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**IMPACT OF STRATEGIC PLANNING ON ORGANIZATIONAL PERFORMANCE OF
SERVICE-SECTOR MSME STARTUPS IN NAIROBI, KENYA**

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**A RESEARCH PROPOSAL SUBMITTED IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL
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1 CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Strategic planning stands out as a very crucial factor in shaping organizational performance, as it is considered a foundation to efficient alignment of long-term goals with operational activities within a firm. Because organizations exist in an ecosystem where factors in their microenvironment and macroenvironment are pertinent to determining their overall performance, strategic planning becomes the link that helps organizations connect and communicate with their environment, leveraging that environment for optimal performance (Akinyi, 2018). Research indicates that effective strategic planning enhances organizational agility and resilience, which have ripple effects in enhancing organizational performance (Eisenhardt & Martin, 2000). Strategic planning enables organizations to adapt swiftly to changes within their environment by promoting a proactive approach to decision-making and resource allocation (Mintzberg, 1994). This proactive approach offers great assistance in the enhancement of financial performance, and in improving competitive edge by optimizing resource utilization and creating an enabling environment for business process innovation (Porter, 1985). Therefore, strategic planning serves as a cornerstone for organizational excellence, by integrating long-term vision and strategic responsiveness into daily operations, which in the long run enhances the overall performance outcomes of the firm.

Two of the most prominent modern-day theoretical frameworks that best describe organizational performance in the wake of strategic planning are the McKinsey 7-S Model, as well as the Game Theory. The McKinsey 7-S Model, provides a comprehensive lens through which organizational effectiveness is assessed, focusing on seven interdependent elements that are crucial for organizational alignment and performance (Channon & Caldart, 2015). The second framework, Game Theory, offers a strategic approach to decision-making, emphasizing the interwoven dynamics of competitive interactions and cooperation within strategic contexts (Fudenberg & Tirole, 1991). These theories will be employed in this study to analyze and interpret the association between strategic planning and the performance of organizations in the context of the study.

Micro small and medium enterprise (MSME) startups are defined as new entrants to the market who have between 1 and 99 employees, with micro enterprises having below 10 employees, while the small enterprises are defined as those establishments that have between 10 and 49, and the medium enterprises have between 50 and 99 employees (Akolo, Mulili, & Kiboi, 2018). The major classifications of these organizations are manufacturing, retail and service-sectors. In Kenya, Nairobi County has the largest concentration of MSMEs, which has been reported by the Kenya Bankers Association to be 59.1% of the total number of MSMEs in the country, and about 40% of them are

startups, and approximately 47% are in the service-sector (Muli, 2023). Of these MSMEs located in Nairobi County, about 21,000 being situated in the central business district (Waithaka, 2017). Located in East Africa's economic hub, these startups offer diverse products, from tech innovation and fintech to agriculture and creative industries. MSMEs thrive amid challenges such as access to funding, infrastructure limitations, and regulatory complexities (Aseka, 2014). Despite these hurdles, Nairobi's MSMEs exhibit resilience, leveraging local talent and global networks to stay atop the innovation ladder and scale. They are known to be among the largest contributors to job creation, economic growth, and the region's dynamic entrepreneurial spirit, positioning Nairobi as a growing hub for innovation and business development in Africa (Akolo, Mulili, & Kiboi, 2018).

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1.1.1 The concept of strategic planning

In the ever-changing, turbulent and highly unpredictable environment where modern-day businesses operate, there is need to constantly keep attuned with developments in the environment in order to respond effectively (Obaid, 2022). Strategic planning has been identified as the link between such an environment and a business (Porter, 1985). Strategic planning involves a systematic process of setting goals, defining strategies, and making decisions aimed at achieving long-term success (Langat, 2015). Strategic planning integrates analysis of internal strengths and weaknesses with external opportunities and threats, to come up with highly efficient plans. Strategic planning helps businesses anticipate challenges, capitalize on opportunities, and adapt to changing environments by aligning organizational resources and capabilities with future objectives (Muli, 2023). Effective strategic planning bolsters organizational alignment, enhances agility, and supports sustainable growth by ensuring that every action contributes to the predetermined strategic objectives (Mintzberg, 1994).

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1.1.2 The concept of organizational performance

Organizational performance refers to the measurable outcomes and achievements of an organization, when evaluated in the context of its strategic goals and objectives, over a period of time (Eisenhardt & Martin, 2000). It includes various paradigms such as the financial performance of an organization, its operational efficiency, its customer satisfaction, as well as its employee productivity. There are a number of tools and techniques used to measure organizational performance, ranging from key performance indicators (KPIs), objectives and key results (OKRs), the balanced scorecard, financial analysis and feedback analysis among others (Ana-Maria, Florica, & Cătălina, 2010). High organizational performance often implies existence of effective utilization of resources, successful implementation of strategies, and achievement of desired outcomes (Kagika, 2016). It acts to reflect the ability of an organization to adapt to market dynamics, innovate, and sustain competitive advantage. Assessing organizational performance involves quantitative and qualitative measures to evaluate efficiency, effectiveness, and overall success in fulfilling its mission and meeting stakeholder

expectations (Murigi, 2016). Continuous improvement in organizational performance is crucial for sustaining growth, enhancing reputation, and ensuring long-term viability in competitive markets.

