | | | | 1 |

*Note: p**<.05*

The table 16 shows that there are significant correlations at $p < .05$. The Table 17 also shows that there are positive and significant correlations between Reactive Strategic Mode (RE) and the predictor variables: FIRM ($r = .196$), PEC ($r = .172$) and ENVT ($r = .093$). This indicates that the personal characteristics of the small business manager,

the small firm characteristics and the environmental factors play a significant role as to the choice of reactive strategic management mode for running the businesses.

The study then proceeded to test the individual predictors against RE. The individual predictors were regressed on RE under the hypothesis that: Personal characteristics, environmental characteristics, and firm characteristics are not significant determinants of choice of a reactive strategic management mode.

The results are summarized in table 17.

Table 17: Summary of The Regression Analysis of Factors Influencing Choice of SIMR

| | B | R | R ² | Adj. R ² | Std E | F | t | Sig. (e) |
|------------------|-------|------|----------------|---------------------|-------|-------|-------|----------|
| Model (Constant) | .839 | | | | .162 | | 5.180 | .000 |
| FIRM | .050 | | | | .014 | | 3.471 | .001 |
| PEC | .012 | | | | .004 | | 2.952 | .003 |
| ENVT | -.003 | | | | .011 | | -.304 | .761 |
| Summary | | .246 | .071 | .053 | | 8.315 | | |

Table 18 presents the summary of the regression analysis of factors influencing choice of RE. The table shows that the overall regression model is significant, (F3, 109) =8.315, p = .000 which led to the rejection of the null hypothesis. Having established that the two factors are significant determinants of RE, the study proceeded to investigate the individual factors using t values to determine the significant determinants since the F value indicated that not all the predictors are significant.

The t values indicate that both Firm Factors (FIRM) and Personal Entrepreneurial Characteristics (PEC) are significant determinants, $t(113, 109) = 3.471, p = .001$ and $t(113, 109) = 2.952, p = .003$ respectively. ENVT ($t[113, 109] = -.304, p = .761$) was not significant. Therefore, FIRM and PEC are significant determinants of the reactive strategic management mode. A regression model for predicting reactive strategic management mode was then generated using the B values and the constant as:

$$RE = .839 + .050 * FIRM + .012 * PEC \dots\dots\dots Eq 1.5$$

The $R^2 = .071$ indicates the total variance in reactive strategy explained by the regression model in Eq.1.5. This indicates that 7.1% of the total variance in RE is explained by FIRM and PEC. Thus 7.1% of the variance in RE is due to PEC and FIRM, while 92.9% are due to other factors not investigated including errors in measurement. This finding is supported by the interview data in the observation that, taken individually, firm factors such as scope of operation in terms of markets served, whether local, regional or international; scale of operations in terms of production or operational capacity; ownership structure in terms of decision making systems and size in terms of the number of employees, affected the their ability to apply formal strategic management to a great extent, and by extension, their ability to perform well in their businesses. This finding means that of the three factors, the characteristics of the firm have the greatest impact as to whether a firm resorts to reactive strategic management mode followed by individual characteristics of the manager of the small firm. The smaller the enterprise, and the less entrepreneurially competent the SE manager, the more likely s/he will employ a reactive mode of strategic management and vice versa. This finding is consistent with the observation by Islam et al (2011) that that antecedent influences on owner-managers of small-business such as an above average level of education, previous work experience in a large firm immediately

before setting up their businesses as well a missionary zeal about their products or services and willingness to be personally involved in running the business play a role in whether a small business manager plans and sticks to those plans. Kraus, Reiche and Reschke (2007) posit that considerable strategic differences exist between small and large enterprises. Because of their small size, small firms are not structured formally and the decision making process is informal. Kotzeva and Schmiemann (2012) and Jiang (2009) also observe that small firms often have their decision making system centralized and that in most occasions the general managers or owner made the final decisions.

In conclusion, the study found out that PEC contributed more to the choice of all the strategic management modes.

4.5.3. Multiple Regression Analysis of Factors Influencing Choice of emergent management mode

The factors that influenced the respondents to employ the emergent strategic management mode (EM) were also analyzed. Pearson's r was again used to investigate the relationship after preliminary analyses were conducted. The Pearson's r results are presented in table 19.

