STRATEGIC PLANNING AS A DETERMINANT OF PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES:

A CASE OF ELGEYO MARAKWET COUNTY, KENYA

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DECLARATION

Thesis is my original work and has not been presented in this or any other university for conferment of degree.

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ABBREVIATIONS AND ACRONYMS

BSC - Balanced Score Card

CBO - Community Based Organization

EMC - Elgeyo / Marakwet County

IT - Information Technology

PM - Performance Measure

RADAR - Results Approval Deploy Assess and Review

SME - Small and Medium Enterprise

TQM - Total Quality Management

UoE - University of Eldoret

WE - Women Enterprise

YE - Youth Enterprise

ABSTRACT

Ansoff and McDonnell (1990) defined strategic management as a process through which a firm manages its relationship with the environment in which it operates. It consists of strategic planning, capability planning, and management of change. Strategic management therefore is a continuous activity that enables the organization plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organization's weakness. This study aimed at assessing strategic planning as a determinant of Performance in Small and Medium Enterprises. The objectives of the study were: - To determine the effects of financial perspective on performance, to evaluate the effects of customer perspective on performance and to assess the contribution of the internal business perspective on performance. The study was informed by Balanced Score Card theory and a survey research design was used. A population of 2000 small and medium enterprise business persons in Elgeyo Marakwet County was assessed. A sample size of 95 from the target population was used. The study employed a stratified sampling technique for the sub-county and then simple random sampling. Data was analyzed by linear multiple regressions. In conclusions the County Government did not support SMEs as far as financial perspective is concerned for instance giving out loans and these retarded the sales growth. Correlation results revealed a significant and positive relationship. From the findings HO1 showed that there is no significant relationship between financial perspective and performance with ($\beta = 0.017$, $p < 0.847$). HO2 findings showed that customer perspective and performance had no relationship with ($\beta = 0.299$, $p < 0.009$) and finally HO3: indicated that internal business perspective and performance contributed less to the performance as it was indicated with a ($\beta = -.061$, $p < .487$). The study made the following recommendations: - There is need for the county government and microfinance institutions to support SMEs financially that is by offering them cheap, affordable and low interest loan. There is need for increased product quality of SMEs, maintain customer loyalty, increased customer satisfaction. On internal business perspective on the performance in Small and Medium Enterprises, County government should improve working environment to be conducive for SMEs. The study suggests that other study be done and verify the dimensions developed in this study and to enhance the generalizability of the research findings, future inquiries could employ more diversified samples across genders and diverse international customer environments.

TABLE OF CONTENTS

Table of Contents

DECLARATION ..... **II**

ABBREVIATIONS AND ACRONYMS ..... **III**

ABSTRACT ..... **IV**

TABLE OF CONTENTS ..... **V**

LIST OF TABLES ..... **IX**

LIST OF FIGURES ..... **X**

OPERATIONAL DEFINITION OF TERMS ..... **XI**

ACKNOWLEDGEMENT ..... **XII**

CHAPTER ONE **1**

INTRODUCTION **1**

1.1 BACKGROUND OF THE STUDY **1**

1.2 STATEMENT OF THE PROBLEM 2

1.3 PURPOSE OF THE STUDY 4

1.4 OBJECTIVES 4

1.4.1 General objective 4

1.4.2 Specific Objectives 4

1.5 HYPOTHESIS 5

1.6 SIGNIFICANCE OF THE STUDY 5

1.7 SCOPE OF THE STUDY 5

1.8 LIMITATION OF THE STUDY 6

CHAPTER TWO 7

LITERATURE REVIEW 7

2.1 THEORETICAL PERSPECTIVES 7

2.2 CONCEPT OF PERFORMANCE 11

2.3 CONCEPT OF STRATEGIC PLANNING 13

2.4 LINK BETWEEN STRATEGIC PLANNING AND PERFORMANCE 16

2.4.1 Financial Perspective on Performance 17

2.4.2 Customer perspective on performance 18

2.4.3 Internal Business Perspective on performance 22

2.5 CONCEPTUAL FRAME WORK 26

CHAPTER THREE 28

MATERIALS AND METHODS 28

3.1 STUDY AREA 28

3.2 RESEARCH DESIGN 28

3.3 TARGET POPULATION 28

3.4 SAMPLING, SAMPLE AND DESIGN 29

3.4.1 Sample Size 29

3.4.2 Sampling Design 30

3.5 DATA COLLECTION INSTRUMENTS 30

3.6 DATA COLLECTION PROCEDURES 30

3.7 MEASUREMENT OF VARIABLES 30

3.7.1 Reliability 31

TABLE 3.3: RELIABILITY STATISTICS 31

3.7.2 Validity 31

3.8 ETHICAL CONSIDERATIONS 31

3.9 DATA ANALYSIS 32

CHAPTER FOUR 33

RESULTS 33

4.1 DEMOGRAPHIC CHARACTERISTICS 33

4.1.1 Gender of Respondents 33

4.1.2 Age of Respondents 34

4.1.3 PLACE OF RESIDENCE 34

4.1.4 Marital Status 35

4.1.5 Education Level 36

4.1.6 Number of Dependants 37

4.2 FINANCIAL PERSPECTIVE ON PERFORMANCE OF SMES 37

4.3 CUSTOMER PERSPECTIVE ON PERFORMANCE OF SMES 41

4.4 INTERNAL BUSINESS PERSPECTIVE ON PERFORMANCE OF SMES 44

4.5 THE RELATIONSHIP BETWEEN THE STUDY VARIABLES 46

4.5.1 Correlations 47

4.5.2 Hypothesis Testing using Regression Analysis 48

RESULTS OF THE TESTED HYPOTHESIS **49**

CHAPTER FIVE **53**

DISCUSSIONS **53**

5.1 DISCUSSION OF FINDINGS 53

5.1.1 Effects of Financial Perspective on Performance 53

5.1.2 Effects of Customer Perspective on Performance of SMEs 54

5.1.3 Contribution of the Internal Business Perspective on Performance of SME's. 55

CHAPTER SIX **57**

CONCLUSIONS AND RECOMMENDATION **57**

6.1 CONCLUSIONS 57

6.2 RECOMMENDATIONS 57

6.3 AREAS OF FURTHER STUDIES 58

REFERENCES **59**

APPENDIX 1: LETTER TO THE RESPONDENTS **65**

APPENDIX 11: RESEARCH QUESTIONNAIRE FOR RESPONDENTS **66**

LIST OF TABLES

Table 3.3: Showing Reliability statistics 31
Table 4.1: Place of Residence 35
Table 4.2: Marital Status Distribution 36
Table 4.3: Education Level of Respondents 36
Table 4.4: Financial Perspective on Performance of SMEs 38
Table 4.5 Customer Perspective on Performance of SMES 41
Table 4.6: Internal Business Perspective on Performance 44
Table 4.7 Association of variables 47
Table 4.8 Regression 48
Table 4.9 Model Summary 50
Table 4.10 ANOVA 51

LIST OF FIGURES

Figure 2.1 Conceptual framework 26
Figure 4.1 Gender of Respondents..... 33
Figure 4.2: Age of the Respondents..... 34
Appendix 11:Figure : Map of Elgeyo Marakwet..... 71

OPERATIONAL DEFINITION OF TERMS

Strategic Plan: In the study referred to a list of actions ordered so as be attained over a particular period, certain desired objectives derived from a careful analysis of the internal and external factors likely to affect the organization , which will move the organization from where it is to where it is intended to be.

Performance is a measure of how well a mechanism/process achieves its purpose. In enterprise management.

Organization's performance in the study it will refer to how well the organization is managed and the value the organization delivers for customers and other stakeholders. Or it indicates performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it.

Small and Medium Enterprises (SMEs): are defined according to their staff headcount often taken to be less than 100 members) since that information is readily available. This, therefore, refers to the literal definition of SMEs according to Waweru (2007) that incorporates micro, small and medium enterprises.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMES) are considered to be the principal driving force of economic development in all economies. The small and medium sized sector is increasingly recognized as the vehicle for economic development in both developed and developing nations. It is a major source of employment, revenue generation, innovation and technological advancement therefore; SMEs have become a major asset in the economy because most of the countries in the world depended on small and medium enterprises which have increased in recent years. The individual performance of each enterprise determines economic development (Harrison and Freeman, 1999).

Strategic Planning plays a crucial role on firms' performance because it gives the strategic direction that a firm will follow to achieve its goals. The performance of an enterprise is determined by the business strategy it adopts. Many researchers have associated business strategies with performance, distinguishing between strategies associated with high and low performance. Effective strategies are known to improve an organization's performance (Poster, 2010). Thus, strategic planning is important to the development of a resilient SME sector (Anderson & Sohal, 1999).

The SMEs face many challenges in a globalized environment, for example, lack of financing, low productivity, lack of potential managerial abilities, access to technology, heavy regulatory burdens, among others (Wang, 2003). Ting (2004) identified five key challenges: lack of access to finance, human resource constraints, limited or inability to

adopt technology, lack of information on potential markets and customers, and global competition. In addition, he argues that there is a high risk that SMEs would be wiped out if they do not increase their competitiveness in the new, rapidly changing world of globalization. It has been documented that the barriers faced by SMEs in Kenya tend to undermine their performance. Therefore Strategic planning is extremely important for the success.

Reports from IMF (2012) indicates that in Kenya, SMEs are vital and the sector employs 74% of the labor force and contributes over 18% of the country's Gross Domestic Product (GDP). Despite its great contribution to Kenyan society, and the numerous policy prescriptions, SMEs encounter series of challenges and constraints that inhibit its growth. The effect is less growth, low competitiveness, high failure rate, and an average lifespan of five years. On the other hand, for a long time strategic planning is known to be an essential activity that generates positive outcomes for firms of all sizes. However, few studies have addressed the strategic planning practices among SMEs in Africa and in particular Kenya.

1.2 Statement of the problem

Performance is driven by strategic planning, findings generally support the contentious that there are greater advantages to planning than not planning. However, given all the evidence, it is well recognized that strategic planning is rare or non existent in the SMES. In practice SMES tend to orientate towards short term operational rather than long term strategic issues and decision making tends to be reactive rather than proactive. Jones

(1982); Gaskill, Van Anken and Manning (1993), Brothers, Andienssen and Nicolael (1998); Storne house and Permberton (2002), Mazzuri (2004).

