

INFLUENCE OF PLANNING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN RICE GROWING SOCIETIES IN KENYA

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Abstract: This study intended to establish the influence of planning on the performance of small and medium enterprises in rice growing societies in Kenya. The study adopted descriptive survey research design. The target population for this study was 147 registered SMEs in Mwea Rice Cooperative Societies in Kirinyaga County. Simple random sampling was used. A sample of 107 entrepreneurs was selected. The researcher used questionnaires as the primary data collection instrument. Data collected was coded, cleaned and processed by use of statistical package for social sciences (SPSS) version 21. The data was then analyzed using frequency distribution tables and percentages. Finally, multiple linear regression model was employed to establish the significance of the independent variables on the dependent variable. The study concluded that strategic planning practices like scanning and assessing the environment, formulating mission statement and objectives, monitoring and controlling the progress as well as allocating resources were adopted by the SMEs.

Keywords: Planning, Performance, Monitoring, Controlling.

1. INTRODUCTION

Strategic Management can be defined as the identification of the purpose of the organization and the plans and actions to achieve the purpose. It is the set of managerial decisions that determine the long-term performance of an enterprise. Strategic management is the process of formulating, implementing and evaluating the cross-functional decisions that enable a firm to meet its objectives (Pearce II & Robinson, 1994). Strategic management is an ongoing process that evaluates and controls the business and all the activities in which the company is involved. Philip Selznick in 1957 introduced the idea of matching the firm's internal factors to its external factors, coming up with SWOT analysis, by authors Andrews and Learned (1965) in SWOT Analysis.

The firm looks at its internal strengths and weaknesses and external opportunities and threats. Igor Ansoff 1965 later developed the strategy and that could be used by management for systematic preparation of opportunities and future challenges. Peter Drucker 1974 followed with his view that clear objectives are of great importance to the success of a firm. The strategic process assesses both the firm and environment in which it operates (firm) in order to be successful (Pearce II & Robinson, 1994). The strategic management model is a tool to outline the various approaches used by strategic planners in the strategic management process.

Strategy is usually reviewed on a regular basis to assess implementation and success rates in the changing environment during the review, the firm's competitors are assessed, goals are set and strategies are devised to meet existing and potential competitors' activities (McGahan, 2004). The firms therefore need to engage in corporate strategy which determines what the business should be and how the activities should be structured and managed. The strategy is responsible for the firm's overall mission on objectives validity proposals emerging from business and functional levels and allocating resources with a sense of strategic priorities (Hax, 2001).

Strategies which result in high performance are identified with activities that generally lead to success in the industry; that is key success factors. These activities are associated with initiatives in industry. Researchers have identified such initiatives to include emphasis on product quality, product and service innovations, development of new operating technologies, and discovery of new markets. Activities associated with high performing strategies also include emphasis on customer service and support, extensive advertising, and use of external finance (Covin, 1991).

Small and medium enterprises (SMEs) are considered to be the engine of economic growth through employment generation, contribution to GDP, technological innovations and other aspects of economic and social development (Zacharakis, 2002). SMEs are also important because they are key drivers of employment and economic growth. The performance of SMEs depends on ability of those firms to apply strategic management (Bracker & Pearson, 1988). Strategic management is very important for small and medium enterprise in the time of global competition, technological change and increased dynamics in markets. Although many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms. Strategy is the most important determinant of firm performance. Strategic management including strategy content and process (strategic planning) is widely considered to be one of the factors that contribute to small firm growth (Kraus, 2008). Studying strategic management in growth-oriented firms contributes to the understanding of the growth process which on the other hand bears broader economic relevance in terms of growth-oriented firms being a major source of job creation (Parker, 2004). However, not much is currently known about how small business managers and proprietors actually perceive strategic management practices and thus what it actually means to their everyday business.