Table 18: Factors Influencing Choice of Emergent

Strategic Management Mode

| | EM | PECt | ENVt | FIRMt |
|-------|----|----------|----------|----------|
| EM | 1 | .172(**) | .093 | .196(**) |
| PECt | | | .315(**) | .132(**) |
| ENVt | | | | .340(**) |
| FIRMt | | | | 1 |

Note: p **< 0.05

Interestingly, the same values accruing from the analysis of reactive strategies were observed in the analysis of emergent strategies. The correlation table 19 shows that there is a positive and significant correlation between EM and PEC ($r = .172$), EM and FIRM ($r = .196$) and EM and ENVT ($r = .093$). This indicates that the personal characteristics of the small business manager, the small firm characteristics and the external environmental factors play a significant role as to the choice of emergent strategic management mode for running the businesses.

Individual predictors were also tested against EM under the hypothesis that: Personal characteristics, environmental characteristics, and firm characteristics are not significant determinants of choice of reactive strategic management mode.

The summary of the results are presented in table 19.

Table 19: Summary of the Regression analysis of factors influencing choice of EM

| Model | B | R | R ² | Adj. R ² | Std E | F | t | Sig. (e) |
|------------|-------|------|----------------|---------------------|-------|-------|-------|----------|
| (Constant) | .839 | | | | .162 | | 5.180 | .000 |
| FIRM | .050 | | | | .014 | | 3.471 | .001 |
| PEC | .012 | | | | .004 | | 2.952 | .003 |
| ENVT | -.003 | | | | .011 | | -.304 | .761 |
| Summary | | .246 | .071 | .053 | | 8.315 | | |

The results show that the overall regression model is significant ($[F3, 109] = 8.315, p = .000$) which led to the rejection of the null hypothesis. The study then proceeded to investigate the individual factors using t values to determine the significant determinants. The t values indicate that both FIRM and PEC are significant determinants ($t [113, 109] = 3.471, p = .001$) and ($t [113, 109] = 2.952, p = .003$) respectively. ENVT ($t [113,109] = -.304, p = .761$) was not a significant determinant of EM. A regression model for predicting emergent strategic management mode was again generated using the B values and the constant as:

$$EM = .839 + .050 * FIRM + .012 * PEC \dots\dots\dots Eq 1.6$$

And the $R^2 = .071$ indicates the total variance in emergent strategy explained by the regression model in Eq.1.6. This indicates that 7.1% of the total variance in EM is explained by FIRM and PEC. 92.9% are due to other factors not investigated including errors in measurement. Again, the study noted that the R-squared value was low but the predictors were statistically significant. This means that conclusions about how changes in the predictor values are associated with changes in the response value could still be made (Pallant, 2012). This finding implies that that the smaller the

organization, the more they are predisposed to choose an emergent strategic management mode. This is more so if they score low on entrepreneurial competency. Sarwoko, Surachman, and Hadiwidjojo (2013) also found performance of small business to be determined by the characteristics of the owner/manager. Similarly, Ahmad et al. (2010) found that entrepreneurial competencies predict the success of the business of SMEs in Malaysia. Findings of Monsicha and Nantana (2011) and Johnson et al (2011) also affirm that the firm characteristics have a significant contribution to business outcomes,

4.6 Relationship between the strategic management modes and performance of Small Enterprises

Having established that the small enterprises use both the formal and informal strategic management modes interchangeably, but that there is a preference for informal strategic management modes and, having established that this preference is caused by personal, firm and environmental factors, the study now investigates the relationship between the strategic management modes and performance of the small enterprises in Kisumu County. The Pearson's r was used to examine this relationship. The results are presented in table 21.

Table 20: Relationship between the strategic management modes and performance of YEDF beneficiaries

| | Mean of sales | Sig |
|----|---------------|------|
| DE | .143 | .005 |
| RE | .133 | .008 |
| EM | .133 | .008 |

The results show that there are significant correlations at $p < .05$. This shows that there is a positive and significant correlation between each of the informal strategic management modes that are employed by the respondents and performance of the businesses (DEL: $r = .143$, $p = .005$; RE: $r = .133$, $p = .008$; EM: $r = .133$, $p = .008$). This indicates that deliberate, reactive, and emergent strategic management modes play a significant role in the performance of the small enterprises Kisumu County but that the SEs that employed deliberate strategic management mode performed better. This supports Turgay and Kassegn's (2012) observation that small and medium size enterprises who displayed planning in their approach to the management of their ventures experience a higher level of financial performance in their ventures as compared to individuals who display no planning intensity but caution that too formal a strategic management process could hinder the operation of the small and medium size enterprises instead of enhancing it. Sola (2012) affirms this when he observes that that there is a substantial level of strategic management approach practiced, though to varying degrees, in small scale industries. According to Le Roux's (1998) the process of strategic management itself is more important than the actual formal plans and documentation that are normally associated with strategic management in large organizations. Miller and Cardinal (1994) concludes this view by observing that it cannot be taken for granted that all owner-managers of small firms will naturally engage in strategic planning simply because it is advantageous to the performance of SEs and that numerous researchers advocate it.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the major findings and conclusions drawn from the findings. For clarity purposes, the findings are presented along the research objectives. The study then makes recommendations based on the conclusions on each objective and suggests areas for further research.

