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## **INFLUENCE OF STRATEGIC FORMULATION ON THE GROWTH OF SMES IN GARISSA TOWNSHIP.**

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### **ABSTRACT**

Small and Micro-Enterprises in Kenya perform a critical function in the country's economy. They are observed as the instrument of growth for they are key in employment generation, goods and services provision, and are also key drivers of industrialization, competition, and innovation. This research investigated the influence of strategy formulation on the growth of SMEs in Garissa Township. A descriptive research design was employed. The targeted population was 1,109 SMEs registered in Garissa Township by the end of the year 2019. A sample size of 294 respondents was selected by purposive sampling technique. A semi-structured questionnaire was used in primary data collection. Data collected was coded, edited, and analyzed through the SPSS tool for descriptive and inferential statistics. The analyzed data were presented by the use of tables and graphs with recommendations made. From the study, the researcher established that 60.7% of the variation in SMEs growth was explained by the strategy formulation variable. The study concluded that the formulation of strategy affected SMEs growth in Garissa Township. The study therefore recommends that SME owners



should focus more on strategy formulation in their organizations to boost growth. The study will be useful to the management of SMEs, entrepreneurs, business owners, key policymakers and legislators, scholars, and other researchers.

**Keywords:** Strategic Formulation, Growth of SMEs, Garissa Township

## **BACKGROUND OF THE STUDY**

In most economies, including developed countries, SMEs are the chief drivers of economic growth. For instance, in Europe and in the United States SMEs constitute 65% and 99.7% respectively (Adeyemi, Isaac & Ofulemi, 2017). SMEs currently account for ninety-five percent of Brazilian businesses, generate 16.6 million jobs in the formal sector and contribute 20% of the country's GDP (ILO, 2014). Strategic Management can be defined as "the identification of the purpose of the organization and the plans and actions to achieve the purpose (Nyariki, 2013). It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise. According to Gibson and Cassar (2002), large companies are more successful than SMEs because large companies plan strategically. Strategic practices by management considerably communicate the sustainability and to the development of firms as regards the recent corporate governance systems worldwide (Muriuki, Cheruiyot & Komen, 2017). Strategic management practices according to Wheelen & Hunger (2008) consist of three primary elements namely formulation of strategy, implementation, and also evaluation and control. It is in the scope of these elements that strategic management practices influence the growth of SMEs. Across developing and developed countries, SMEs are the primary sources of employment (Kumar, 2013). They form approximately ninety percent of businesses in Africa while contributing above 50% in terms of GDP and employment. Promoting the development of SMEs is considered one of the successful strategies that could be used in the promotion of sustainable development, especially for those in the informal sector. In Tanzania, according to IPP Media (2012), SMEs were projected to account for over 30 % of GDP. Tanzania's Government formulates and implements various policies meant for infrastructural improvement as well as promoting earnings for SMEs and augmenting the effectiveness of current ones (Oludele & Emilie, 2012). In South Africa, SMEs in construction are faced with many difficulties when dealing in construction projects and, consequently result to poor performance and also poor work quality which is unfortunately predominant among construction industry SMEs (Dlungwana, Noyana, Nxumalo, Rwelamila & Van Huysteen, 2002).

SMEs in Kenya are present in all sectors of the economy which include trade, manufacturing and service sub-sectors. Nearly 70% of Kenyan SMEs are found in rural areas. The sector is a driver of economic growth as it contributes significantly in employment generation and income, goods and services provision and drives competition innovation and industrialization. It comprises approximately three-quarters of all businesses, offer employment to nearly 5 million people while accounting for 18.4 % GDP (GoK, 2009). According to Pearce and Robinson (2011), SMEs operations are still principally concentrated on local and regional markets instead of national and international markets, and tend to have a very restricted share in a given market. The shares of small firms are generally maintained by one person or very few people with a personalized management style. SMEs add to output and in creation of jobs. They are also a nursery for the bigger firms in the future, are the subsequent step up in expanding micro enterprises, contribute directly and regularly significantly to aggregate investment and savings, and are involved in the expansion of suitable technology (UNIDO, 2004). There are 1109 registered SMEs in Garissa Township (Tawane & Muathe, 2019). These SMEs drive economic