1.1.3 Guiding theories

In the study of service-sector MSME startups in Nairobi, Kenya, both the McKinsey 7-S Model and Game Theory offer valuable frameworks for analysis and application. The McKinsey 7-S Model provides a structured approach to assess the interwoven relationship between various elements that are considered pertinent for organizational effectiveness (Kaplan, 2005). For these startups, the McKinsey 7-S Model would examine how strategy, structure, systems, skills, style, staff, and shared values collaborate to support their goals and operational success. By using this model, researchers can identify areas of strength or weakness in organizational alignment and strategize improvements that enhance overall performance (Muli, 2023).

On the other hand, Game Theory offers insights into the strategic decision-making processes within competitive environments (Aseka, 2014). For service-sector MSME startups in Nairobi, Kenya, understanding Game Theory can help shed light on how these firms navigate challenges such as market competition, resource allocation, and collaboration, as they pursue excellent performance (Akinyi, 2018). By applying Game Theory principles, researchers can analyze the dynamics of competitive interactions among startups, suppliers, and customers, and predict outcomes based on strategic choices made by these entities (Langat, 2015). Both theories complement each other in providing a compact and comprehensive view of how strategic planning influences organizational performance in the context of service-sector MSME startups in Nairobi, Kenya. They facilitate a deeper understanding of the factors contributing to success or failure, guiding recommendations for enhancing operational strategies and achieving sustainable growth.

1.1.4 Service-sector MSMEs in Nairobi, Kenya

The Kenyan micro, small, and medium enterprises (MSMEs) sector constitutes a significant portion of the country's economic wellbeing, both as an employer and catalyst for economic growth. As of recent estimates, the sector accounts for about 80% of all employment opportunities in Kenya, and contributes about 35 per cent to the Kenya's gross domestic product (GDP) (Mutisya, 2023). The MSMEs industry in Kenya is diverse, encompassing a wide range of sectors including manufacturing, retail, and services (Kagika, 2016). According to data, there are over 7 million MSMEs operating across Kenya, with a majority being micro-enterprises (Muli, 2023). Out of these, 1.5 million are formally registered MSMEs, while another 5 million are informal. Kenya's capital, Nairobi City County, is home to around 4.5 million MSMEs, with no less than 40% being startups across different fields, such as the service-sector category which constitutes 47% of these organizations. Nairobi City alone houses approximately 90,000 MSMEs, which are reported to provide employment to around 50% of the employed population

within Nairobi (Akinyi, 2018). Over 20,000 of these MSMEs in Nairobi are located in the central business district (Mutisya, 2023). These enterprises ¹⁸ play a crucial role in driving innovation, fostering entrepreneurship, and promoting inclusive economic development by providing goods and services, particularly to underserved rural and urban populations. Despite the enormous challenges that reportedly face these MSMEs, including access to finance, infrastructure limitations, and regulatory issues, the MSME sector remains resilient and continues to be a cornerstone of Kenya's economic landscape (Kagika, 2016).

1.2 Research problem

The modern business environment requires organizations to employ strategic planning to communicate with their environment and respond to changes effectively (Ana-Maria, Florica, & Cătălina, 2010). Strategic planning is like a backbone that supports organizations in making and implementing necessary changes to stay competitive (Obaid, 2022). Strategic planning is a systematic process focused on setting goals, defining strategies, and making decisions to achieve long-term success. It integrates internal strengths, weaknesses, and external opportunities and threats to develop working plans that can promote enhanced performance (Kagika, 2016). By aligning organizational resources and capabilities with future objectives, strategic planning helps businesses anticipate challenges, seize opportunities, and adapt to changing environments. It serves as a north star for decision-making, guiding resource allocation, prioritization of initiatives, and monitoring progress towards goals. Effective strategic planning promotes organizational alignment, enhances agility, and supports sustainable growth by ensuring every action contributes to overarching strategic objectives (Langat, 2015).

Recent years have seen an increase in service-oriented MSMEs who are keen to meet the changes of the modern consumer (Kagika, 2016). Service-sector MSMEs have come a long way to fill the gap that existed between large service providers in the industry and average consumers, enhancing responsiveness to market needs as well as increased customer intimacy and personalization (Muraguri, 2010). As such, a good number of service-sector MSMEs have become integral to Nairobi's economic framework as they hold key linkages to market needs (Riiny, 2017). It is, therefore, no wonder that the MSMEs have become not only one of the largest employers in Nairobi, but also among the most crucial contributors to the economic welfare of the county, the nation and the entire East African region at large (Aseka, 2014).