5.1 Summary of Findings

5.2.1 Objective 1: Strategic Management Modes Employed by Small Enterprises in Kisumu County

The first objective of this study was to find out if the small enterprises in Kisumu County had preference for a particular strategic management mode over the others. This understanding was necessary in order to reveal to policy makers, teachers, trainers and small enterprise sector players the areas of emphasis in assisting the small enterprises. In order to provide a holistic understanding of the small enterprises, the study first explored the demographic variables of respondents and responding firms before presenting the major findings on this objective.

Most (59%) of the respondents were between the ages 26-30. The explanation for concentration in this age group was that the ages above thirty had acquired for themselves some forms of formal employment or joined colleges to further their education while those who were below twenty five shied away from the group leadership since they were still hoping for other forms of formal employment. This attitude could explain part of the failure rates and low graduation rates experienced among the small enterprises since some of the group members could be in business

simply because they had lacked opportunity for formal employment. They saw the businesses as stop gap measures until they got something “better” to do, thus predisposing them to inability to plan and manage their businesses seriously.

The education levels were found to be high enough with 72% of the respondents having attained O-level and above levels of education. This means that the respondents were capable of understanding, synthesizing and implementing formal strategic management concepts. Further, all the respondents had received formal strategic management training with a majority (66%) of the respondents indicating that the training was either good or excellent. Higher levels of education may imply an awareness to plan formally.

A cross examination of the respondents by gender showed a disparity in the levels of education (72% male to 28% female O-level graduates and 67% male to 33% female representation at university level education). Further, there were disparities of male to female leadership representation in the respective groups. A majority of the respondents (63.2%) were males while females formed the remaining 33.3%. However, there was no evidence to support the view that females were better predisposed to formality or informality of strategic management or vice versa.

An overwhelming majority (82%) of the respondents indicated that they had objectives for their enterprises. This shows that the small enterprises understood what they wanted to achieve for their respective businesses. Only 29% were running their businesses without any clear objectives. Further, asked if they had written down plans and objectives, approximately half the respondents (50.5%) said that they had written

down plans. The other (49.5%) had no formally written down plans. But 68% of the respondents felt that the plans were not very necessary. This could mean that, although the majority of the respondents had formal plans, they did not appreciate the role of the plans in the success of their businesses.

Further probing as to whether or not the respondents had any alternative plans to fall back to should their present business plans fail revealed that 59% of the groups actually had alternative plans while 40% had no alternative ideas/plans to fall back to on the event of failure of their present plans. However, asked if they actually formally sat down to plan these alternative ideas, over half the respondents (58.4%) indicated that they never formally planned for alternative ideas. To some, the written down plans were for the purpose of receiving funds since it was mandatory to have written down plans to qualify for financial assistance.

On which strategic management mode the small enterprises employed in seeking better performance for their businesses, the study revealed that the respondents used all the three strategic management modes to varying degrees, but relied on reactive strategies more. This means that although the deliberate strategic management mode has been the preferred perspective of strategy making and implementation for government functionaries and other agencies involved in molding small scale enterprises, the small enterprises were not following their training. This further proves that conventional thinking was inappropriate for the small firms. The study also disapproves scholars who prescribe only to the emergent strategy management processes and brings to the fore the need for more emphasis on formalization of

reactive models that address the reactive mode of strategic management in strategic management literature and in practice.

5.2.2 Objective 2: Factors Influencing Type of Strategic Management Mode

The second objective of this study was to assess the factors influencing the choice of strategic management mode employed by small enterprises in Kisumu County. The results revealed that the personal entrepreneurial characteristics were the main determinants of the strategic posture of a small enterprise. This means that the more competent a small firm manager is, the greater the chances that s/he would be formal. Environmental and firm factors notwithstanding, the personal entrepreneurial competency of the small firm manager would improve the performance of the small enterprise.