growth and contribute significantly to employment generation. Additionally, SMEs in Garissa influence entrepreneurial knowledge for the owners. In Garissa Township, SMEs further aid in the reorganization of large firms through streamlining manufacturing entities as units. Moreover they offer the large firms complementary services. On average, the monthly turnover of these SMEs average Kshs. 100,000. Garissa Township SMEs face numerous challenges such as terror threats, running capital losses and power interruptions (KNBS, 2016). Other challenges include high cost of items, hawkers presence, low demand of products and limited legal advices with lack of confidence and terrorism threats being ranked as key pressing problem facing these SMEs (KNBS, 2014). Though SMEs in Kenya have an average monthly turnover of Kshs. 200,000, the average turnover of SMEs in Garissa is lower than Kshs. 100,000 and survival rate seventeen percent (Noor & Simiyu, 2020). In Garissa County, lack of quality product was identified as one of the key challenges to the SMEs (Noor & Simiyu, 2020). It is against this backdrop that this study investigated the influence of the three strategy formulations in relation to the growth of SMEs in Garissa Township.

## STATEMENT OF THE PROBLEM

Small and Medium Enterprises (SMEs) are engines of economic growth, vital to most economies. The sector is seen as the driver of growth due to its key role in the generation of income and employment, provision of products and services, and also fueling competition, industry, and modernization. In Kenya, SMEs contribute 80% of job opportunities and 70% of the country's GDP (RoK, 2016). This underscores the fundamental contribution of SMEs to economic development by creating jobs, increasing revenues, and satisfying local demands. However, despite the fundamental roles SMEs play in the Kenyan economy, these enterprises are not able to operate to their optimum levels due to the challenges they face and the performance of mainstream SMEs in Kenya has been established to be wanting (Ochanda, 2014). Additionally, 60% of these SMEs business fail within the first three years (Addo, 2017). Moreover, SMEs' performance has faced various challenges such as poor business records, inadequate strategies, and innovative skills as well as financial illiteracy (Noor & Simiyu, 2020). Non-performance of SMEs in Kenya could increase the degree of unemployment in Kenya, increase poverty levels, and lower the standards of living. Moreover, it could also hinder the realization of Kenya Vision 2030 whose economic pillar aims to achieve equitable development all over the country, and may also impede the realization of the big four agenda, especially on manufacturing and industrialization. Previous studies suggest that the failure of SMEs in Kenya could be due to poor strategic management practices as this significantly influence the performance of SMEs (Gure & Karugu, 2018) More often than not, SMEs operate on a trial and error basis, without strategy formulation and even those enterprises that adopt strategic management practices lack proper strategy implementation and apply unstructured, informal and non-emergent strategic processes (Awale, Namusongee & Warren, 2016). According to Hudson-Smith and Smith (2007), strategic management ensures that firms are able to adapt in the evolving business environment. Nevertheless, all these studies did not examine the relative effect of strategy formulation among SMEs. This study thus sought to find out and establish the influence that strategy formulation has on the growth of Garissa Township SMEs.

## RESEARCH OBJECTIVE

The objective of the study was to determine the influence of strategy formulation on growth of SMEs in Garissa



Township.

## **THEORETICAL LITERATURE REVIEW**

The empirical theory that guided the study is the Resource Based View (RBV). Wernerfelt (1984) proposed this theory and suggests that there exists the possibility to achieve competitiveness by being innovative and delivering higher value to customers. Existing literature emphasizes on firm's strategic identification and utilization of resources to develop continued competition (Barney, 1991). Universal corporate theorists also describe the failures and successes by considering their local branches or subsidiaries' competitiveness in emerging economies (Luo, 2001). Homegrown knowledge offered by the subsidiaries and local coalitions is a significant resource for providing value in line with the native requirements (Gure & Karugu, 2018). RBV theory has become a major theoretical perspective being used to expound persisting performance differences between firms (Barney & Griffin, 1992). The theory offers that firms have unique and valuable resources and competencies which are rare, inimitable, and non-substitutable and that these resources and competencies provide firms with a maintainable competitive advantage. These resources can either be tangible or intangible assets that a firm owns or controls whereas competencies is firm's ability to exploit resources so as to attain its objectives (Amabile, Conti & Coon, 1996). Nahapiet and Ghoshal (1998) explain intellectual capital as knowledge and ability of common concern like an organization, professional practice or intellectual community, whereas social capital refers to the totality of the potential and actual resources entrenched within, accessible through and resulting from the system of relationships controlled by a social unit or an individual. Additionally, they argue that innovation ultimately result from creation of novel knowledge arising from the interaction and combination between social and intellectual capital of the firms. For this study, by applying RBV theory, strategy formulation can be one of knowledge based resources likely to influence performance of SMEs. It was thus essential to investigate how this resource influence competitive strategy of SMEs.