The SME sector in Kenya, like in other developing countries, plays an indispensible role in employment creation, investment distribution, and social welfare and in this respect contributes to reduction in poverty levels. It was also noted that the survival rate of most of these institutions is a mere five years on average and that 80% of them will be non-existent by this time (Gerber, 2001). This lose in production is likely to slow the development path as envisioned in the Kenya Vision 2030. Based on literature review, the role of strategic planning is highlighted as critical in enhancing learning and growth, improving internal business processes, improves focus on customer and hence increases competitive advantage and financial performance. These direct effects of strategic planning eventually contribute to survival and success of most SMEs especially in times of increased competitiveness in the global, regional and local environment.

Small and Medium Enterprises (SME) Strategic Planning are frequently adhoc and intuitive rather than formally written and provide little basis upon which business performance can be measured or analysed. (Kelmar and Noy 1990). However, while some studies (Andersen, 2000) show that strategic planning increases performance; others reveal no association (Beamish, 2000; Akinyele and Fasogbon, 2007). In spite of the great interest in understanding the problems faced by SMEs, there is an apparent inadequacy of literature on strategic planning and performance of SMEs in Africa (Aldehayyat and Twaissi, 2011). Studies that have been done in Kenya, have acknowledged that most SMEs apply the management functions of planning, organizing,

leading, and control (Njanja *et al*., 2010). The linkage between Strategic planning as determinant of Performance is still an area that requires a study because according to (Akinyele and Fasogbon 2007) indicated that small organizations like kiosks, hawking business, retail shops, wholesalers and small firms that do not use strategic planning will not succeed in terms of performance hence this study is geared towards addressing this gap.

1.3 Purpose of the study

The purpose of the study was to determine the effects of strategic planning on performance of small and medium enterprises in Elgeyo Marakwet County. Specifically, the purpose of the study was to address: effects of financial perspective ,customer perspective and internal business perspective on performance of SMEs.

1.4 Objectives

1.4.1 General objective

To evaluate strategic planning as a determinant of performance of Small and Medium Enterprises in Elgeyo Marakwet County.

1.4.2 Specific Objectives

(i) To determine the effects of financial perspective on performance of SMEs.

(ii) To evaluate the effects of customer perspective on performance of SMEs.

(iii) To assess the contribution of the internal business perspective on performance of SMEs.

1.5 Hypothesis

H01: There is no significant relationship between financial perspective and performance.

$H_0$2: There is no significant relationship between customer perspective and performance.

$H_0$3: There is no significant relationship between internal business perspective and performance.

1.6 Significance of the study

Effective strategies are known to improve an organization's performance (Poister, 2010). Thus, strategic planning is important to the development of a resilient SMEs sector (Anderson & Sohal, 1999). Strategic planning is important for the success of an organization. Studies have also shown that the high failure rate among small firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castragiovanni, 1996). According to Nobel (1999), the unsuccessful consumption of strategic planning is the major barrier to achieve expected or estimated performance.

The primary objective of this study is to identify the relationship between the strategic planning practiced in SMEs and their business performances. This is followed by determining which perspectives are particularly important to their business performances. The rationale, timeliness and/or relevance of the study to existing conditions must be explained or discussed.

1.7 Scope of the study

The research focused on strategic planning on performance in Small and Medium Enterprises in Elgeyo Marakwet County.

1.8 Limitation of the Study

The study was limited by the fact that questionnaires were the only instruments used to collect data. The main limitation with this is that some respondents could have over-rated due to nature of business with fear of being targeted by the department of revenue by county government.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical perspectives

The Balanced Scorecard is a model that was developed by Kaplan and Norton (1995) , the model translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. It is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals (Kaplan and Norton, 2001).Balanced scorecard (BSC) has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies. As the objectives and measures employed in the BSC they are derived from an organization's vision and strategy, the BSC incorporates financial and non-financial measures in one measurement system and provides executives with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures.

.Research shows that there exist a number of problems when the BSC is applied to SMEs (Kaplan and Norton 1992; 1996; 2001; McAdam 2000). These problems can not be alleviated by simply reducing the rigor in the BSC. First, the BSC's mechanization and inflexibility does not fit the flexible environment of SMEs. The BSC focuses on long-term measures; in contrast, SMEs are usually changing their operations in accordance with market conditions. Second, SMEs often keep a closer relationship with their customers, as compared with large organizations. A large number of employees in SMEs have direct customer contacts (McAdam 2000). Third, the processes within SMEs are much more temporal and less defined than those in large organizations. The formalized process of large organizations might restrict the rapid and spontaneous cross functional process in SMEs.

Balance Score Card measures business performance across three different perspectives: the financial perspective, the customer perspective, the internal business process perspective. Therefore with the use of three perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more balanced view of business performance in the area of researcher. Many studies have recommended that business failure is due to organization's failure to plan. As Norman and Thomas (2003) noted, without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace. This view is shared by various empirical studies that show a link between strategic planning and firm success (Bracker et al., 1988; Lyles et al., 1993; Schwenk and Shrader, 1993; Rue and Ibrahim, 1998; Gibson et al., 2002). Therefore strategic planning is a very important research topic for organizational success. Studies have shown that the higher failure rate among small

firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castrogiovanni, 1996).

To ensure sustained development of the sector, it is vital to understand why some SMEs are more successful than others. Comprehensive review of studies in SMEs (Lurie 1987; Schwenk & Shrader 1993; Miller & Cardinal 1994; Hormozi, Sutton, McMinn & Lucio 2002) suggest that, ceteris paribus, a key determinant of business success lies in the absence or presence of strategic planning. This is supported in the empirical literature. With respect to performance, strategic planning is generally more common in better performing SMEs. For example, SMEs that engage in strategic planning (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Bracker, Keats & Pearson 1988; Berman et al. 1997; Carland & Carland 2003;Gibson & Casser 2005). A key advantage of the balanced scorecard is that it puts strategy, structure, and vision at the centre of management's focus. Furthermore, BSC was constructed to tell the story of an organization strategy and to guide its implementation.

Balanced scorecard emphasizes an integrated combination of financial and non-financial performance measures. It keeps management focused on the entire business process and helps ensure that actual current operating performance is in line with long-term strategy and customer values. Moreover, Chow, Haddad, &Williamson (1997) argue that BSC retains traditional financial measures and these financial measures are viewed in the larger context of a company's competitive strategies for creating future value through investment in customers, suppliers, employees, processes, technology, and innovation.

The cause-and-effect linkages of the BSC confine the difficulty and interrelationships of a strategy, facilitating explicit tradeoffs among quality, cost, and access critical review of the literature on the subject is done, showing some data on SMEs in Kenya.

The Balanced Scorecard neglects the most fundamental question the competitor perspective (Neely et al. 1995). The approach used by the Balanced Scorecard is not consistent with a complete performance measurement system; rather, it merely provides senior managers with a tool to monitor performance against strategic and operational objectives (Yasin et al. 2004). The BSC is more like a strategic management tool than a true, complete PM system (Kaplan and Norton ,2001).□□The BSC does not address the stockholders ; end user, employee, suppliers, regulators, pressure groups and local communities. The BSC does not take a broad enough view of the stakeholders who interact with an organization (Neely and Adams 2001). The scorecard has floundered as a device for measuring and rewarding performance. (Meyer 2002). The BSC is just taken as a boilerplate. It is hard to work in many enterprises (Ittner and Larcker 2003). It does not reflect different dimensions of performance addressed by the syematic, measurable, atainabe realistic and timely (SMART) pyramid or Results and Determinants Model. Neither the customer nor internal perspective is defined in terms of performance dimensions that regard success, such as the generic strategic-objectives of quality, cost, delivery and flexibility (Neely 2002). Organizations have many opportunities, but they also face several threats; their measurement systems need to be able to capture both so that executives can manage the business with a clear view of both scenarios (Neely 2002).

2.2 Concept of Performance

Performance is a measure of how well a mechanism/process achieves its purpose. In enterprise management, Moullin (2003) defines an organization's performance as how well the organization is managed and the value the organization delivers for customers and other stakeholders. Srinivasan, Woo & Cooper (1994) indicates performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it.

Researchers (Lau, Zhao & Xiao 2004; Prajogo & Sohal 2003; Rahman & Sohal 2001) identified a positive relationship between best business practices and business performance. Furthermore, a study by Pushpakumari and Wijewickrama (2008) in which County, relating to both large firms and SMEs, constantly emphasizes the relationship between business practices, management activities and firm performance on time of the study. Mandal, Venta and El-Houb (2008) note that best business practices produce best performance. This study also explains that there are several ways through which business practices can be established in specific areas, which can lead to outstanding business performance.

Measuring performance is a multi-dimensional concept. Effectiveness and efficiency are the two fundamental dimensions of performance; this is emphasized by Neely, Adams *et al. (2002)* effectiveness refers to the extent to which stakeholder requirements are met, while efficiency is a measure of how economically the firm's resources are utilized when providing a given level of stakeholder satisfaction. To attain superior relative-performance, an organization must achieve its expected objective with greater efficiency

and effectiveness than its competitors (Neely 1998). To illustrate efficiency, effectiveness, and the value delivered, multi-measures should be used. Though their forms vary widely, financial indicators are traditionally used; Neely (1998) further expounded upon manufacturing performance measures, suggesting that Performance measurement five key-dimensions should be assessed: quality, delivery speed, delivery reliability, price (cost), and flexibility. By measuring all of these factors, performance is thus balanced and multi-dimensional, better reflecting stockholder interest.

Performance is the perfect opportunity to address long-term goals that may not be on the everyday to-do list. Not only does this provide the employee with an opportunity to be of greater use to an organization, the employee feels pleased and valued. Lighting the way toward a successful career path inspires loyalty and stability and can improve the bottom line, especially when the employee's first concern is the health of the business, and subsequently, her career. Celebrating a job well-done is the easy part of the performance appraisal. Areas of improvement are not so easy, nevertheless, no one is perfect, and the performance appraisal is an ideal time to diplomatically highlight areas that need improvement. Even the most valuable employee could benefit from additional training, while those who are on the cusp of dismissal need the heads-up.

When a company has detailed information on employee performance, business decisions become easier. Filling open positions with existing staff strengthens the organization and promotes loyalty. Knowing which employees display what strengths improves the speed with which projects can be assigned. Appraisals also provide a framework when making decisions about compensation and layoffs. If the organization becomes the unfortunate

party to a lawsuit, the performance appraisal can refute or support claims. As a result, the effective use of performance appraisals helps an organization operate efficiently and with focus.

2.3 Concept of Strategic Planning

Strategic planning is the determination of the basic, long-term aims and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for achieving those aims. O'Reagan and Ghobadian (2007) in their study found that 81% of companies worldwide reported doing strategic planning and in the US, for example, 89% practice it. Baker, Addams and Davis (1993) in their study were of the practice of strategic planning in small US high-growth firms found that strategic planning has positive influence on company performance.