5.2.3 The relationship between the strategic management modes and performance of the youth run small enterprises

The third objective was to investigate the link between informal strategic management modes and performance of the youth run small enterprises in Kisumu County. A Pearson Correlation analysis was conducted to examine whether there was a relationship between informal strategic management modes and performance of the small enterprises in Kisumu County. The study found that there was a positive and significant correlation between each of the strategic management modes and performance of the small enterprises. This indicates that deliberate, reactive and emergent strategic management modes play a significant role in the performance of the youth run small enterprises in Kisumu County. However, the few respondents who employed a deliberate strategic management mode indicated a higher performance

than those who employed a reactive or an emergent strategic management mode. The study found no small enterprise employing a pure deliberate, reactive or emergent mode. Instead, the study revealed a haphazard management style that fitted no particular strategic management mode. The fact that the small enterprises were haphazard in their management approach could provide the explanation why their failure rates were so high and stunted growth so prevalent. This means that a formalization of relevant elements of the reactive and emergent modes would yield better performance for the youth run small enterprises in Kisumu County.

5.3 Conclusions

The starting point of this study was that although contemporary thinking is that formal strategic management is relevant to the performance of small enterprises, other empirical data seem to point to the fact that strategic management in small enterprise is rather informal and unstructured. The thesis of this study was that formal strategic management modes as being prescribed may be inadequate for the performance of small enterprises. The purpose of this study was to determine the influence of informal strategic management modes on the performance of youth run small enterprises in Kisumu County, Kenya. In order to do this, the study sought to determine the informal strategic management modes employed by youth run small enterprises to leverage their performance in Kisumu County, examine the factors influencing SEs to choose informal strategic management modes to leverage their performance and investigate the link between the chosen strategic management modes and performance of the youth run small enterprises.

The results of the first objective show that youth run small enterprises in Kisumu County use all the three modes of strategic management but they tend to rely on the reactive strategic management mode more. Indeed the least employed mode of strategic management was the deliberate strategic management mode. This means that formal strategic management is inadequate for the performance of small firms. The study concludes that there is need for educationists and scholars to put more emphasis on informal strategic management models that address the reactive modes of the small firms

On the second objective, the study found out that the more competent a small firm manager was, the greater the chances that s/he would perform well in his/her business. Environmental and firm factors notwithstanding, the personal entrepreneurial competency (PEC) of the youth run small firm manager would improve the performance of the small enterprise. The implication for this study is that, although PEC factors are largely absent in strategic management literature, they form an important ingredient as to whether a firm succeeds or not. The study concludes that small firm scholars and educationists should put more emphasis on exposing small enterprises to the elements of the PEC model even as they address the environmental and firm issues

The results of the third objective revealed a haphazard management approach that fitted no particular strategic management mode. The finding implies that, despite the strategic management training that the youth run small enterprises were being exposed to, there is still confusion as to which mode to employ to leverage their performance. This is truer in the face of environmental, firm and personal factors that

militate against the linear modes of strategic management being espoused. The study observes that this haphazard management approach could provide the explanation for the failure rates and stunted growth of the small enterprises. The study concludes that formal strategic management is absent among the small enterprises in Kisumu County since the small enterprises were not following any particular mode of strategic management. This could be because of the fluid nature of their operating environment

5.4 Recommendations

Since the youth run small enterprises employed both forms of strategic management to varying degrees, the study recommends that there is need to come up with an effective strategic management system in SEs to de-emphasize the need for formal written documentation, reports and activities as a means to recognizing the contribution of informal strategic management processes. Important as they are, such a system should lay less emphasis on the abstract notions like broad goals, business mission and long-term objectives as a prerequisite to a meaningful strategic management process. In essence, the SEs should also be exposed to informal strategic management models that would inform decisions on upcoming strategic issues even as they exploit the stock of existing knowledge. Indeed, as the review of literature has revealed, there exists a small percentage of small enterprises that have succeeded even as they employ informal strategic management. Examples of such models include Strategic Issue Management (SIM) model and the knowledge Creation Spiral (KCS) model.