Several studies have made significant strides in reserching ¹² the impact of strategic planning on organizational performance in various contexts. Obadi (2022) studied private universities in Afghanistan, concluding that strategic planning significantly enhances organizational performance by positively impacting cooperation, growth, and innovation. Njoroge (2018) examined event planning

firms in Nairobi and found that strategic planning improves vision alignment, strategic practices, and competitive advantage, leading to better organizational effectiveness. Olang'o and Namusonge (2018) explored the Kenya Water Institute (KEWI) and discovered significant positive correlations between mission development, strategic plan implementation, and resource allocation with growth and revenue generation. They recommended strengthening strategic planning practices at KEWI for sustained improvements. Muli (2023) investigated SMEs in Mombasa County, revealing that innovation, positioning, and knowledge acquisition strategies significantly enhance the performance of SME. The study's recommendations included that SMEs invest in these strategic areas to achieve better organizational success.

Despite the studies currently conducted in regards to the impact of strategic planning on organizational performance of MSMEs in Kenya, there seems to be very few studies targeting service-oriented MSME startups located in Nairobi County. This study will focus on exploring the effect that strategic planning has on the performance of these firms by seeking to answer the question; does strategic planning have an impact on the performance of service-based MSME startups in Nairobi?

1.3 Research objectives

This research will have two objectives, these are;

- i. To investigate whether service-based MSME startups in Nairobi County engage in strategic planning as part of their startup strategy.
- ii. To investigate the impact that strategic planning has on the organizational performance of service-based MSME startups in Nairobi County.

1.4 Value of the study

This study will provide invaluable insights for policymakers and government officials in understanding the factors that affect the growth of MSME startups in Nairobi. By understanding the impact that strategic planning in these establishments has on their performance, policymakers can develop highly-targeted initiatives and frameworks that encourage and facilitate effective strategic planning practices. Such initiatives could include training programs, subsidies, and incentives for MSMEs that adopt robust strategic planning processes. Ultimately, this will contribute to a more resilient and thriving entrepreneurial ecosystem, driving economic growth and job creation.

For researchers, this study fills a critical gap in the currently available knowledgebase on strategic planning and MSME startups performance. It will offer empirical data and analysis that can be used to further explore the intricacies of strategic planning in the context of MSMEs in Nairobi. Researchers can build upon these findings to conduct comparative studies across different regions or sectors,

identify best practices, and develop theoretical models that explain ²⁴ the relationship between strategic planning and business success. Additionally, the study's methodological approach can serve as a crucial source of information in this domain.

Practitioners, including business owners and managers of MSME startups, will ⁸ benefit directly from the practical recommendations and insights derived from this study. Practitioners can use the findings of this study to benchmark their current strategic planning efforts and identify areas for improvement. Moreover, the study can guide them in implementing more structured and effective strategic planning processes, ultimately enhancing their competitiveness, profitability, ⁶¹ and long-term sustainability in the market.

LITERATURE REVIEW

2.1 Introduction

This chapter explores and presents a review of the literature related to the research questions and the theoretical review relevant to the study.

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2.2 Theoretical foundation

This segment of literature review focuses, that will be used to explain the link between strategic planning, and organizational performance.

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2.2.1 The McKinsey 7S Model

The McKinsey 7S Model introduced by consultants Tom Peters and Robert Waterman in their 1980 book "In Search of Excellence," is a management framework designed to enhance organizational effectiveness (Alshaher, 2013). The model identifies seven critical internal elements that must be aligned, if an organization aims to achieve its predetermined goals. These seven key elements are divided into "hard" and "soft" categories. The hard elements are strategy, structure, and systems (Eisenhardt & Martin, 2000). Strategy refers to the plan developed to achieve competitive advantage and meet organizational goals. Structure describes the organization's hierarchy, including the roles, responsibilities, and authority distribution. Systems refer to the daily activities and procedures that employees in an organization make use of to get the job done (Kaplan, 2005).

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On the other hand, the soft elements include shared values, skills, style, and staff (Akinyi, 2018). Shared values are the core beliefs and attitudes that shape the organizational culture and guide employee behavior. Skills represent the capabilities and competencies of the organization's employees, which are crucial for achieving strategic objectives. Style refers to the leadership approach and the general way of doing things in the organization, impacting the organizational culture and employee morale. Staff involves the workforce's composition, including recruitment, development, motivation, and overall management of human resources (Channon & Caldart, 2015). By focusing on both the hard and soft elements, the McKinsey 7S Model helps leaders understand the complex interplay of factors that drive organizational success, enabling them to manage change more effectively and achieve sustainable performance improvements.