The rice growing cooperative societies in Kirinyaga County are located in the Mwea Irrigation Scheme which is the oldest and largest growing rice project in Kenya. The scheme was established in 1954, and approximately 6,200 hectares have been developed for paddy production. Mwea rice growing cooperative produces 80 per cent of the paddy rice produced in Kenya. The scheme is divided into five sections: Mwea covering 1,300 hectares, Tebere 1,400 hectares, Thiba 1,200 hectares, Karaba 1,100 hectares and Wamumu 1,200 hectares. There is an out-grower section covering 2,300 hectares where irrigation infrastructure has not been developed but rice farming is taking place. The government retains ownership of the land in the irrigation scheme with farmers being allocated land with transferable use rights. Farmers were initially allocated four one-acre parcels of land per household (1.6 hectares), but some farmers have bequeathed land (use rights) to their offspring (Njeru, 2015).

In 1999, the government reformed irrigation laws so as to liberalize the rice farming system in Mwea irrigation scheme. Farmers were now in charge of their own production and marketing decisions as well as irrigation management through a water users' association. This called for the farmers as SMEs to use strategic management practices for their businesses to have better performance. Farmers cultivate around 1 ha of farmland in the main season from December to April and in the sub season from July to November. They use both family and hired labour, and, more importantly, they apply chemical fertilizer. Liberalization also allowed the entry of input retailers, rice traders, and rice millers into the market.

A farmer's co-operative society, Mwea Rice Growers Multi-Purpose Co-operative Society (MRGM), which was previously established as a savings and credit co-operative, was expanded to a multi-purpose credit society and took over the role of supplying farm inputs on credit from NIB. All farmers who were farming rice in 2000 were absorbed as members of MRGM and had access to input credit. MRGM charged a monthly interest rate of one per cent on the value of credit advanced to farmers. The emergence of these young farmers has resulted to competition for irrigation water and other rice production inputs. The new farmers have joined upcoming co-operative societies in Wang'uru town. Some of these societies include Mwea Rice Growers' Co-Operative Society, Mwea Lainisha Sacco, Tai Rice Millers, Global Rice Millers, Boma Rice Millers, Nice Rice Millers, Top Grade Rice Millers, Mwalimu Rice Millers and Victory Rice Millers. The outcome of this practice has been a decline in rice output and yield in the scheme. Until 1995, the scheme's average rice yield was still far below that of national average of other countries. For example, Tsuruuchi and Waiyaki (1995) reported an average Mwea Irrigation Scheme Basmati yield of 3,773kg/ha, which is far below the yield of 5,800kg/ha reported in 1989 in Egypt, and 6,100kg/ha in Japan (Herdt, 1989). This could be credited to lack of strategic management practices among the farmers.

However, most members of the rice growing cooperative societies in Kirinyaga County have been getting low yields leading to massive losses in the businesses. This could be attributed to inadequate strategic management practices among the entrepreneurs. Most SMEs in the rice growing cooperatives fail to make both short term and long-term plans, have adopted poor marketing strategies and have limited market controls put in place to propel their enterprises.

2. STATEMENT OF THE PROBLEM

Although strategic management practices have a great influence to the performance of SME, many of the SMEs still resist using these strategies (Pushpakumari & Watanabe, 2010). The Global Entrepreneurship Monitor (GEM) Reports (2011-2010) noted the more than 80% of SMEs suffer from poor strategic management practices which may be as a result of lack of adequate training and education. Formal plans and cost controls are often only provided on an irregular basis and planning developed rather intuitively. More than 50% of the SMEs disappear in the first five years; furthermore, the statistics show that 8 out of 10 new businesses fail within the first three years (Mason, 2009).

These shortcomings point towards inadequate strategic management practices employed by SMEs. Although Strategic Management practices are the key to successful of SMEs, business performance (Aylin *et al* 2013), most SMEs in rice growing societies in Kirinyaga County are on the verge of collapsing. Most entrepreneurs have been registering poor crop yields, unfavorable market for their produce and stagnant business performance. Enterprises have collapsed in the initiation year. Rice production has also decreased despite the increase in the number of SMEs and active rice cooperative societies being in place. The study sought to establish the influence of planning on performance of SME in rice growing cooperative societies in Kenya.