As the study has revealed, although small firm managers may be entrepreneurially competent for strategy making and implementation, their failure may stem from the

very nature of the firms and the environments in which they operate. Policy makers, researchers and small firm sector players must therefore look towards models that expose small enterprises to the understanding of the fluid nature of their environments in respect to their firm characteristics. Specifically, small firm scholars and educationists should put more emphasis on exposing small enterprises to the elements of the PEC model even as they address the environmental and firm issues

In recent years the government of Kenya has taken greater interest in the small enterprise sector's potential in creating employment opportunities and incomes. To this end, the government should continue to strive to create an enabling environment for the SE development. The haphazard nature of small firm management could be minimized by coming up with small firm strategic management curricula that address the non- equilibrium nature of small firm management. The study takes cognizance of the fact that environmental factors affecting the enterprises are beyond the control of the small enterprises. However, awareness of their effects in the training curricula would go a long way in mitigating the shocks that they bring. Further, it is now clear that formal models cannot work on their own. Policy makers, trainers and interested stakeholders should therefore put more effort in researching and formulating informal strategic management models that could provide the panacea of small firm performance.

5.5 Limitations of the Study

The researcher experienced a number of limitations worth mentioning. It is very important to note that these limitations did not have any significant interference with the outcome of the study. One important limitation concerns the design followed by

the study. The study adopted a cross sectional research design although a longitudinal study seemed to be the best method to gather data on the influence of informal strategic management on the performance of the small enterprises across the five years in operation. It was not feasible to adopt a longitudinal design due to the time and resources available for the study. To mitigate this limitation, the study designed a questionnaire that ensured collection of data across the target five years the small businesses had been in operation.

5.6 Recommendations for Further Study

The purpose of this study was to determine the influence of informal strategic management modes on the performance of small enterprises in Kisumu County, Kenya. To this end, the study purposively selected The Youth Enterprise Fund beneficiaries. This was because the youth enterprises had received training on strategic management and had received funding that could facilitate their plans. Only the youth enterprise fund beneficiaries in Kisumu County formed the accessible population. This study could be replicated in other counties to find out the typical cultural and other environmental variables that could moderate the practice of strategic management. Future studies could also be undertaken to draw comparison between small enterprises that have been exposed to strategic management training and those that have not been trained on strategic management. Besides this study was not sector specific. Studying the research issues of this study in specific domains would be an interesting extension of this study.

Further, the study has revealed that there are other factors that impact upon small enterprises rendering them unable to follow their strategic plans. Further studies

involving factor analysis could be dedicated to finding out more about the other factors debilitating against the performance of small enterprises.

Finally, since small enterprises succeed to varying degrees, further studies could be carried out to delineate the strategic management processes of these performing enterprises

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APPENDICES

Appendix I: Map of Kisumu County, Kenya



Q.7. How does your firm recruit the group members Media () Posters () Invitations ()

Q 8. Do the employees come to work at the time they are supposed to come? Yes () No ()

If 'No', what action do you take to make sure that they come duly?

They are dismissed [] They are warned [] They are warned and put on notice []

No action is taken [] They pay a fee []

Q 9. Would you please mention the sources of finance for this business?

| Equity Finance | Approx. Amount Ksh. | Loan from | Amount Ksh. | Name of/ relationship with Lender |
|-----------------------|----------------------------|-----------------------|--------------------|------------------------------------------|
| Personal capital | | Friends and relatives | | |
| Trade credit | | Banking Institutions | | |
| Profit re-invested | | Government | | |
| Others | | NGOs | | |

Q. 10. Have you had any non-financial support from any organization or bank? Yes () No ()

| Name of Non-financial Support Provider | Type of support | | | |
|-----------------------------------------------|---------------------------------------|-------------------------|---------------------------|--------------|
| | Strategic managements training | market linkages, | management advice) | Other |
| Government | | | | |
| Non-Governmental Institution | | | | |
| Not classified above | | | | |

Q. 11. If you received support, how would you rate the support you received?

| Support Provider | Excellent | Very good | Fair | Poor | Very poor | No comment |
|-------------------------------|-----------|-----------|------|------|-----------|------------|
| Government | | | | | | |
| Non-governmental organization | | | | | | |
| Bank | | | | | | |

Section III: Strategic Planning

Q.12 Do you have objectives of this business

Yes No

Q.13. Do you have any written down plan about how you are going to attain your objectives?

Yes No

If 'No'. Why do you not prepare written documents/plans?

We don't have the technical knowhow It is too expensive

we do not have the time They are not necessary for such a business as ours

If 'Yes, can you show me the document. I will not read it

Q. 14. Do you believe that with written down plans, your firm would do better

Not at all () To a little extent () To a great extent () To a very great extent () Don't Know ()

Q.15. Has any outside organization helped you develop the idea or in preparing this documents?