The McKinsey 7S Model stresses that for an establishment to excel in its performance, these seven aforementioned elements must be in line, and mutually reinforcing (Ana-Maria, Florica, & Cătălina, 2010). This means that a change in one element requires adjustments in others to maintain overall coherence. For instance, a new strategy may necessitate changes in organizational structure or systems.

This model is particularly useful in change management, organizational diagnosis, and strategy implementation (Langat, 2015). It provides a holistic approach to examining and improving organizational performance by ensuring that all parts of the organization work together harmoniously.

²² 2.2.2 The Game Theory

Game Theory, ³⁶ developed in the mid-20th century by mathematicians John von Neumann and Oskar Morgenstern, provides a framework for analyzing strategic interactions among rational decision-makers, guided by a mathematical understanding (Fudenberg & Tirole, 1991). The theory has ¹⁶ broad applications across economics, political science, psychology, and business, offering insights into how individuals and organizations make decisions when outcomes depend on the actions of others. Game Theory helps predict the behavior of participants in competitive and cooperative situations by modeling scenarios where players choose strategies to maximize their payoffs (Olang'o & Namusonge, 2018).

A cornerstone ¹³ of Game Theory is the concept of Nash Equilibrium that derives its name from mathematician John Nash, who advanced the idea in the 1950s (Osborne, 2004). A Nash Equilibrium occurs in a game when players reach a state where no player can benefit ¹³ by changing their strategy ⁴² unilaterally, given the strategies chosen by other players (Kagika, 2016). This implies that, each player's strategy is optimal considering the strategies of all other players. This equilibrium provides a stable solution to strategic interactions, where each participant's choices are mutually best responses (Akinyi, 2018).

Nash Equilibrium has profound implications for understanding strategic behavior in various fields. In economics, it explains how firms in oligopolistic markets set prices or output levels. In political science, it aids in analyzing voting strategies and coalition formation (Owen, 2013). In business, it helps firms understand competitive dynamics and formulate strategies that anticipate rivals' actions. The concept also extends to social dilemmas, such as the Prisoner's Dilemma, where individuals' pursuit of self-interest leads to suboptimal outcomes for all involved (Ana-Maria, Florica, & Cătălina, 2010).

The application of Game Theory and Nash Equilibrium enables decision-makers to predict and influence outcomes in complex strategic situations (Eisenhardt & Martin, 2000). By understanding the interdependencies of choices, they can devise strategies that account for competitors' actions and potential responses. This analytical tool is valuable for optimizing decisions in negotiations, market competition, and cooperative ventures (Muli, 2023). Game Theory's rigorous approach to modeling strategic interactions ¹³ provides a robust framework for analyzing and improving decision-making processes, ultimately enhancing the ability to achieve desired outcomes in various strategic contexts.

2.3 The interplay between strategic planning and organizational performance

Strategic planning and organizational performance are closely intertwined, with strategic planning playing a critical role in shaping and enhancing organizational performance (Akinyi, 2018). The relationship between these two concepts can be understood through several key elements of strategic planning such as: environmental scanning, strategy formulation, implementation, and monitoring and control. Each of these elements interacts with various aspects of organizational performance, influencing outcomes such as efficiency, effectiveness, and competitiveness (Aseka, 2014).

Environmental scanning is the first step in strategic planning, involving the systematic collection and analysis of information about an organization's internal and external environment (Anyieni, 2013). This process helps identify opportunities and threats in the macro environment, which include, but are not limited to economic trends, regulatory changes, technological advancements, as well as those in the micro environment, including customer preferences, supplier dynamics, competitive landscape (Kaphale, 2023). There are a number of tools used in environmental scanning to paint a clear picture of what dynamics exist in the environment. Some of these tools include SWOT analysis, PESTLE analysis, Scenario Planning, Porter's Five Forces, Balanced Scorecard, Value Chain Analysis, Critical Success Factor (CSF) Analysis, Boston Consulting Group (BCG) Matrix, Ansoff Matrix, and Competitor Analysis (Akolo, Mulili, & Kiboi, 2018). Deep understanding of these factors is crucial to helping organizations align their strategic plans with market conditions, which goes a long way to ensuring that they are well-positioned to capitalize on opportunities and mitigate risks (Dlamini, Mazenda, Masiya, & Nhede, 2020).

The formulation phase of strategic planning follows environmental scanning and involves clearly outlining the organization's vision, mission, and strategic objectives (Channon & Caldart, 2015). This step demands a vivid grasp of the organization's strengths and weaknesses, as well as its competitive advantage. Effective strategy formulation integrates insights from environmental scanning to set realistic and achievable goals (Olang'o & Namusonge, 2018). Leadership styles play a crucial role in this phase, as visionary and transformational leaders can inspire and mobilize the organization towards common objectives, while participative leaders can foster a collaborative approach to strategy development, incorporating diverse perspectives and enhancing buy-in from stakeholders (Murigi, 2016).