In this regard Kudla, (1980); Grinyer and Norburu, (1975) assert that some of the characteristics of strategic planning include; goals and objectives set for at least three years into the future; its relationship with the environment; a formal strategic plan consisting of written plans; takes into account alternative strategic options; identifies future resource requirements; encompass procedures for on-going monitoring and modification; and includes environmental scanning. Schayek (2011) in his study on the effect of strategic planning on SMEs, examined three characteristics of strategic planning, that is; (a) whether plans have been written; (b) the detailed scope of strategic planning and; (c) the period of time covered. Kraus *et al*. (2006) analyzed the implications of essential elements of strategic planning in small businesses that is (a) time span (b) formalization and (c) frequency of control and use of planning instruments.

Moreover, Phillips and Peterson (1999) asserts that each of the three business strategy components, that is (a) the strategic planning process (b) the strategic plan and (c) implementation affect performance directly, while unanticipated environmental and firm characteristics are key moderating variables. Given the role of strategic instruments in large companies and the notion that rational decision-making should prevail in enterprises regardless of size, practitioners and academics have called for increased use of strategic planning in small and medium enterprises (SMEs .Strategic planning is extremely important for the success of an organization. Studies have also shown that the high failure rate among small firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castragiovanni, 1996). According to Nobel (1999), the unsuccessful consumption of strategic planning is the major barrier to achieve expected or estimated performance; therefore this study will explore the practice of strategic planning in SMEs and to determine the effects of strategic planning on performances.

Relationship between strategic planning and business performance is still inconsistent is due to the use of different measures of business performance. Kaplan and Norton (1992) suggest the use of the balanced scorecard (BSC) to comprehensively determine the business performance. Strategic planning is very important for small and medium enterprises in the time of global competition, technological change and increased dynamics in markets. Even if many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success.

Strategic planning are increasingly being necessary for SMEs leaders in advanced organizations as their leaders search for to broaden strategic judgments throughout the corporation in order to create superior co-ordination through connecting the business plans to different parts of the organization; to leverage on the strategic development of different parts of the total organization; and to develop a more methodical approach to making big changes within the sections of the enterprise. The pressure of business planning on firm performance has received broad attention from management researchers. Past research indicates a positive relationship between planning and organizational performance (Sarason and Tegarden, 2003). While it may seem that business planning is a very open and formal process, research into smaller businesses has identified that in practice it can be haphazard and informal.

Different views and types of business plans catch the attention of the business world; different types of critics are perceived as unsupportive for the purpose of strategic development within organizations. This study therefore attempts to rectify this imbalance by examining the relationship between strategic planning and organizational performance in a SMEs environment.. Cummins *et al.,* (2000) explains elements such as readiness to change are also part of the informal planning process which is integral to SMEs; where pro action require to SMEs involvement in prediction and anticipation in their planning activities, with a view to acting moderately than reacting. Similarly Merrilees and Frazer (2006) found that highly winning entrepreneurial franchisees exhibit hidden marketing success in relation to heir personalities, force to creativity, and ambition.

2.4 Link between Strategic planning and Performance

Strategic planning consists of planning processes that are undertaken in firms to develop strategies that might contribute to performance (Tapinos *et al.*, 2005). Previous studies have operationalised strategic planning as a multidimensional concept consisting of goals and objectives set for at least three years into the future, its relationship with the environment, formal or written plans, monitoring and modification, and taking into account unanticipated environmental and firm characteristics as moderating factors (Phillips and Peterson, 1999; Kraus *et al*., 2006). This study extends this concept and identifies strategic planning key variables as its formality, time horizon, strategic planning processes that entail internal and external environmental assessment, strategies adopted, and implementation and control.

Performance objectives, and the supporting performance measures associated with them, are considered the core for assessing performance of small and medium enterprises. The main reason why the relationship between strategic planning and business performance is still inconsistent is due to the use of different measures of business performance.

This study was based on two theories, which are the Dynamic Capabilities Theory (Teece *et al* 2007) and balance score card Theory. In The Dynamic Capabilities Theory, a capability is a set of learned processes and activities that enable SMEs to produce a particular outcome. Ordinary capabilities are like best practices they typically start in one or two SMEs and spread to the entire industry. Dynamic capabilities, unlike ordinary capabilities, are distinctive, that is, unique to each SMEs and rooted in the company's history. They are captured not just in routines, but in business models that go back

decades and that are difficult to imitate. These theories are too relevant to this study because they describe the process through which the pursuit of a strategy not only utilizes a firm's resources, but also urge them through the creation of skills and knowledge that are the products of experience.

Kaplan and Norton (1992) suggested the use of the balanced scorecard to comprehensively determine the business performance of firms. BSC measures business performance across three different perspectives: the financial perspective, the customer perspective and the internal business process perspective. With the use of three perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more balanced view of business performance. The balanced scorecard is a conceptual framework for translating an organization's strategic objectives into a set of performance indicators distributed among three perspectives: Financial, Customer and Internal Business Processes. Some indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure the long term drivers of success. However the balance scores card seemly to be more practical to the current situation. Through the balanced scorecard, an organization monitors both its current performance (finance, customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems ability to learn and improve.

2.4.1 Financial Perspective on Performance

Financial perspective is a measurement indicator as to whether the company's strategy, implementation and execution are affecting the bottom line enhancement. Financial goals

for big companies would be profitability, growth and shareholders' value. But these are different from the financial goals of SMEs who do not have large volume of resources. Kaplan and Norton (1992), For the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992).

2.4.2 Customer perspective on performance

Customer perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. In the governmental model, the principal driver of performance is different than in the strictly commercial environment; namely, customers and stakeholders take preeminence over financial results. In general, public organizations have a different, perhaps greater, stewardship/fiduciary responsibility and focus than do private sector entities. Customers' concerns tend to fall into four categories: time, quality, performance and service, and costs (Kaplan and Norton 1992). Time measures, when companies receive orders from customers to deliver the products and services to the customers. While quality of a product detect level as perceived by the customers. Whereas performance and services look at how the company's products create values for the customers. Finally costs look at the extent the customers perceived the selling prices of the products and services as value for money invested. Firms frequently use account teams to better engage with their business customers.

Customer therefore need to account teams typically consist of an account manager responsible for the overall customer relationship and revenues, and a number of functional specialists with deep technical and/or product expertise. For example, a turbine manufacturer's key account team for a utility customer may include a key account manager, a finance specialist with expertise in leasing, a supply chain and manufacturing specialist with expertise in plant reconfiguration, an information technology (IT) specialist with expertise in tracking real-time turbine performance, and a service specialist with expertise in maintenance and support. Thus, key account managers work with several functional experts to better serve their customers. The main idea underlying the use of account teams is that an account manager can focus primarily on tracking customer developments and building customer relationships, and at the same time use deep technical expertise as needed from functional specialists in the account team. propose, paradoxically, that the more an account manager invests in learning about and developing his or her customer makes transaction specific investments in the customer the more the account manager becomes concerned about opportunism by functional specialists in his or her own account team. We refer to this "threat from within" as internal opportunism. As propose that concern about internal opportunism leads an account manager to block specialists from the customer to the detriment of performance with the customer. This suggests the ability of one function (e.g., sales and marketing) to truly traverse a firm's internal boundaries to better serve a firm's customers may be more challenging than previously thought.

Babalola (2009) suggests that SMEs cannot avoid the modern global economy and its demand for innovative business as a precondition for competitiveness. Given their small

size and related pool of professionals, SMEs need to work very hard on members' innovation and related personal traits. Making a SME successful must be considered as aninvention-innovation-diffusion process that tackles: the businesses mix of the given size, the SME as an entrepreneurial achievement, and entity of values/culture/ethics/norms (Georgellis, Joyce & Woods, 2000). Thus all preconditions concerning both the content and the process of innovation must be considered, which requires the holism and therefore systemic rather than one-sided thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, entrepreneurs, SME's members must also be innovated along with their knowledge.

The focus on internal opportunism in this research contrasts with much of the extant literature on opportunism. It is well known that account managers and firms that make transaction-specific investments (TSIs') in customers run the risk of opportunistic behavior by their customers, the targets of the investments (Jap and Anderson 2003, Wathne and Heide 2000). This is because if the account managers/firms do not accede to potential opportunistic demands of customers, they stand to lose their locked-in investments in the customer (Hwang 2006).

In the present study, we argue that in addition to the risk of opportunistic behavior by customers, account managers are also concerned about opportunistic behavior by the functional specialists in their own teams, even though they are not targets of the investments. The phenomenon of opportunistic behavior by non targets of investments within a firm making transaction-specific investments has been largely ignored in the literature. To our knowledge, this is the first study to explore the phenomenon and its

behavioral and performance implications. It is likely that prior research has focused less on internal opportunism because of the presumption that a firm can control it through monitoring or fiat (Williamson 1975). A few scholars, however, suggest that internal opportunism may be present and perhaps even pervasive (Baker *et al*,. 1994, Eccles and White 1988, Ghoshal and Moran 1996, Moschandreas 1997).

In an account team context, there may be several Motivations for functional specialists to engage in opportunistic behaviors. For instance, in the case of the turbine manufacturer's key account team discussed earlier, the finance specialist could encourage a customer to opt for a lease option that the firm's finance department wants to push, but is not in the best interest of the customer. Similarly, the technical specialist could promise an unrealistically quick installation schedule simply to win the customer's business so as to be able to put benched technicians and specialist) level. Interestingly, however, argued that in addition to the risk of opportunistic behavior by customers, account managers are also concerned about opportunistic behavior by the functional specialists in their own teams, even though they are not targets of the investments. The phenomenon of opportunistic behavior by non targets of investments within a firm making transaction-specific investments has been largely ignored in the literature. To our knowledge, this is the first study to explore the phenomenon and its behavioral and performance implications.

Prior research has focused less on internal opportunism because of the presumption that a firm can control it through monitoring (Williamson, 1975). A few scholars like Baker *et al,(*1994) suggest that internal opportunism may be present and perhaps even pervasive.

In an account team context, there may be several motivations for functional specialists to engage in opportunistic behaviors. For instance, in the case of the turbine manufacturer's key account team discussed earlier, the finance specialist could encourage a customer to opt for a lease option that the firm's finance department wants to push, but is not in the best interest of the customer. Similarly, the technical specialist could promise an unrealistically quick installation schedule simply to win the customer's business so as to be able to put benched technicians to work.