## **EMPIRICAL LITERATURE**

Fahed, Ali and Osama (2020) examined the formulation strategy impact on learning and growth of public sector in the United Arab Emirates. Non-probability sampling technique was adopted with 403 responses analyzed using the statistical package for social sciences and partial least squares. Structural equation modelling-variance based was employed to assess the research mode to gather the required quantitative data. The findings of this study were that the strategy formulation, that is, the mission, vision and goals considerably affected entity performance by explaining 19.3% of the variance in organizational performance.

Abdullahi, Abubakar, Muhammad and Kuwata (2014) explored the function of budget and budgetary control on performance of organization the focus being Tahir Guest Palace, Kano. Primary data was collected via a questionnaire using sample size of 278 guests sampled purposively from Tahir Guest Palace. Secondary data source was financial reports of Tahir Guest Palace for the period 2007-2012. Findings from the regression analysis established that budget setting, budget execution and budget process all had considerable impact on performance of an organization. The study recommended that top-level managers ought to uphold appropriate standard regarding budget preparation and budget practice.



Otieno (2013) conducted a study on strategic management practices targeting Mombasa County SMEs. Descriptive research design was used. Stratified sampling technique was employed and proportionate allocation of sample was used to obtain a representative sample size of 60 SMEs. He established that most organizations viewed strategic management issue as leading to future organization success.

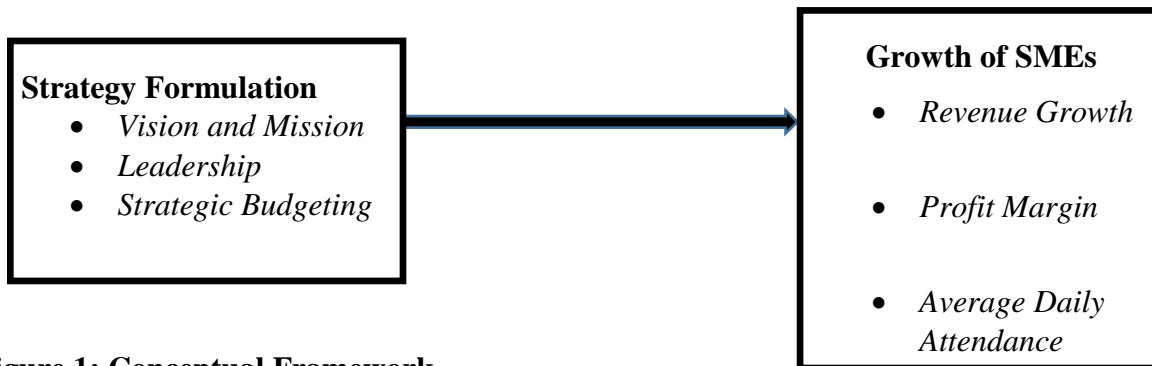
Njanja, (2009) study was on how management strategies affected performance of SMEs enterprises in Kenya. Descriptive research design was used with the population of the study consisting of all SMEs in Kenya. Sample size was 350 SMEs. Stratified sampling was used to divide the SMEs into categories according to homogeneity and systematic sampling was applied to select the respondent businesses. The study revealed that globalization or the world converging into a small village was the chief factor affecting the performance of SMEs.

## CONCEPTUAL FRAMEWORK

The conceptual framework for this study depicts the association between independent variable of strategic formulation and dependent variable, growth of SMEs.

### Independent Variables

### Dependent Variable



**Figure 1: Conceptual Framework**

## RESEARCH METHODOLOGY

This study adopted a descriptive study design. The descriptive study allows description and interpretation of existing relationships and comparison of variables (Kothari, 2014). This research study design was suitable in the current study since this study was about describing SMEs as regards strategy formulation. The study area was Garissa Town in Garissa County in Kenya. The town had 1109 registered SMEs as at end of 2019. Garissa County is one of the largest counties in Kenya covering an area of 54,000 square kilometres (Kenya national bureau of statistics, 2019). The targeted population



of the current study was 1109 SMEs registered in Garissa Township by the end of year 2019, that is, they had been operating for at least three year as obtained from Garissa County records and the respondents were SMEs owners in Garissa County who included food sellers, clothing merchants, beverages sellers, service dealers and curio vendors. In the current study, probability sampling technique was used whereby for sample selection purposive sampling method was used. After stratifying the SMEs, simple random technique was used. The sample size (n) was 294 respondents from which the data was collected. The study adopted the use of semi-structured questionnaire as the main tool for collecting primary data.