Yes () No ()

If Yes' who are they?

Q.16. what time period do the idea/documents cover? Below 1 year, 2 years 3years 4 years Above 5 years

Q.17. Do you inform the members of your firm about the ideas/document? Yes () No ()

If No, why -----

Q.18. Do they take part in preparing the plan/documents?

Yes () No () Somewhat ()

Please explain your answer -----

Q. 19. Do they follow these plans Yes [] No [] Somewhat

Pease explain your answer-----

Q. 20. Do you often find yourself taking decisions according to your instincts and that of your colleagues?

Not at all () To a little extent () To a great extent () To a very great extent () Don't Know ()

Q.21. Do you have any other alternative idea about what you will do if your present idea cannot be achieved? Yes () No ()

Q. 22. Do you often sit down to plan before coming up with your alternative ideas? Yes () No ()

Section IV: Strategic Management Modes

Q23. Have you ever been forced to implement plans that were not in your original intentions?

Always [] Rarely [] Never []

Q. 24. How would you describe your mode of operation?

| Strategy Management Mode | Not at all | To a little extent | To a great extent | To a very great extent | Don't Know |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| We strictly follow our written down plans and intentions (deliberate strategies) | | | | | |
| We prefer to take and implement decisions according to my and that of my colleagues' instinct and as strategic issues arise rather than to follow any plan. (reactive Strategies) | | | | | |
| I make plans based on our collective experience and | | | | | |

| | | | | | |
|--------------------------------------------------------------------------------|--|--|--|--|--|
| learning and industry tradition in running this business (emergent strategies) | | | | | |
| None of the above | | | | | |
| All of the above | | | | | |

Section IV: Factors Influencing Type of Strategic Management Mode

A. Owner's Personal Background

Q.25. Below is a personal entrepreneurial competency test (PEC). Please score appropriately as it may apply to you. The maximum score is fifty (50 points) as outlined below.

Very poor=0-10 Poor=11-20 Average=22-30 Good=31-40 Excellent=41-50

PEC Profile Sheet

| PEC | Very poor | Poor | Average | Good | Excellent | Total |
|------------------------------------|------------------|-------------|----------------|-------------|------------------|--------------|
| Opportunity Seeking | | | | | | |
| Persistence | | | | | | |
| Commitment to Work Contract | | | | | | |
| Demand for Quality and Efficiency | | | | | | |
| Risk Taking | | | | | | |
| Goal Setting | | | | | | |
| Information Seeking | | | | | | |
| Systematic Planning and Monitoring | | | | | | |
| Persuasion and Networking | | | | | | |
| Self-Confidence | | | | | | |
| Total Score | | | | | | |

B. External Environment

Q 26.a). Please tell me to what extent the following have affected your business in the past five years

| Problem | Not at all | To a little extent | To a great extent | To a very great extent | Don't Know |
|----------------------------------------|-------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| The general Political factors | | | | | |
| The general economic factors | | | | | |
| The general cultural factors | | | | | |
| The general technological factors | | | | | |
| Rules pertaining to Ecological factors | | | | | |

b). In general how would you rate the above external factors in respect to how they have affected your ability to plan and manage your business strategically in the last five years?

Not at all () To a little extent () To a great extent () To a very great extent () Don't Know ()

C. Firm Characteristics

Q.27.To what extent would say the characteristics of this type of business affect your operations

| Firm Characteristics | Not at all | To a little extent | To a great extent | To a very great extent | Don't Know |
|----------------------------------------------------------------------------------|-------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| scope of operations (In terms of markets served-Local, regional or international | | | | | |

| Firm Characteristics | Not at all | To a little extent | To a great extent | To a very great extent | Don't Know |
|----------------------------------------------------------------------|-------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| scale of operations (In terms of production or operational capacity) | | | | | |
| Ownership structure(In terms of decision making system) | | | | | |
| Size (small number of employees) | | | | | |

In general how would you rate the above firm characteristics in respect to how they have affected your ability to plan and manage your business strategically in the last five years?