From an account manager's perspective, the possibility of such opportunistic behavior by functional specialists can be deeply concerning. If the customer subsequently realizes it has been taken undue advantage of, it may take its business to a competitor, thus undermining the account manager's TSIs in cultivating the customer relationship. For this reason, concern about internal opportunism can lead an account manager to take safeguarding actions such as blocking functional specialists' access to customers and to customer information. This, in turn, can hurt the firm's performance with the customer (Cummings, 2004, Reagan's *et al.,* 2004). Thus, account managers' fear of internal opportunism can create a conundrum it can lead them to push away the very specialists available to help them.

2.4.3 Internal Business Perspective on performance

Internal Business perspective focuses on the internal business results that lead to financial success and satisfied customers. To meet organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes will be satisfactory. Internal

business processes are the mechanisms through which performance expectations are achieved. In terms of the internal business process perspective, metrics on this perspective allow management evaluate and judge how well business is operating and how well their products and services meet customer expectations. Although customer-based measures are important, they must translate these overall measures. Performance, have realized that the market value of their property increases with greater

Whereas, those found to be poor performers, lack innovation, organizational learning, have limited access to information on market opportunities, unaffordable business development services and lack of finance, adequate technical and management support services. Keizer et al. (2002) affirmed that the effects of organizational learning on SME performance are direct and indirect where SMEs found to incorporate innovation into their strategies are able to maintain market share, competitive prices level, and tend to be flexible and durable organization.

Participation of intangibles (intellectual) resources in relation to tangible property. In the period of the 80th years of the last century, the large number of companies' property (60 %) was tied to tangible property, and the rest was related to the intellectual resources. Today, the situation has significantly reversed. The global trend has caused that the company' value is largely associated with the intangible assets (80 %). The relationship among tangibles and intangibles resources of the world's best-known companies.

In a knowledge economy, intangible resources are the decisive factors of business success. The modern company recognizes the most business processes as a process of knowledge. Therefore, knowledge is considered a strategic company's resource, the

source of competitive advantage and business success. In the knowledge economy, the focus is on the data, information and knowledge as the most important organizational resources. Since the physical, organizational and human resources are limited by availability and price, there is a need that companies' manage them rationally and build a responsible approach to the market.

Covin and Slevin (1991) reports that SME performance is a fundamental feature for SME survival and sustainability where performance factors such as innovation and organizational learning have been found to spur business expansion, technological progress, and wealth creation in both start-up and existing firms hence being a key aspect of management of the organization. SME firms that innovate tend to achieve organizational visions and goals independently (Lumplin & Dess, 1996).

Beckman (1997) found that the knowledge is way for understanding all about information and data to actively enable performance, problem solving, decision making, teaching and learning of others. Nowadays, one successful company has the ability to learn faster than others, to change, and gained experience quickly turned into action. By this, the organization provides an advantage over competitors, and indeed, survival in the market (Trninic, 2008). New knowledge that the companies converted to a commercially applicable knowledge can increase their competitiveness by 70–80 % in global business conditions

For evaluating the real value of the company, its stability, possibility of survival and development, it is not enough to observe the company only through its physical assets and financial strength, (i.e. financial and monetary power), as suggested by the top

managers and experts. This influenced to the companies to identify and increase the transparency of intangible resources, to promote the intellectual capital and corporate knowledge through professional development, continuous training and education, with the development of information technology support. The most valuable intangible assets are related to relationships with customers, employees and their skills, knowledge and organizational culture aimed at innovation, problem solving and general business improvement. By the process of constant knowledge renewal, it is possible to create and add value thus increased the commercial transfer of skills and knowledge in applied experience.

2.5 Conceptual Frame work

Figure 2.1, strategic planning is the independent variable, performance is the dependent variable. The constructs for the independent variable are: Financial perspective, customer perspective and internal business perspective. The moderating variable is size of the SME's.

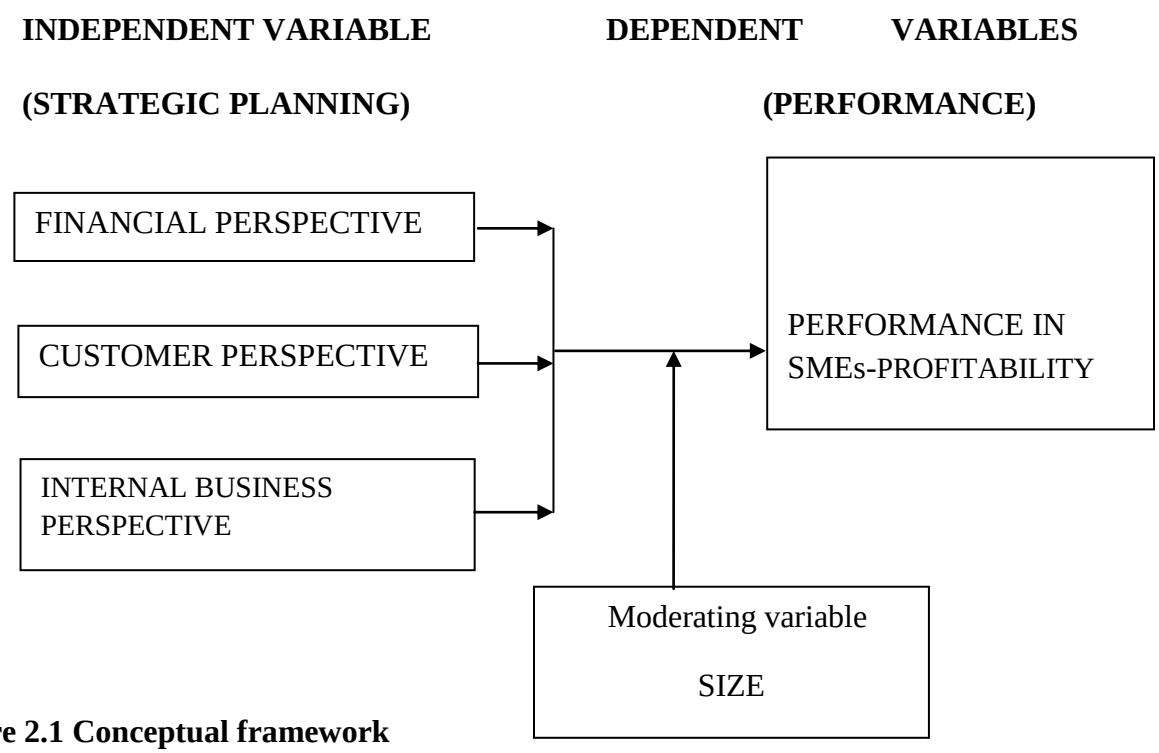


Figure 2.1 Conceptual framework

(Source: Kee-Luen, Thiam-Yong 2013)

Financial Perspective, financial goals for big companies would be profitability, growth and shareholders' value. But these are different from the financial goals of SMEs who do not have large volume of resources. Customer Perspective customer perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction

Internal Business Perspective internal Business perspective focuses on the internal business results that lead to financial success and satisfied customers. To meet organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Whereas the performance of SMEs was measured in terms of profitability, market share, sales, profit, customer satisfaction, numbers of customer return on investment.

CHAPTER THREE

MATERIALS AND METHODS

3.1 Study Area

The study was carried out among the SMEs operating in Elgeyo Marakwet County. The County has four Sub -Counties namely Marakwet East, Marakwet West, Keiyo North and Keiyo South. It borders, Uasin Gishu County on the western part, Baringo County on Eastern part, West Pokot on the Northern part and Southern part is Nakuru County. The Headquarters ot Elgeyo Marakwet is in Iten Town which has altitude of 2300 Meters above the sea level. The economic activities are small scale farming. The County is well known for athletics and Tourism attraction sites including; Kapnorok Game Reserve which is at the valley bordering Baringo County.

3.2 Research Design

The research employed cross sectional survey design. According to Sanders and Thorn, (2007) is a research that involves data collection from members of a sample for the purpose of estimating one or more population parameters. Survey design is appropriate for this study as it provides description and accounts of business events and objects of research in their natural setting and thus portrays the actual picture.

3.3 Target Population

Target population refers to entire group of individuals, events or objects having common observable characteristics (Mugenda and Mugenda, 1999). The study targeted Small and

Medium Enterprises (SME'S) in Elgeyo/ Marakwet County totaling 2000 (Elgeyo Marakwet, Trade County Office, 2014).

3.4 Sampling, Sample and Design

3.4.1 Sample Size

A sample is a subset of the population being studied. It represents the larger population and is used to draw inferences about that population. It is a research technique widely used in the social sciences as a way to gather information about a population without having to measure the entire population.

The sample of this study was obtained from a formula of Nassiuma (2000)

$$S = \frac{N\,(CV^2)}{CV^2 + (N-1)\,e}$$

Where

S= desired sample

N= population

CV= coefficient of variation (take 0.5)

e= tolerance at the desired level of confidence (take 0.05 at 95% confidence level) substituting the constants in the relationship above.

S= 0.25×2000 / 0.2+ (2000-1)0.0025 =95

Sample size = 95 representing 4.75% of the population.

3.4.2 Sampling Design

The study adopted stratified sampling where the County was sub divided into 4 sub counties namely; Marakwet East, Marakwet West, Keiyo North and Keiyo South. The simple random Sampling technique was used to pick respondents from each sub county. Each sub county is expected to generate 22 respondents which total to 88 and 7 from county Government totaling to 95.

3.5 Data Collection Instruments

Data was collected using questionnaires in form of likert scale whereby; 1=strongly disagree 2=Disagree, 3=Undecided. 4=Agree 5=Strongly Agree. It is the most widely used approach to scaling responses in survey research., When responding to a Likert questionnaire item, respondents specify their level of agreement or disagreement on a symmetric agrees-disagree scale for a series of statements. Thus, the range captures the intensity of their feelings for a given item. The questionnaires are important for the study because respondents are provided with questions for each construct.

3.6 Data Collection Procedures

The researcher collected the data with the help of research assistants .The instruments was left for a day then collected the following day.

3.7 Measurement of variables

The variables used were being generated by the researcher. The reliability and validity for the instruments was undertaken and reliability of 0.6 and above is adequate for the study (Cokins, 2004)

3.7.1 Reliability

Reliability of instruments is the measure of the degree to which research instruments yields consistent or data after repeated trials (Mugenda and Mugenga, 1999).The reliability was measured using the test-retest method at an interval of two weeks. A pilot of 10 business persons from Uasin Gishu County was undertaken. The alpha value of 0.6251was generated which is above the recommended measure of 0.6 therefore the instrument was considered reliable (Orodho, 2005).