Once the strategy is formulated, the next step is implementation, which involves putting the strategic plan into action. The implementation phase requires aligning organizational resources, structures, and processes with the strategic objectives. Effective implementation depends on clear communication, efficient allocation of resources, and the establishment of appropriate organizational structures (Riiny, 2017). Leadership is again vital in this phase, as leaders must guide and motivate employees, ensure

that they understand their roles in executing the strategy, and create a supportive environment that encourages innovation and adaptability (Njeru, 2015).

Monitoring and control are the final elements of strategic planning, involving the continuous assessment of progress towards strategic objectives and the implementation of corrective actions when necessary. This step ensures that the organization remains on track to achieve its goals and can respond swiftly to any deviations or changes in the environment (Kagika, 2016). Tools such as balanced scorecards and key performance indicators (KPIs) are used to measure performance and provide feedback. Effective monitoring and control require strong leadership to maintain focus, drive accountability, and foster a culture of continuous improvement (Kaphale, 2023).

Organizational performance includes various paradigms, including financial performance, market share, efficiency in operations customer satisfaction, and employee engagement (Anyieni, 2013). Strategic planning impacts these dimensions by providing a clear direction, ensuring effective use of resources, and aligning activities with the organization's goals (Dlamini, Mazenda, Masiya, & Nhede, 2020). For instance, a well-formulated strategy that addresses market opportunities can enhance revenue growth, while efficient implementation can improve operational processes and reduce costs. Similarly, continuous monitoring and control can help maintain high levels of customer satisfaction and employee engagement by promptly addressing issues and fostering a culture of excellence (Ana-Maria, Florica, & Cătălina, 2010).

The interplay between strategic planning and organizational performance is multidimensional and dynamic. Strategic planning provides the framework and direction needed to navigate the complexities of the business environment, while its elements which include environmental scanning, strategy formulation, implementation, and monitoring and control, interact with various aspects of organizational performance (Mutisya, 2023). Effective strategic planning, supported by strong leadership and a thorough understanding of the internal and external environment, can significantly enhance an organization's ability to achieve its goals and sustain long-term success (Muzenda, 2019).

2.4 Empirical studies and research gaps

Several studies have conducted with the aim of establishing the impact of strategic planning on organizational performance in different contexts. Obadi (2022) studied the impact of strategic planning on the performance of private universities and other institutions of higher education in Nangarhar, Afghanistan. Data from 172 questionnaires, gathered from university leaders like chancellors, vice chancellors, provosts, deans, deputies, and lecturers, was analyzed using SPSS and the Ordinary Least Squares (OLS) method. Strategic planning dimensions included mission and vision statements, SWOT analysis, cooperation agreements, research and development, and database management. The

organizational performance aspects assessed were cooperation, experience exchange, recognition of excellence, market share, growth, profitability, and innovation. The study concluded that strategic planning significantly enhances organizational performance in academic settings, impacting various operational facets positively.

Dlamini *et al.*, (2023) examined the strategic planning challenges faced by the Department of Telecommunications and Postal Services (DTPS) in South Africa and their impact on organizational performance. Utilizing a qualitative research methodology and case study design, the study found that DTPS struggles with resistance to change, a desire to maintain the status quo, and difficulties embracing new public management reforms. The research indicated that strategic planning in South African public institutions is often seen as the responsibility of top management, leading to compromised service delivery. The study recommends regular skills development, reducing top-level bureaucracy, increasing innovation, and implementing robust monitoring and evaluation techniques to enhance performance. Further research is suggested to explore the influence of various actors on strategic planning and other determinants of successful strategy implementation.

Kaphale (2023) assessed the effectiveness of strategic plans in improving the performance of public organizations in Malawi, with emphasis on the Malawi Communications Regulatory Authority and Malawi Posts Corporation. Using a qualitative research approach, the study utilized principal-agent and public value theories and collected data from primary and secondary sources. The findings indicated that despite the implementation of strategic plans, public organizations continue to underperform due to governance challenges. The study recommends introducing both incentives and penalties to improve performance, along with an all-rounded legal enforcement framework for strategic plans in Malawi's public sector.

Muli (2023) investigated the impact of strategic choices on the performance of SMEs in Mombasa County, Kenya. Using a quantitative approach and descriptive research design, the study targeted 209 SMEs, with 136 forming the sample size determined by Mugenda and Mugenda's formula. Proportionate sampling was used to select respondents, and data was collected via a closed-ended questionnaire using a drop-and-pick method. Quantitative analysis provided descriptive and inferential statistics, revealing significant positive influences of innovation strategy ($\beta = 0.259$; $p = 0.002$), positioning strategy ($\alpha = 0.215$; $p = 0.019$), and knowledge acquisition strategy ($\beta = 0.196$; $p = 0.005$) on SME performance in Mombasa County. The study recommends that SMEs in the region should invest in innovation, strengthen product positioning, focus on relationship development, and enhance knowledge acquisition to improve organizational performance significantly.