Not at all () To a little extent () To a great extent () To a very great extent () Don't Know ()

Q.28.Please indicate which of the following factors have the greatest effect on your ability to plan strategically for your business

| Factor | Not at all | To a little extent | To a great extent | To a very great extent | Don't Know |
|-----------------|-------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| Personal | | | | | |
| Firm | | | | | |
| External | | | | | |

Section IV: Business Performance

Q. 29. What was your firm's performance in relation to similar firms in your industry?

| Sales Turnover | Extremely high | High | Low | Extremely low | Don't Know |
|-----------------------|-----------------------|-------------|------------|----------------------|-------------------|
| 2008 | | | | | |
| 2009 | | | | | |
| 2010 | | | | | |
| 2011 | | | | | |
| 2012 | | | | | |

30a.) How many members did you have five years ago-----

b) How many members do you have now-----

Please explain the increase/decrease in membership-----

Q 31. Please rank the following in terms of their contribution to the performance of your business

| Item | Extremely high | High | Low | Extremely low | Don't Know |
|------------------------------------------------------------------------------|-----------------------|-------------|------------|----------------------|-------------------|
| Written down plans(deliberate strategies) | | | | | |
| Reacting to issues based on our instincts (reactive Strategies) | | | | | |
| Using our past business experience to run our business (emergent strategies) | | | | | |
| All of the Above | | | | | |
| None of the Above | | | | | |

Thank you for your cooperation

Appendix III: Key Informants Interview Schedule for Youth Enterprise Development Fund Officers

THESIS TITLE: Informal Strategic Management Modes and Performance of Small Scale Enterprises

The purpose of the study is to find out the contribution of informal strategic management to the performance of small scale enterprises with particular reference to beneficiaries of the Youth Enterprise Development Fund (YEDF). The findings of this study are purely for academic purposes. Please note that confidentiality will be kept and the information will be used strictly for the purposes of this study. The assessment will take approximately 20 -30 min of the time.

Name.....
Position
Constituency.....
Interviewer/s.....
...

Date of Interview:

1. What is the main mandate and Purpose of your ministry/department?
.....
2. How is this mandate executed? (Especially at grass root level)
.....
3. What programmes/Projects have you had for small enterprises in the past five years?
.....
4. Please explain the purpose and targets of these programmes/Projects
.....
5. Do you work with groups/individuals directly in your Programmes/Projects?
.....
6. If yes, what does one need to qualify?
7. What has been achieved so far in these projects? Please Justify
.....

8. What were/are the key challenges in planning and implementing the programmes/Projects in your constituency?

.....
.....

9. Do you offer training services to your clients.

.....

10. If yes, have all the clients been trained? Please explain your answer

.....

11. Do you include strategic business management practices in your training curriculum

.....
.....

12. If yes, do you think small businesses follow their ideas/strategic business plans? Please explain your answer

.....

13. If 'No' why do you think small scale enterprises do not follow their strategic plans

.....

14. How many groups did you register in the 2007/2008 financial year.....

15. Of the groups you registered in the 2007/2008 financial year how many groups are still in existence.....

16. If there have been some dropouts, what can you attribute to these dropout incidences

.....

17. Of the groups you registered in the 2007/2008 financial year, how many have grown to 50 or more members.

.....
.....

18. What, do you think, are the reasons for your answer in 17 above.....

19. Please suggest reasons why some small scale enterprises do better than others operating in the same field

20. Do you think the environment in which the small enterprises operate (the political, economic, social-cultural legal and ecological) has any impact on the performance of such businesses? Please explain

.....
.....

21. Do you think the personal entrepreneurial competencies have any impact on the performance of such businesses? Please explain

.....
.....

22. Do you think the nature of a small enterprises (in terms of scale and scope of operation as well as size and ownership structure has any impact on the performance of such businesses? Please explain

.....
.....

23. Give recommendations on dealing with the key factors that hinder performance of small businesses

.....
.....

Appendix IV: Multiple Regression Outputs

1. SIMD OUTPUTS

ANOVA(b)

| Model | | Sum of Squares | df | Mean Square | F | Significance |
|-------|------------|----------------|-----|-------------|--------|--------------|
| 1 | Regression | 11.964 | 3 | 3.988 | 19.471 | .000(a) |
| | Residual | 79.264 | 110 | .205 | | |
| | Total | 91.228 | 113 | | | |

a Predictors: (constant) ENVt, PECt, FIRMt...

b Dependent Variable: SIMD

Model Summary (b)

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|---------|----------|-------------------|----------------------------|-------------------|----------|------|------|--------------|---------------|
| | | | | | R Square Change | F Change | df 1 | df 2 | Sig F Change | |
| 1 | .362(a) | .131 | .124 | .453 | .131 | 19.471 | 3 | 110 | .000 | 1.640 |

a Predictors: (constant) ENVt, PECt, FIRMt...