Table 3.3: Reliability statistics

Cronbachs'Alpha	Number of items
0.625	90

3.7.2 Validity

Validity is the quality attributed to proposition or measures of the degree to which they conform to established knowledge or truth (Paton, 2002).The validity of the data collected was ensured by avoiding ambiguity by ensuring that all respondents understood the questions accurately. The validity of the instrument after its preparation was given to the supervisors for content improvement.

3.8 Ethical Considerations

The researcher assured the respondents of their confidentiality and unanimity.

Consequently, research permit was obtained from the National Commission for Science, Technology and Innovation (NACOSTI) and informed consent from the respondents was also provided.

3.9 Data Analysis

Data was analyzed qualitatively and quantitatively. Pearson correlation and multiple regression models were employed to compute the relationship between the independent variables and dependent variables respectively. Cohen and Cohen (1983), the study adopted linear multiple regression mode which try to show the relationship between variable .The formula for linear multiple regression models were as follows:

$Y=\alpha_1+\beta_1 x_1+ \beta_2 x_2+ \beta_3 x_3+e$

Where

Y= performance (dependant variable)

X= strategic planning determinants (independent variable)

α_1 = y intercept

$\beta 1$, $\beta 2$, and $\beta 3$ = coefficients of X_1, X_2, X3 respectively.

x_1=financial perspective

x_2=Customer perspective

x_3 =Internal business perspective.

e = Error term

CHAPTER FOUR

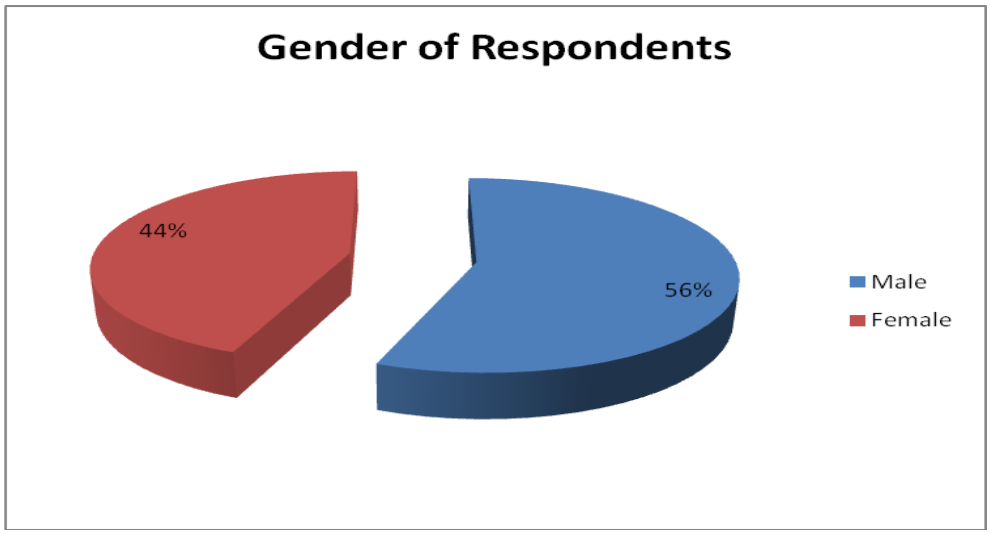
RESULTS

4.1 Demographic Characteristics

Background information of the respondent serves as great purpose in giving a grim light as far as the sample population and the research topic is concerned. Out of the 95 questionnaire that were distributed to small and Medium Enterprises, a total of 90 questionnaires were filled and returned. This indicated a total response rate of 94%.

4.1.1 Gender of Respondents

The researcher sought to find gender distribution of those involved in Small and Medium Enterprises. It is shown in figure 4.1 the study reveals that those engaged in Small and Medium Enterprises, 56% were male and 44% female respectively.

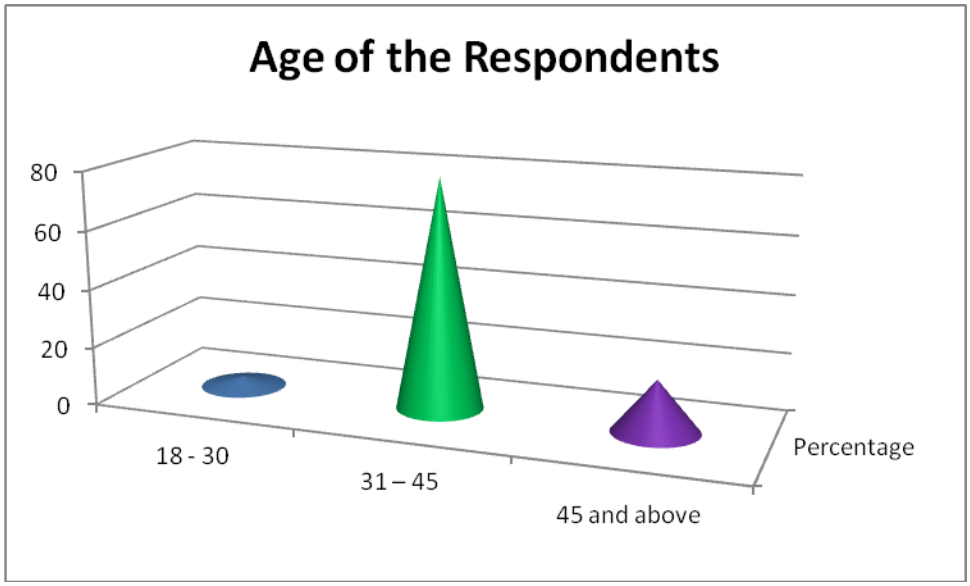


(Source : Survey data, 2015)

Figure 4.1 Gender of Respondents

4.1.2 Age of Respondents

Age of respondents was operationalized into three categories i.e. 18 - 30 years, 31 – 45 years and above 45 years. The responses are as summarized in the figure 4.2 above. The age of respondents was important and the study reveals that the distribution of age among the Small and Medium Entrepreneurs, the respondent were aged 31 – 45years with 78.9%, this was followed by 45 years and above were 17.8 and the least was from ages 18 – 30 years 3.3%. This implies that the Small and Medium Entrepreneurs were mature enough and had invested in the business unlike the minority aged 18 – 30 years who this group are still pursing their career and therefore investment is not a priority.



(Source :Survey Data, 2015)

Figure 4.2: Age of the Respondents

4.1.3 Place of Residence

The results of place of resident of the respondent were as shown in the table 4.1.

Table 4.1: Place of Residence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Urban**	33	37.1	37.1	37.1
	Rural	57	62.9	62.9	100.0
	Total	**90**	**100.0**	**100.0**	

(Source :Survey data, 2015)

From the table 4.1 majorities of 62.9% of the resident had operated business in rural setting; this was based on the nature of the survey carried out. Whereas only 37.1% had businesses in urban centre's. This implied that the the entrepreneurs had operated businesses such as kiosks, vegetable, vendors, salons, sand selling, M-Pesa, and money bank agencies since in such setting we rarely find banks. On the other hand the urban setting had few respondents as it was found that the urban centers were few and also them were rigid in answering the questionnaire.

4.1.4 Marital Status

The study sought to asses the marital status of the respondent and the results are presented in the table 4.2

Table 4.2: Marital Status Distribution

Marital Status	Frequency	Percent	Valid Percent	Cumulative Percent
Single	30	34.17	45.83	45.83
Married	42	45.83	34.17	79.97
Widowed	6	7.03	7.03	87.0
Separated	12	13.0	13.0	100
Total	**90**	**100**	**100**	

(Source : Survey data, 2015)

The study found out that 45.83% of the respondent were married, followed by 34.8% who were single entrepreneurs, 13.0% were found to have separated and only small number of 7.03% were widowed. From this finding it implied that the respondent of SMEs had engaged in the business since they held responsibility of taking care of their dependant and therefore there was need to look for alternative source of income.

4.1.5 Education Level

The study sought to investigate the educational level of the respondent.

Table 4.3: Education Level of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	13	14.4	14.4	14.4
	Secondary	46	51.4	51.4	65.8
	Tertiary	15	15.6	15.6	81.4
	University	9	10.0	10.0	91.4
	No formal Education	8	8.6	8.6	100.0
	Total	**90**	**100.0**	**100.0**	

(Source :Survey data, 2015)

From table 4.3 the small and medium entrepreneurs, more than half 51.4% of them had at least a secondary qualification, and above, this was followed by 15.6% who had Tertiary qualification, and only 8.6% had formal education. This implies that demonstrate that a good number of entrepreneur had necessary skill of running a business in their various respective fields.

4.1.6 Number of Dependants

The study found out that the respondent had dependant between 4-6 children, this was followed by those who had children between 1-3 and few mention having children between 7 and above. The respondent further asked on the among dependant the one who could generating income in the household, it found that 30% of the dependant could generate income whereas 70 % were unable due to low access of income generating activities.

4.2 Financial Perspective on Performance of SMES

Frequency tabulation was used by the researcher to present the effects of financial perspective on performance of SMES as shown in table 4.4.

Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly Agree

Table 4.4: Financial Perspective on Performance of SMEs

Financial Perspective	SD		D		UD		A		SA	
	F	%	F	%	F	%	F	%	F	%
My County Government give loan to support to SMEs	47	52.3	36	40.2	4	4.5	0	0.0	3	3.0
There is increase of sales growth in my SME continuously	39	43.9	40	44.7	7	7.6	3	2.3	1	1.5
Revenue in my SME is growing annually	39	43.9	30	33.3	18	20.5	3	3.0	0	0.0
There is increased market share in my SME	19	21.2	30	33.3	17	19.7	16	17.4	7	8.3
There is Increased return on investment in my SME	35	38.6	40	44.7	15	16.7	0	0.0	0	0.0
My Operating cash flows is increasing annually in my SME	18	19.7	42	47.0	19	21.2	7	8.3	4	3.8
My SME operates with value for products	33	37.1	48	53.8	8	9.1	0	0.0	0	0.0
In my SME there is return on capital employed	37	40.9	47	52.3	6	6.8	0	0.0	0	0.0
My SME get loans from microfinance institutions	47	52.3	43	47.0	0	0.0	0	0.0	0	0.0
There is increased return on assets in my SME	26	28.8	49	54.5	15	16.7	0	0.0	0	0.0
My SME achieves profit growth annually	42	47.0	22	24.2	13	14.4	6	7.2	6	7.2
My SME maintains books of accounts	33	36.7	28	31.1	14	15.5	8	8.8	7	7.7

Source :(Survey data, 2015)

The respondent were asked on whether the County Government gives them loan to support to SMEs, their response were as follows, 52.3% of the respondent strongly disagree, 40.2% disagreed, 4.5 Undecided and only 3.0% strongly agreed. On financial perspective questionnaire sought to asses whether there was increase of sales growth in

my SME continuously, the response were as follows: - 44.7% Disagree, this was followed by 43.9% who Strongly Disagree, 7.6% were undecided , 38% a small portion of percentage agreed. From the questionnaire the respondents were asked whether their revenue in my SME had grown annually, the responses were as follows: - 43.9% of the respondent strongly disagree, 33.3% disagreed, 20.5% Undecided and only 3.0% agreed. On whether there is increased market share in my SME as result of financial perspective, the responses were as follows: - 33.3% of the respondent disagree, 21.2% strongly disagreed, 19.7% were undecided, 17.4% Undecided and only 8.3% agreed.