Wanjiru (2021) examined the relationship between strategic planning and organizational success among SMEs in Nairobi. Using a survey research design, the study included all 30,253 SMEs in

Nairobi, appraising a sample of 395 respondents chosen systematically. Primary data was collected via structured questionnaires, and both descriptive and inferential statistics were used for analysis. The study found that 82% of SMEs had a strategic plan, with varying durations. On average, respondents rated the strategic planning process highly, and it significantly impacted performance, with a mean of 3.714. Correlation analysis revealed a weak but significant relationship between strategic planning and organizational performance. The study recommended that SMEs implement strategies ensuring adequate resource allocation and provide ongoing training to personnel to support strategic initiatives.

Njoroge (2018) examined the impact of strategic planning on organizational performance among event planning firms in Nairobi's CBD. Using a descriptive research design, data was collected via questionnaires from 60 selected firms. Results indicated significant positive effects of strategic planning on firm performance, particularly in enhancing vision and mission alignment, strategic practices, and overall organizational effectiveness. The findings underscored the importance of strategic planning in setting clear objectives, managing performance targets, fostering innovation, and adapting to market dynamics, thereby contributing to sustained competitive advantage and organizational growth in the event planning industry.

Olang'o and Namusonge (2018) conducted a study on Kenya Water Institute (KEWI) to explore how strategic planning influences organizational performance. Using a correlational survey design, data from management and teaching staff across all KEWI campuses revealed significant positive correlations between developing mission and vision, strategic plan implementation, and resource allocation with growth, expansion, and revenue generation (correlation coefficients of 0.675 and 0.611 respectively). The study concluded that effective strategic planning enhances organizational performance, and it recommends KEWI to strengthen its strategic planning practices for sustained performance improvements.

Akolo *et al.*, (2018) investigated how strategic planning and performance of SMEs in Nairobi's Central Business District (CBD) interact. Using a descriptive research design, the study targeted 600 SMEs and utilized stratified random sampling to select respondents from top management. Data was collected via questionnaires featuring Likert scale questions. The study found that effective strategic planning, including strategy selection, implementation, and evaluation, significantly enhances SME performance. Key recommendations from the study include ensuring that strategic plans are not only prepared but meticulously followed, setting achievable goals subdivided into short, medium, and long-term targets, and addressing barriers to strategic planning. The study underscores the importance of having a comprehensive strategic plan that outlines annual objectives, organizational structure, budget, and information systems to drive job execution and overall business success.

Njeru (2015) investigated the practices of strategic management and how they impact the performance of the top 100 SMEs in Kenya. Using a descriptive research design, the study utilized both primary and secondary data to analyze these practices. The results showed that the SMEs had adopted strategic management practices, including situational analysis, strategy formulation, implementation, and evaluation, with all having written mission and vision statements. The findings highlighted that these practices positively influenced organizational performance, emphasizing the importance of participatory mechanisms. The study recommended making the strategic management process inclusive and adopting superior strategies to achieve competitive advantage and superior performance.

Anyieni (2013) examined the impact of strategic planning on the performance of SMEs in Kenya. The study highlights that SMEs, vital to the economy through employment creation, often face high failure rates and poor performance. Many SMEs perform well initially but struggle to sustain growth and become large firms. A lack of strategic planning is a significant barrier to their potential and survival. The literature review revealed that successful businesses often engage in strategic planning, whereas those that do not have higher failure rates. The study recommends training SME owners and entrepreneurs in strategic planning skills to enhance performance and competitiveness.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section will discuss the components of the study's research methodology. These components will include the research design, population and sample selection criteria, methods of data collection, procedural steps in research, and techniques for data analysis.

3.2 Research design

The research design that will be used in this study is a descriptive cross-sectional survey. This research design will be appropriate because the aim of the study will be to provide an explanation of a relationship between predetermined study variables by collecting data from a population at a single point in time. Additionally, the research design will be appropriate since this study will be seeking to quantitative data. Correlational research shall be utilized to investigate nature of correlation amongst variables.

3.3 Population of the study (N)

The term population in a research set up is used to refer to the entire collection of observable elements that share similar characteristics, hence they are able to provide inferences (Waithaka, 2017). The term is also used to refer to an entire group of people, items, events or objects who share a common observable characteristics (Kaphale, 2023). This study will target MSME startups that are located in Nairobi City County. The two delimitations that will be used will include the consideration of the Nairobi City County (NCC) trading licenses, as well as the time period since inception, with only the SME's that have this certification, and have been in operation for less than 7 years will be included in this study. The researcher will target founders, owners as well as other top leaders such as managers of service-based MSME startups in the service-based sector, available in the Nairobi City County licensing department in the year 2023.