b Dependent Variable: SIMD

Coefficients(a)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sign | Collinearity Statistics | |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | .351 | .154 | | 2.287 | .023 | | |
| | FIRMt | .000 | .014 | .000 | -.006 | .995 | .884 | 1.131 |
| | PECt | .025 | .004 | .315 | 6.309 | .000 | .900 | 1.111 |
| | ENVt | .020 | .010 | .105 | 1.998 | .046 | .810 | 1.234 |

a Dependent Variable: SIMD

2. SIMR OUTPUT

Model Summary(b)

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|---------|----------|-------------------|----------------------------|-------------------|----------|------|------|-----------------------|---------------|
| | | | | | R Square Change | F Change | df 1 | df 2 | Significance F Change | |
| 1 | .246(a) | .071 | .053 | .477 | .071 | 8.315 | 3 | 110 | .000 | 1.533 |

a Predictors: (constant) ENVt, PEct, FIRMt...

b Dependent Variable: SIMR

ANOVA(b)

| Model | | Sum of Squares | df | Mean Square | F | Significance |
|-------|------------|----------------|-----|-------------|-------|--------------|
| 1 | Regression | 5.677 | 3 | 1.892 | 8.315 | .000(a) |
| | Residual | 88.082 | 110 | .228 | | |
| | Total | 93.760 | 113 | | | |

a Predictors: (constant) ENVt, PEct, FIRMt...

b Dependent Variable: SIMR

Coefficients(a)

a Dependent Variable: SIMR

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Significance | Correlations | | | Collinearity Statistics | |
|-------|------------|-----------------------------|------------|---------------------------|-------|--------------|--------------|---------|-------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Zero-order | Partial | Part | Tolerance | VIF |
| 1 | (Constant) | .839 | .162 | | 5.180 | .000 | | | | | |
| | FIRMt | .050 | .014 | .182 | 3.471 | .001 | .196 | .174 | .171 | .884 | 1.131 |
| | PEct | .012 | .004 | .153 | 2.952 | .003 | .172 | .148 | .145 | .900 | 1.111 |
| | ENVt | -.003 | .011 | -.017 | -.304 | .761 | .093 | -.015 | -.015 | .810 | 1.234 |

3. SIME OUTPUT

Model Summary(b)

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|---------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|-----------------------|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Significance F Change | |
| 1 | .246(a) | .071 | .053 | .477 | .061 | 8.315 | 3 | 387 | .000 | 1.533 |

a Predictors: (constant) ENVt, PECt, FIRMt...

b Dependent Variable: SIME

ANOVA(b)

| Model | | Sum of Squares | df | Mean Square | F | Significance |
|-------|------------|----------------|-----|-------------|-------|--------------|
| 1 | Regression | 5.677 | 3 | 1.892 | 8.315 | .000(a) |
| | Residual | 88.082 | 110 | .228 | | |
| | Total | 93.760 | 113 | | | |

a Predictors: (constant) ENVt, PECt, FIRMt...

b Dependent Variable: SIME

Coefficients (a)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Significance | Correlations | | | Collinearity Statistics | | |
|-------|------------|-----------------------------|------------|---------------------------|-------|--------------|--------------|---------|---------|-------------------------|-------|--|
| | | B | Std. Error | Beta | | | Zero-order | Partial | Partial | Tolerance | VIF | |
| 1 | (Constant) | .839 | .162 | | 5.180 | .000 | | | | | | |
| | FIRMt | .050 | .014 | .182 | 3.471 | .001 | .196 | .174 | .171 | .884 | 1.131 | |
| | PECt | .012 | .004 | .153 | 2.952 | .003 | .172 | .148 | .145 | .900 | 1.111 | |
| | ENVt | -.003 | .011 | -.017 | -.304 | .761 | .093 | -.015 | -.015 | .810 | 1.234 | |

a Dependent Variable: SIME

Appendix V: PEC Elements

| PEC | Very poor | Poor | Average | Good | Excellent | Total |
|------------------------------------|------------------|-------------|----------------|-------------|------------------|--------------|
| Opportunity Seeking | | | | | | |
| Persistence | | | | | | |
| Commitment to Work Contract | | | | | | |
| Demand for Quality and Efficiency | | | | | | |
| Risk Taking | | | | | | |
| Goal Setting | | | | | | |
| Information Seeking | | | | | | |
| Systematic Planning and Monitoring | | | | | | |
| Persuasion and Networking | | | | | | |
| Self-Confidence | | | | | | |
| Total Score | | | | | | |