The study further sought to find out whether there is increased return on investment in my SME, the response were as follows: - 33.3% of the respondent disagree, 38.6 % strongly disagreed and 16.7% were undecided. My operating cash flows increased annually in my SME, the response were as follows : - 47.0% of the respondent disagrees, 19.7% strongly disagreed and 21.2% were undecided whereas 12.1% agreed. Responding on whether my SME operates with value for products, the responses were as follows: - 52.3% of the respondent disagree, 40.9% strongly disagreed and 6.8% were undecided.

On the same question on the effects of financial perspective on performance, on whether SME there is return on capital employed the response were as follows: - 52.3% of the respondent disagreed, 40.9 % strongly disagreed and 6.8% were undecided. The study sought to asses whether SME get loans from microfinance institutions. The response were as follows: - majority 52.3% of the respondents strongly disagree and 47.0 % disagreed.

The study further asked on whether there was increased return on assets in my SME the responses were as follows: - 54.5% of the respondent disagree, 28.8% strongly disagreed and 16.7% were undecided. On whether SME achieves profit growth annually the responses were as follows: - 47.0% of the respondent disagree, 38.6 % strongly disagreed, 14.4% were undecided and 12.4 agreed. Responses on whether SME maintains books of accounts: - 36.7% of the respondent disagree, 31.1 % strongly disagreed, 15.5% were undecided, 16.5% agreed. Kaplan and Norton (1992), For the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992).

4.3 Customer Perspective on Performance of SMES

The study sought to evaluate the effects of customer perspective on performance of SMEs and frequency tabulation was used by the researcher to present the findings in the table 4.5:-

Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly AgreeTable 4.5 Customer Perspective on Performance of SMES

	SD		**D**		**UD**		**A**		**SA**	
Customer Perspective	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
There is Increased product quality in my SME	0	0.0	0	0.0	17	19.0	43	38.6	42	46.2
Customers are satisfied on how staff respond to their grievances in my SME	8	8.3	3	3.8	17	19.7	43	47.0	19	21.2
I maintain Customer Loyalty	9	10.6	2	3.0	33	36.4	27	30.3	18	19.7
My SME have reduced number of Complaints	0	0.0	0	0.0	21	23.5	37	40.6	32	36.2
There is increased Customer Satisfaction pertaining to staff-customer relationship in my SME	0	0.0	0	0.0	8	9.1	35	38.6	47	52.3
My SME looks for new markets for the products	7	8.3	7	8.3	19	21.2	32	28.5	37	32.6
New products are ordered for the customers	0	0.0	6	6.8	23	25.0	41	45.5	27	29.5
My SME maintains new customer records	7	7.4	9	8.3	26	29.7	19	21.2	30	33.3
Customer Service is maintained in my SME	5	5.2	4	4.4	25	27.3	27	29.7	29	32.6
My employees are more efficient in serving customers	1.8	0.0	0	0.0	11	12.1	29	32.3	48	53.8
There is average time to process orders for customers in my SME	0	0.0	0	0.0	0	0.0	48	53.8	42	46.2
My organization handles returned orders with utmost good faith	0	0.0	0	0.0	8	9.1	34	38.6	47	52.3
On time deliveries to customers are valued by my enterprise	0	0.0	6	6.8	23	25.0	40	45.5	27	29.5

(Source :Survey data, 2015)

The second object sought to evaluate the effects of customer perspective on performance response on There was increased product quality in my SME, the response were as follows: - 46.2% of the respondent strongly agreed, 38.6 % disagreed and 19.0% were undecided. Further results showed that customers are satisfied on how staffs respond to their grievances in my SME, the responses were as follows: - 47.0% of the respondent agreed, 21.2% strongly agreed, 19.7% were undecided, 17.4% Undecided and only 12.1% disagreed. The SMEs also tried to maintain customer loyalty, the results were as follows: - 36.4% of the respondent were undecided, agree 30.3% strongly agreed, whereas 13.6 disagreed. When SMEs were asked on whether it had reduced number of Complaints, 40.6% of the respondent agree, 36.2% strongly agreed, 19.7% were undecided and 23.5% Undecided. This therefore implied that there was increased Customer Satisfaction pertaining to staff-customer relationship in my SME, the responses were as follows: - 52.3% of the respondent agreed, 52.3% strongly agreed, and Undecided and only 9.1% agreed. SME looked for new markets for the products, the responses were as follows: - 32.6% of the respondent strongly agreed, 28.5% agreed, 21.2% were undecided and only 16.6% disagreed. As the customers ordered for new products, the responses were as follows: - 45.5% of the respondent strongly agree, 29.5% agreed, 25.0% were undecided and 6.8% disagreed. My SME maintains new customer records, the responses were as follows: - 33.3% of the respondent disagree, 21.2% strongly disagreed, 19.7% were undecided, 17.4% Undecided and only 8.3% agreed. This implied that due to small capital in nature keeping records was not a priority and it was further observed that whatever income they were generating was consumed by their families and dependants. Customer Service is maintained my SME, the responses were as

follows: - 32.6 % of the respondent strongly agree, 29.7% agreed, 27.3% were undecided whereas 5.2% of the respondent disagreed. My employees are more efficient in serving customers, the responses were as follows: - 53.8% of the respondent strongly agree, 32.3% agreed, 12.1% were undecided, 1.8 disagreed. There is average time to process orders for customers in my SME, the responses were as follows: - 53.8% of the respondent agreed, 21.2% strongly disagreed, 19.7% were undecided, 17.4% Undecided and only 8.3% agreed. My organization handles returned orders with utmost good faith, the responses were as follows: - 52.3% of the respondent strongly agreed, 38.6% strongly disagreed and 9.1% undecided. Finally on time deliveries to customers are valued by my enterprise, the responses were as follows:- 45.5% of the respondent agreed, 29.5% strongly agreed, 19.7% were undecided whereas 6.8% Undecided.

From the above findings it was clear that the SMEs had tried hard to embrace customer perspective. Babalola (2009) suggests that SMEs cannot avoid the modern global economy and its demand for innovative business as a precondition for competitiveness. Given their small size and related pool of professionals, SMEs need to work very hard on members' innovation and related personal traits. Making a SME successful must be considered as an invention-innovation-diffusion process that tackles: the businesses mix of the given size, the SME as an entrepreneurial achievement, and entity of values/culture/ethics/norms (Georgellis, Joyce & Woods, 2000). Thus all preconditions concerning both the content and the process of innovation must be considered, which requires the holism and therefore systemic rather than one-sided thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, entrepreneurs, SME's members must also be innovated along with their knowledge.

4.4 Internal Business Perspective on Performance of SMES.

The third objective sought to establish the contribution of the internal business perspective on performance, the findings were as shown in the table 4.6:- Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly Agree

Table 4.6: Internal Business Perspective on Performance

	SD		D		UD		A		SA	
Internal Business	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
My County working environment is conducive for SME	14	15.9	40	43.9	35	38.6	1	1.5	0	0.0
Electronic commerce system is mostly used by SME in the County	40	43.9	29	32.6	7	8.3	9	10.6	4	4.5
There is achievement of social economic goals by my SME to the County	33	36.4	33	36.4	14	15.2	7	7.6	4	4.5
There is time management by staff in my SME	21	24.2	40	44.7	21	23.5	6	6.8	0	0.0
There is increased productivity in my SME	22	24.2	46	51.2	21	23.5	0	0.0	0	0.0
There is Improvement in Ordering goods in my organization	14	15.9	40	43.9	35	38.6	1	1.5	0	0.0
My SME have Increased Process capacity	39	43.9	29	32.6	7	8.3	9	10.6	4	4.5
There is low percentage of defective goods in my SME	33	36.4	33	36.4	14	15.2	7	7.6	4	4.5
There is high quality performance in my SME	25	27.6	40	44.7	21	23.5	30	3.4	0	0.0
My SME maintains inventory management control	28	30.7	40	44.7	21	23.5	0	0	0	0.0
There is improved core competencies in my SME	14	15.9	39	43.9	15	38.6	1	1.5	0	0.0
Quality products and services are maintained by my SME	9	10.6	4	4.5	7	8.3	39	43.9	29	32.6
My SME have packages for worker motivation	25	27.7	30	33.3	10	11.1	12	13.3	13	14.4
My SME pays fees for business permits on time	5	5.5	8	8.8	7	7.7	38	42.2	32	35.5

(Source : Survey data, 2015)

The third objective which sought to assess the contribution of the internal business perspective on performance SMEs. The result on County working environment is conducive for SME, the responses were as follows; 43.9% of the respondent disagree, 38.6% undecided, 15.9% strongly disagree 3.0% agreed. Results on electronic commerce system is mostly used by SME in the County, the responses were as follows; 43.9% of the respondent strongly disagree, 32.6% disagreed, 15.1% agreed, and 10.6% agreed. On the contribution of the internal business perspective on performance SMEs .There is achievement of social economic goals by my SME to the County, the responses were as follows; 72.8% of the respondent disagree, 15.2% were Undecided and 12.1% strongly agreed. Results on the time management by staff in my SME, the responses were as follows: - 44.7% of the respondents disagree, 24.2% strongly disagreed, 23.5% Undecided and 6.8% agreed. On there is increased productivity in my SME, the responses were as follows: - 51.2% of the respondent strongly disagree, 24.2% disagreed and 23.5% Undecided. The results further showed that improvement in ordering goods in my organization, the responses were as follows; 43.9% of the respondent strongly disagree, 38.6% disagreed, 15.9% strongly disagreed and 1.5% agreed. From the above table, findings showed that my SME have increased Process capacity, the responses were as follows: - 43.9% of the respondent strongly disagree, 32.6% disagreed, 15.1% agreed and 8.3% undecided. On whether there were a low percentage of defective goods in my SME, the responses were as follows:- 36.4% of the respondent disagree, 15.2% Undecided and only 12.1% agreed. The results further showed that high quality performance in my SME, the responses were as follows; 44.7% of the respondent strongly disagreed, 27.6% disagree, 23.5% Undecided and only 3.4% agreed.