3.4 Sample size

Nairobi County is a rapidly developing regional economic hub, reported to be East Africa's most preferred destination for international investors (Mutisya, 2023). The county is home to the highest number of MSMEs in the country. The sample size in this study will be calculated using Fisher *et al.*, (2021) and considering that the estimated population of MSMEs in Nairobi is 59.1% of national population, with startups making up 40% of the MSMEs in Nairobi, and approximately 47% being in the service-sector (Muli, 2023).

$$N = Z^2 pq/d^2$$

Where N = Minimum sample size

Z = 1.96 standard error of 95% confidence

p = 0.47 (population of the interest group this 47%)

d = 0.05 (inverse of 95% allowable error)

q = 1-p

This is calculated as follows

$$N_0 = \frac{3.8416 \cdot 0.2491}{0.0025} = 382.78$$

Given that the target population is more than ten thousand, the size of sample (n) will be equated directly to N₀. Therefore, the desired minimum sample size for this study will be 383 organizations.

3.5 Data collection

Data collection is termed as the procedure where researchers gather and measure information on predetermined and targeted variables in an established, systematic fashion, with the aim of enabling them to answer relevant questions and evaluate outcomes (Anyieni, 2013). The data collection instrument is defined as the tool adopted in this process (Riiny, 2017). This study will use structured questionnaires administered to founders, owners and managers of service-sector MSMEs in Nairobi, with the aim of collecting primary data. The respondents willing to answer the questionnaire will be expected to take no more than fifteen minutes to complete the questionnaire via Google Forms. The researcher will use phone calls and text messages to encourage the respondents to fill the questionnaires in time for data analysis. The questionnaires will include close-ended questions, ensuring efficient and faster responses. A 5-point Likert scale will be used, with 1 being the least level of agreement and 5 the agreement. The questionnaire will be divided into sections, with the first covering demographics and subsequent sections distributed to adequately cover the research objectives. Secondary data will be gathered through desk research of published academic material relating to strategic planning and performance of the study elements.

3.6 Data analysis

After the field survey is completed, the data collected from respondents will be meticulously reviewed and checked for completeness and consistency. Analysis will involve frequency tables and multiple regressions. Descriptive statistics will be presented in tables and figures. Regression analysis will identify the existence, nature, and strength of relationships between strategic planning and

organizational performance among service-based MSME startups in Nairobi. The association ⁵ between the independent and dependent variables will be explained by the function below;

$$P = f(X_1, X_2, X_3, X_4)$$

The implication of this function is that organization performance (P) is a function of strategic is strategy formulation, strategy implementation and strategy evaluation. The multiple regression model developed by the study took the following format;

$$P = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$$

Where;

P will be organization performance as measured by composite score of financial and non-financial performance indicators

X_1 will be environmental scanning

X_2 will be strategy formulation

X_3 will be strategy implementation

X_4 will be ¹ strategy evaluation

β_j will be the coefficients

α will be the error term.

Data analysis will be performed using SPSS version 20, which is ideal for interpreting and analyzing quantitative research data.

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² APPENDICES

APPENDIX 1: INTRODUCTION LETTER

Dear Respondent,

RE: Request to Collect Research Data

I am a graduate student at the ¹School of Business and Management Sciences at the ²University of Nairobi, pursuing the degree of Master of Business Administration (MBA) in Strategic Management. I am carrying out a research study on the *Impact of Strategic Planning on Organizational performance in service-sector MSME startups in Nairobi, Kenya* which is one of the requirements for the award of the MBA degree. ²⁴

The study targets the 383 service-sector MSME startups in Nairobi, Kenya, and your firm, has been identified as one of the most reliable for the course of this study. ²This is an academic research. As such, all the data gathered will be accorded utmost confidentiality and will be presented in summary only for academic purposes. ²The presentation will not disclose the name of the respondent.

Kindly spare some time to fill in the questionnaire attached.

Yours Sincerely,

Timothy Mwangi (Researcher)

APPENDIX II: QUESTIONNAIRE

The purpose of this questionnaire is to collect information regarding the nature and scope of strategic planning within your organization. Please describe the strategic planning methods as accurately and truly as you are aware of currently, not the ideal methods you would like to be in place. The data gathered with this questionnaire will be accorded utmost confidentiality and presented only in summary form without disclosing the name or affiliation of the respondent.

PART A: General Information

1. Describe your gender?

Male ☐ Female ☐ Other ☐

2. What is your age bracket?

Below 25 years ☐ 26-35 years ☐ 36-45 years ☐ above 56 years ☐

3. Describe your highest level of formal education?

Doctorate ☐ Masters ☐ Degree ☐ Diploma ☐

Certificate ☐ Other

.....

4. What is your current designation?

Founder ☐ Owner ☐ Manager ☐

5. Do you have relevant formal training for your current role?

Yes ☐ No ☐

6. How long has your organization been in operation?

Below 1 year ☐ 2-4 years ☐ 5-7 years ☐

7. How many employees do you have in your firm?

Below 10 ☐ 10-49 ☐ 50-99 ☐

8. **Situational Analysis Practices**

- i. ⁶ Does your SME periodically gather and analyze data about the market and other external or internal factors which affect its operation and business?