## RESEARCH FINDINGS AND DISCUSSIONS

The study sought to find out the influence of strategy formulation on growth of SMEs in Garissa Township. The results are shown in Table 1.

**Table 1: Influence of Strategy Formulation on Growth of SMEs in Garissa Township.**

	N	Minimu m	Maxi mum	Mean	Std. Deviation
Strategy formulation involves establishing mission and vision for your organization	246	2.00	5.00	3.8862	.85431
A well-conceived Leadership policy defines the scope of the firm’s operations in terms of product	246	2.00	5.00	3.1545	.82840
Your firm has a strategy that forms a comprehensive resource allocation plan	246	2.00	5.00	3.0935	.87330
Strategy formulation has led to organization performance	246	2.00	5.00	3.6016	.790914
<b>Aggregate Mean</b>				<b>3.4340</b>	

The study established that each component of strategy formulation was rated highly with strategy formulation involving mission and vision being rated the highest with a mean score of 3.88, whereas SME having a strategy that forms a comprehensive resource allocation plan had the lowest rate with a mean score of 3.10. The overall mean of 3.43 indicates that strategy formulation influence the smes growth in Garissa Town. The findings are in agreement with Fahed, Ali and



Osama (2020) whose study findings were that the strategy formulation (with regards to the mission, vision and goals) could significantly and positively affect organizational performance. These findings are also in agreement Abdullahi, Abubakar, Muhammad and Kuwata (2014) who explored the function of budget and budgetary control on performance of organization the focus being Tahir Guest Palace, Kano. And findings from the regression analysis established that budget setting, budget execution and budget process all had considerable impact on performance of an organization.

**Table 2: Coefficients**

	Unstandardized		Beta	t	Sig.
	B	Coefficients			
_ 1 (Constant)	1.382	.780		11.241	.000
Strategy Formulation	.692	.035		19.499	.000

A simple regression model was used to explain the dependent variable (smes growth) in terms of the independent variable. Indicates the model as:

$$Y = 1.382 + 0.692X + \epsilon$$

**Where:**

Y is the smes growth in Garissa Town, X is strategy formulation and  $\epsilon$  is the error term. Holding changes in strategy formulation constant zero, smes growth in Garissa Town would be at a constant value of 1.382. Changes in strategy formulation are statistically significant in explaining smes growth in Garissa Town ( $\beta = -0.692$ ,  $p > 0.000$ ), This shows that a one-unit increase in changes in strategy formulation will lead to a 0.692 unit increase in smes growth in Garissa Town.

**CONCLUSION**

The study concluded that there was a significant effect of strategy formulation on SMEs growth in Garissa Township, Kenya. The study tested the relationship strategy formulation on SMEs growth in Garissa Township, Kenya. The test was done through SPSS software at 5% level of significance. SMEs growth was regressed on strategy formulation and p-value statistic of 0.000 was generated. The regression results also generated a correlation coefficient,  $R=0.780$  indicating a strong positive relationship between strategy formulation and SMEs growth. Coefficient of determination,  $R^2$ , was found to be 0.607 showing that 60.7% of variation in SMEs growth was explained by strategy formulation.



## RECOMMENDATION

Findings established that strategy formulation had a strong influence on SMEs' growth in Garissa Township, Kenya. Thus, the researcher makes a recommendation that SME owners should focus more on strategy formulation in their organizations to boost growth. Specifically, the focus should be on firms having a strategy that forms a comprehensive resource allocation which was rated low at 3.09, and having a well-conceived leadership policy that defines the scope of the firm's operations in terms of product which were also low at 3.15.

## AUTHOR'S CONTRIBUTIONS

Mohamed Hussein Noor wrote the concept paper, proposal, and project and this article was guided by Dr. John Gitau Kagumu and Dr. Samuel Nyambega. The relevant institutions' permission was sought, data collected, and analyzed, and then this article was published.

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## CONFLICT OF INTEREST DECLARATION

I declare that no conflict of interest exists as regards to this publication. During the entire research, the author observed high standards of ethics.

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