Findings on SMEs maintain inventory management control, the responses were as follows: - 44.7% of the respondent strongly disagreed, 30.7% disagreed and 23.5% Undecided. The results form the above table further indicated that there is an improved core competency in my SME, the responses were as follows: - 43.9% of the respondent strongly disagree, 38.6% undecided, 15.9% Undecided and only 1.5% agreed. On Quality products and services are maintained by my SME, the responses were as follows; 43.9% of the respondent strongly disagrees, 32.6% disagreed, 8.3% Undecided 10.6% agreed and 4.5% agreed. My SME have packages for worker motivation, the responses were as follows; 43.9% of the respondent strongly agreed, 33.3% agreed, 11.1% Undecided, 13.3 disagreed and 14.4% strongly disagreed. My SME pays fees for business permits on time, the responses were as follows; 42.2% of the respondent strongly disagrees, 35.5% disagreed, 8.8% agreed, and 7.7% agreed.

4.5 The Relationship between the Study Variables

In this section, the results that address the research objectives are presented and Pearson's Correlation Test was used to answer the research questions of the study. Correlation is a technique for investigating the relationship between two quantitative, continuous variables. Pearson's correlation coefficient (r) is a measure of the strength of the association between the two variables. The Pearson correlation coefficient is a measure of the strength of the linear relationship between two variables. Where the relationship between the variables is not linear, then the correlation coefficient does not adequately represent the strength of the relationship between the variables. Pearson's r can range from -1 to 1. An r of -1 indicates a perfect negative linear relationship between variables,

an r of 0 indicates no linear relationship between variables, and an r of 1 indicates a perfect positive relationship between variables. To investigate the relationship among the constructs a Zero-order correlation table was generated. The Pearson correlation coefficient (r) was employed to financial perspective, customer perspective and internal business on the performance in SMEs.

4.5.1 Correlations

Table 4.7 Association of variables

		Financial perspective	Customer Perspective	Internal business Perspective	Performance (SMEs)
Financial Perspective	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	90			
Customer Perspective	Pearson Correlation	.025	1		
	Sig. (2-tailed)	.779			
	N	90	90		
Internal business Perspective	Pearson Correlation	.153	-.036	1	
	Sig. (2-tailed)	.080	.680		
	N	90	90	90	
Performance (SMEs)	Pearson Correlation	.027	.249**	.045	1
	Sig. (2-tailed)	.758	.004	.607	
	N	90	90	90	90

****. Correlation is significant at the 0.01 level (2-tailed).**
(Source :Survey data, 2015)

To establish the relationship between the study variables (strategic planning as a determinant and performance in Small and Medium Enterprises) and firm performance .The correlations revealed the level of strength and significance of the relationships between the study variables and the independent variable. From table 4.7at 99% level of confidence, 1 percent change in financial perspective leads 2.7% change in Performance (SMEs).1% change in customer perspective leads to 24.9% change in Performance (SMEs)., 1% change in internal business perspective leads to 4.5% change in Performance (SMEs). From our finding it clearly indicates customer perspective has high level of association between mobile banking and service quality as compared to other independent variable variables.

4.5.2 Hypothesis Testing using Regression Analysis

From the regression model computed in table 4.8, the research hypotheses were tested using the significance level of the coefficients; the research aimed to test the hypothesis with an aim of accepting whether there was any effect of customer satisfaction on the variables of service quality.

Table 4.8 Regression

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.087	.448		2.424	.017
	Financial Perspective	.026	.132	.017	.193	.847
	Customer perspective	.368	.138	.299	2.668	.009

Internal Business	.097	.139	.061	.696	.487

(Source : Survey data, 2014)

Dependent Variable: performance in SMEs

$Y= \beta X_1 + \beta X_2 + \beta X_3 + \beta X_4 + e$

$Y=0.017X_1 + 0.299X_2 + 0.061X_3 + e$

Where y = performance in SMEs,

β=beta

X_1= Financial Perspective

X_2= Customer perspective

X_3=Internal Business

Results of the Tested Hypothesis

A multiple linear regression model was used to investigate these hypotheses. The study hypothesized that:

H_O1: There is no significant relationship between financial perspective and performance.The results rejected the null hypothesis. ($\beta = 0.017$, $p < 0.847$).

H_O2: There is no significant relationship between customer perspective and performance and the hypothesis was therefore not supported, therefore the hypothesis result was rejected ($\beta = 0.299$, $p< 0.009$).

H_O3: There is no significant relationship between internal business perspective and performance. The results accepted the null hypothesis. ($\beta = -.061$, $p< .487$).

The results show that the regression weights of one of the independent variables were significant. This means that two of the postulated hypotheses were not supported while one was supported. Thus customer perspectives are predictor variables for as a determinant of performance in Small and Medium Enterprises. The standardized coefficients indicate the corresponding change in the dependent variable when a change of one unit is effected in the independent variable.

Thus, a 1% improvement of financial perspective as a determinant to strategic planning will lead to a 1.7 % performance in small and medium enterprises. A 1% improvement of customer perspective would lead to a 29.9% performance in Small and Medium Enterprises, and a 1% improvement in the Internal Business would result in a 6.1% performance in Small and Medium Enterprises.

This is followed by use of customer perspective (t= 0. 696) then Financial Perspective (t= 0.193) and finally Internal Business (t=-0. 676).

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.261[a]	.068	.039	.55874

(Source :Survey Data, 2015)

a. Predictors: (Constant), financial perspective ,customer perspective, and internal business perspective

From the results on table 4.9 a model summary R= 0.261, R- square = 0.068, adjusted R-square= 0.039, and the SE= 0.55874. Multiple correlation R coefficients indicate the

degree of linear relationship of performance in SMEs with all the predictor variables, where as the coefficient of multiple determinations R-square shows the provision of the total variation in performance in Small and Medium Enterprises that is explained by the independent variables, financial perspective ,customer perspective and internal business perspective in the regression equation. The R-square gives us the coefficient of determination between the variables the results from the regression analysis give an R-square value of 0.068, which means that 6.8% of the independent variables cause the change on dependant variable (performance in SMEs).

The significance of the regression model was tested using Analysis of Variance (ANOVA). Table 4.14 presents the results of this test.

Significance of the Regression Model

Table 4.10 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.905	4	.726	2.326	.060[a]
	Residual	39.648	127	.312		
	Total	42.553	131			

(Source : Survey data, 2015)

a. Predictors: (Constant), financial perspective ,customer perspective ,and internal business perspective

b. Dependent Variable: performance in Small and Medium Enterprises.

As shown from the table, F= 2.326, p< 0.060

The F test provides an overall test of significance of the fitted regression model. The F

value of 2.326 indicates that all the variables in the equation are important hence the overall regression is significant. Since the level of confidence was 99%.

CHAPTER FIVE

DISCUSSIONS

5.1 Discussion of Findings

Under this section, a discussion of the findings was carried out in accordance with the study objectives. Here the research sought support for the findings from already existing literature of the earlier works conducted by other researchers on the study variables.

5.1.1 Effects of Financial Perspective on Performance

It was found out that financial perspective as a determinant of strategic planning, the County Government did not support SMEs in giving loans and these retarded their sales growth. This was therefore an implication that there was no revenue growth, no increased market share and little increase in return on investment of SMEs.

The findings were in line with the assertions of Kaplan and Norton (1992), For the SMEs; the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992). Other studies Hammann *et al*. (2009) found a link between such practices and favorable financial outcomes in terms of cost reduction and increase in profit. Financial considerations for public organizations have an enabling or a constraining role, but will rarely be the primary objective for business systems. Success for public organizations should be measured by how effectively and

efficiently they meet the needs of their constituencies by their government, the financial and ability to deliver maximum value to the customer.

From these findings the study found out that, most of the financial perspective as an element of strategic plan was a measure indicator to either company's strategy, implementation and execution and whether it affect the bottom line enhancement where majority had disagreed with the respondent, despite their effort to be SMEs little support they got to sustain their business.

5.1.2 Effects of Customer Perspective on Performance of SMEs

Correlation results revealed a significant and positive relationship, however the SMEs in Elgeyo Marakwet County had tried to increase product quality, and customer's satisfaction, customer loyalty and this reduced the number of Complaints pertaining to staff- customer relationship.

From the above findings, Babalola (2009) suggests that SMEs cannot avoid the modern global economy and its demand for innovative business as a precondition for competitiveness. Given their small size and related pool of professionals, SMEs need to work very hard on members' innovation and related personal traits. Making SMEs successful must be considered as an invention-innovation-diffusion process that tackles the businesses mix of the given size, the SMEs as an entrepreneurial achievement, and entity of values/culture/ethics/norms (Georgellis, Joyce & Woods, 2000). Thus all preconditions concerning both the content and the process of innovation must be considered, which requires the holism and therefore systemic rather than one-sided

thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, entrepreneurs, SME's members must also be innovated along with their knowledge.

5.1.3 Contribution of the Internal Business Perspective on Performance of SME's

Findings from objective three found to be less significant to the performance of SMEs, as the County working environment was not conducive for SMEs, it was found out that electronic commerce system were not used by SMEs in the County, neither did achieve any social economic goals and that SMEs did not increase process capacity. Okumu (2005 & 2006) postulates that SMEs in Kenya operate in an environment which lacks efficient, formal organizational systems to address performance and innovative issues. Covin and Slevin (1991) further acknowledges that SMEs performance is a fundamental feature for survival and sustainability, where performance factors such as innovation and organizational learning have been found to spur business expansion, technological progress, and wealth creation in both start-up and existing firms hence being a key aspect of management of the organization. SME's firms that are innovative tend to achieve organizational visions and goals independently (Lumplin & Dess, 1996).

Whereas, those SMEs found to be poor performers, employees in these SMEs said had lacked innovation, organizational learning, have limited Internal Business perspective on market opportunities, unaffordable business development services and lack of finance, adequate technical and management support services. Keizer *et al.* (2002) affirmed that the effects of organizational learning on SMEs performance are direct and indirect where SMEs found to incorporate innovation into their strategies are able to maintain market share, competitive prices level, and tend to be flexible and durable organization.