Yes [] No []

- ii. If yes, how often do they gather and analyze this data?

Monthly [] Quarterly [] Semi-annually []

Annually [] Continuous [] Other []

Please specify.....

- iii. Is the external or internal market analysis used to identify key strengths, weaknesses, opportunities and threats to your business?

Yes [] No []

9. **Strategy Formulation**

- i. Did you have a strategic plan during day 1 of operations?

Yes [] No []

- ii. ¹ Does the company have a vision statement?

Yes [] No []

- iii. Is the vision statement written or unwritten?

Written [] Unwritten []

- iv. Does your company have a mission statement?

Yes [] No []

v. Is the mission statement written or unwritten?

Written [] Unwritten []

vi. Who is in charge of developing your company's mission and vision statements?

Owner of the company [] Top management team []

All employees []

vii. Strategy Formulation Practices

Please describe the extent to which each statement applies to your organization.

Use the scale below to tick [x] as appropriate. The scale in use here is as follows:
SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree
to rate the statements as it relates to your business.

32 Descriptive Statements on Strategy Formulation Practices	SD	D	N	A	SA
3 The company has deliberately set its strategic direction in form of vision statement, mission statement and core values					
The company collects and analyzes information about its external environment to understand their implications					
The organization's chief executive officer takes formal responsibility for the firm's strategic management planning					
Strategic formulation is a top priority activity at your organization					
SME hires the services of a consultant in the process of strategy formulation					
Members of staff are briefed and taken through the strategic management plan before implementation					
The organization has a planning department or committee that steer heads policy formulation					
In strategy formulation, assessments of all resources at your organization (i.e. physical, financial, and human resources) are assessed					
Your organization identifies competitors and determine the reasons for success of competitors and consider this in strategy formulation.					

Your firm's strategic behavior and choices are in line with environmental developments and this is incorporated in strategy formulation					
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10. Strategy implementation

i. Who does strategy implementation in your organization?

Owner / Directors [] Top Management []

Junior staff [] All levels of staff []

ii. Who owns implementation and outcome of organization strategy in your firm?

Directors/Owner [] Top managers []

All levels staff []

iii. Please describe the extent to which each statement applies to your organization. Use the scale below to tick [x] as appropriate. The scale in use here is as follows: SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree to rate the statements as it relates to your business.

Descriptive Statements on Strategy Implementation Practices	SD	D	N	A	SA
The company's strategy is adequately and comprehensively communicated to members of the staff					
Adequate resources are allocated to strategy implementation					
The organization's strategy is matched to organizational structure					
The organization strategy is implemented purely based on set objectives and expected performance					
The organization is keen on implementing organization strategy in a way that yield highest performance					
There are motivational systems in place to ensure success of strategy implementation					
Company strategy is adequately and comprehensively communicated to members of the staff					
Adequate resources are allocated to strategy implementation					

The organization's strategy is matched to organizational structure					
The organization's strategy is implemented purely based on set objectives and expected performance					
The organization is keen on implementing organization strategy in a way that yield highest performance					

11. Strategy Evaluation

- i. Using a 5 point scale, to what extent are the outcomes of the evaluation utilized in either changing the current strategic plan or in future planning processes
- Not at all [] Small extent [] Moderate extent []
- Large extent [] Very large extent []

- ii. Please describe the extent to which each statement applies to your organization. Use the scale below to tick [x] as appropriate. The scale in use here is as follows: SD-Strongly Disagree; D-Disagree; N-Neutral; A-Agree; and SA-Strongly Agree to rate the statements as it relates to your business.

Descriptive Statements on Strategy Evaluation Practices	SD	D	N	A	SA
There is monitoring, evaluation and control of the implementation of strategy at your organization					
There is clearly defined and measurable performance targets for each strategic management plan element					
The company review strategic management decisions					
Strategy evaluation involves review of the process of strategy formulation and implementation					
The success of strategy evaluation is done on regular basis and corrective action is taken on timely basis on the strategy for highest performance					
There exists clear communication channels within the company to enable evaluation of strategy performance					

The success of a strategy is implemented and evaluated at end of implementation stage and corrective measures taken.					
Comparison is undertaken					
Performance is measured					
Corrective action is undertaken					
Strategy implementation time line is evaluated					

12. Organization's Performance

- i. In this section, please help us rate your performance. Please describe the extent to which each statement applies to your organization.

Descriptive Statements on the organization's Performance last year	Far Above Average	Slightly Above Average	Average	Slightly Below Average	Far Below Average
The overall performance of the firm was?					
The overall performance of the firm compared to its major competitors?					
The overall sales growth of the firm compared to its major competitors was?					

End - Thank you for taking time to fill this questionnaire

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