It was further found that, it was hard for SMEs to get the information about the progress of new products development. Even though that products and technology should be unique and competitively advantageous, it is very hard to identify the competitive advantage of one technology. Phillips and Peterson, (1999); Kraus *et al*., (2006), acknowledges that strategic planning as a multidimensional concept consisting of goals and objectives set for at least three years into the future, its relationship with the environment, formal or written plans, monitoring and modification, and taking into account unanticipated environmental and firm characteristics. Kaplan and Norton (1992) suggested the use of the balanced scorecard to comprehensively determine the business performance of firms.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATION

6.1 Conclusions

The study concluded that the County Government did not support SMEs in giving loans and these retarded sales growth continuously. This was therefore an implication that there was no revenue growth, no increased market share and little increase return on investment. On the second objective the study concluded that the SMEs in Elgeyo Marakwet County had tried to increase product quality, customer's satisfaction, customer loyalty, this reduced Complaints pertaining to staff- customer relationship.

The study concluded that the SMEs in Elgeyo Marakwet County had no conducive working environment, electronic commerce system, neither did they achieve any social economic goals and increased process capacity. Despite the facts that SMEs lacked knowledge on maintenance of inventory management control, there was improved core competencies, improved quality products, services and payment of business permit fees on time.

6.2 Recommendations

Based on the study findings, the following recommendations are essential in improving Strategic planning as a determinant of performance in small and Medium Enterprises. There is need for the County Government and microfinance institutions to support SMEs financially that is by offering them cheap, affordable and low interest loan. There is also

need for SMEs to be educated on the importance of book keeping. This will enhance their skills and get to know value for their products, return on capital employed and whether there is increased return on assets in among SMEs. On customer perspective on performance of SMEs, employees need to be more efficient in serving customers, there is need for increased product quality, maintain customer loyalty, increase customer satisfaction and on time deliveries customers are valued. Finally on internal business perspective on performance of Small and Medium Enterprises, the County Government should create good working environment which is conducive for SMEs. There is need for adoption of Electronic commerce system to be used by SMEs in the County as this will improve the core competencies of SMEs and quality products and services offered.

6.3 Areas of Further Studies

The study suggests that future research be conducted to verify the dimensions developed in this study and to enhance the generalizability of the research findings, future inquiries and more diversified samples across genders and diverse international customer environments. The study was limited to SMEs only in Elgeyo Marakwet County, therefore, the study comprised of a sample which was used to represent the responses of the entire population. The results generated were not representative of the entire population since some key informers could have been eliminated at the sampling stage hence losing out on their vital information that would be useful for the study and future readers. The study employed a cross sectional survey design which only looked at the state of affairs at a point in time among the SMEs in Elgeyo Marakwet County. This does not provide a clear picture of the overall sector, since there could have been efforts taken to improve the performance of SMEs during the course of the study, hence compromising the findings of the study.

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APPENDICES

APPENDIX I,II,III

APPENDIX 1: LETTER TO THE RESPONDENTS

Introduction

Dear respondent,

I am a student at the University of Eldoret in the school of Business and Management Science. I am conducting a research study entitled **Strategic planning as a Determinant of Performance in Small and Medium Enterprises. Survey of Elgeyo Marakwet County.** This study is part of the fulfillment of my masters program. The findings for the study will be purely for academic purposes. I would be grateful if you could accept to answer the questions by filling this short questionnaire. Your opinions and views are of extreme importance. The answers you give will be treated with utmost and strict confidentiality.

Yours' faithfully

Albert K. Cheruiyot

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APPENDIX 11: RESEARCH QUESTIONNAIRE FOR RESPONDENTS

Instructions

1. For absolute confidentiality **DO NOT** write your name anywhere on this questionnaire.

2. Please fill free and be as honest as possible. There is no right or wrong answers.

3. Place a tick (√) against the most appropriate response. For questions that need writing, fill in the spaces provided.

PART A: DEMOGRAPHIC CHARACTERISTICS

1. Gender

   Male ☐ Female ☐

2. Age bracket

   18 - 30 years ☐ 31 – 45 years ☐ above 45 years ☐

3. Where do you stay?

   Urban ☐ Rural ☐

4. Marital Status

   Single ☐ Married ☐ Widowed ☐ Separated ☐

5. Highest educational level?

   Primary ☐

   Secondary ☐

   Tertiary ☐

University ☐

No formal Education ☐

6. How many dependants do you have? ☐

7. How many are involved in income generating activities in the household? ☐

PART B. FINANCIAL PERSPECTIVE ON PERFORMANCE

To what extent do you agree with the following statement regarding the financial Perspective on performance in Small and Medium Enterprises in County? Please indicate the one that accurately reflect your view.

Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly Agree

- ✓ **Tick as appropriate**

Statement	1	2	3	4	5
My County Government give loan to support to SMEs					
There is increase of sales growth in my SME continuously					
Revenue in my SME is growing annually					
There is increased market share in my SME					
There is Increased return on investment in my SME					
My Operating cash flows is increasing annually in my SME					
My SME operates with value for products					
In my SME there is return on capital employed					
My SME get loans from microfinance institutions					
There is increased return on assets in my SME					
My SME achieves profit growth annually					
My SME maintains books of accounts					

PART C: CUSTOMER PERSPECTIVE ON PERFORMANCE

To what extent do you agree with the following statement regarding the customer perspective on performance in Small and Medium Enterprises in County? Please indicate the one that accurately reflect your view.

Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly Agree

- ✓ **Tick as appropriate**

Statement	1	2	3	4	5
There is Increased product quality in my SME					
Customers are satisfied on how staff respond to their grievances in my SME					
I maintain Customer Loyalty					
My SME have reduced number of Complaints					
There is increased Customer Satisfaction pertaining to staff-customer relationship in my SME					
My SME looks for new markets for the products					
New products are ordered for the customers					
My SME maintains new customer records					
Customer Service is maintained in my SME					
My employees are more efficient in serving customers					
There is average time to process orders for customers in my SME					
My organization handles returned orders with utmost goodfaith					
On time deliveries to customers are valued by my enterprise					

PART D: INTERNAL BUSINESS PERSPECTIVE ON PERFORMANCE

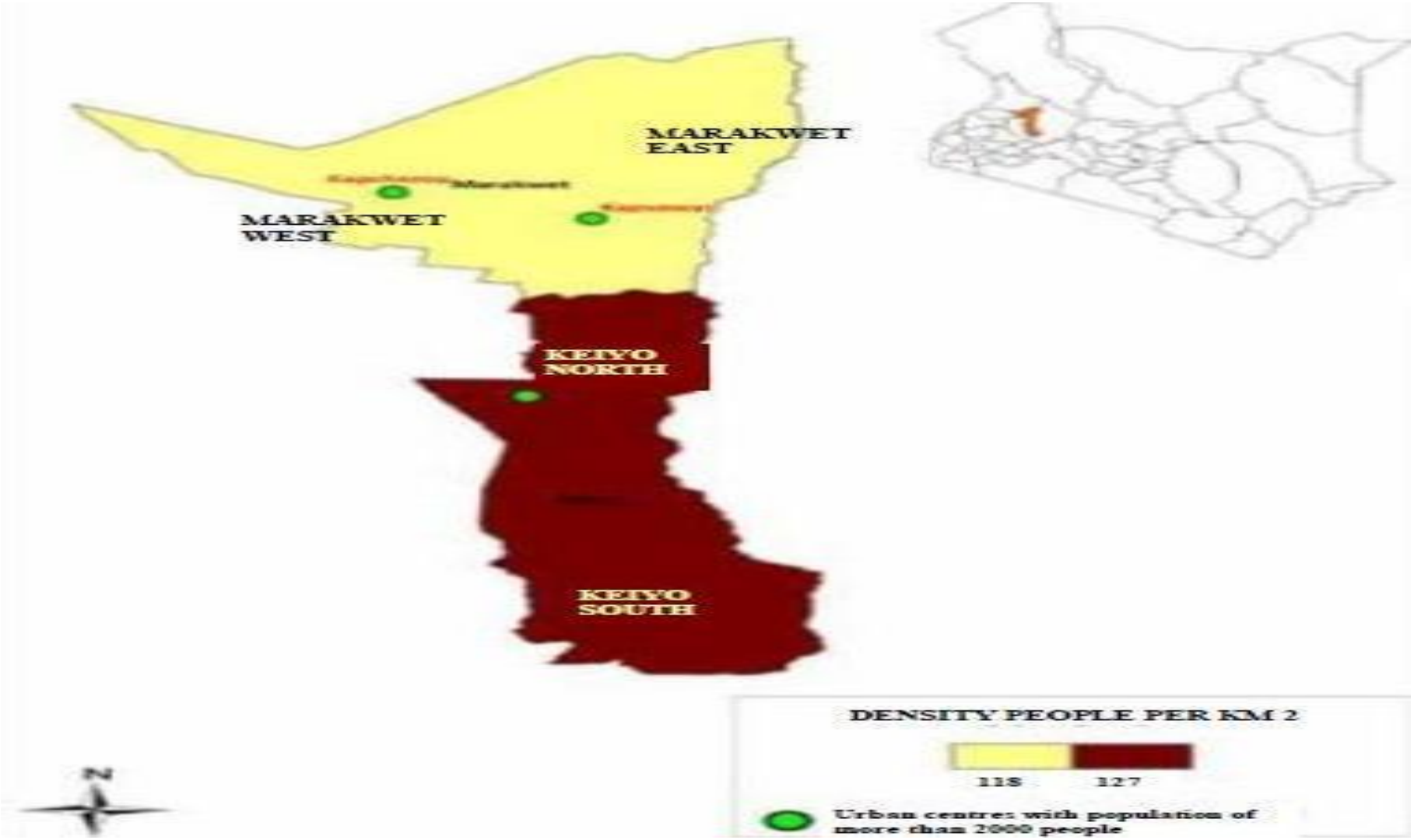
To what extent do you agree with the following statement regarding the Internal Business perspective on performance in Small and Medium Enterprises in County? Please indicate the one that accurately reflect your view.

Strongly Disagree=1, Disagree=2, Undecided=3, Agree=4, Strongly Agree

- ✓ **Tick as appropriate**

Statement	**1**	**2**	**3**	**4**	**5**
My County working environment is conducive for SME					
Electronic commerce system is mostly used by SME in the County					
There is achievement of social economic goals by my SME to the County					
There is time management by staff in my SME					
There is increased productivity in my SME					
There is Improvement in Ordering goods in my organization					
My SME have Increased Process capacity					
There is low percentage of defective goods in my SME					
There is high quality performance in my SME					
My SME maintains inventory management control					
There is improved core competencies in my SME					
Quality products and services are maintained by my SME					
My SME have packages for worker motivation					
My SME pays fees for business permits on time					

Thank you for your cooperation and please check if there is any quiz that you forgot to answer.

……END……

Appendix 111:Figure : Map of Elgeyo Marakwet