3. LITERATURE REVIEW

Ansoff (1965) came up with a model on how to develop a strategic plan. When there is an outside trigger, the immediate reaction is to make explicit and to review the objectives of the firm. Following the initial formulation of objectives, internal appraisal is initiated, which is concerned with determining the firm's growth and expansion opportunities within its present product-market posture. The external appraisal which follows, seeks to determine and analyze the field of outside opportunities open to the firm. Before a diversification strategy can be selected, another major management decision is made. This is whether and to what extent the firm will vary its organizational structure and other administrative arrangements in order to take advantage of the joint effects(portfolios) into which the firm can afford to diversify and ranking these in the order of overall preference (Rogerson, 2008).

Following the choice of product market scope, additional components of strategy are selected: the growth sector, the competitive advantage, and synergy component. Each is designed to sharpen the firms focus on opportunities which hold the best promise for fulfilling the objectives. An administrative strategy need to be formulated to establish races for the organizational evolution of the firm. A financial strategy is needed which specify the rules and means by which the firm seek to finance growth and expansion. The respective strategies, combined with the objectives, are used to produce a strategic budget and a strategic plan.

Strategic planning is a complex and participative management technique of scanning the environment and the formulation of mission, vision and strategies in order to improve the performance of the organization, and hence its competitiveness in the market (Huang, 2005). According to Dincer, Tatoglu and Glaister (2006), the key aspects of strategic planning include the formulation of a mission statement of the enterprise, establishing the objectives, crafting and implementing the strategies, monitoring and controlling the progress in strategy implementation. In a study of the strategic planning practices of construction companies in Ghana, Dansoh (2005) found that the common elements of strategic planning are, assessing the environment, goals, course of action, allocation of resources, long-term view and competitive advantage. What is apparent from this study is that by adopting a long-term perspective, an organization is able to adapt to changes in the operating environment in a manner that increases the possibility of achieving the desired goals.

The principal characteristics of strategic planning, as highlighted by Paterson (2009) and Fraser and Stupak (2002), are that it is a learning mechanism, it is responsive and proactive, it establishes business goals and makes decisions after a careful evaluation of monitoring of the environment. The strategic planning model suggested by David (2003) summarizes the key aspects of strategic planning. These include: developing mission and vision statements, conducting environmental analysis, formulating long term objectives, formulating strategies, implementing strategies and evaluating and controlling the performance. In Desai's (2000) opinion, strategic planning creates a viable link between a business' mission, vision, goals, objectives, strategic choices and resources. Strategic planning enables businesses to identify causes and solutions to problems, understand the operating environment, define the purpose of the business, and to clarify the ambitions, values and resources of a business (Goncalves, 2009).

Planning is one of the most important management techniques (Zetlin, 1994). Planning is preparing a sequence of action steps to achieve some specific goal. Short-range or tactical planning is done for the benefit of lower-level managers, since

it is the process of developing very detailed strategies about what needs to be done, who should do it, and how it should be done (Pearce & Robinson 1988). These plans can best be developed and implemented by the line managers who oversee the production process rather than managers who sit in an office and plan for the overall operation of the company.

In a study investigating strategic planning and competitive advantage ICT SME in Kenya, Awino (2013) found out that majority of the entrepreneurs had strategic planning. However, some of the plans were not documented. Research also showed that firms that have formal strategic planning outperformed those that do not have formal strategic planning (Allison & Kaye, 2015).

4. METHODOLOGY

The study adopted descriptive survey research design. The target population for this study was 147 registered SMEs in Mwea Rice Cooperative Societies in Kirinyaga County. Simple random sampling was used. A sample of 107 entrepreneurs was selected. The researcher used questionnaires as the primary data collection instrument. Data collected was coded, cleaned and processed by use of statistical package for social sciences (SPSS) version 21. The data was then analyzed using frequency distribution tables and percentages. Finally, multiple linear regression model was employed to establish the significance of the independent variables on the dependent variable.

5. FINDINGS

Table 1: Descriptive Results to Strategic planning

	To very great extent	To great extent	Moderate extent	Little extent	To no extent	Mean	Std dev.
Scanning and assessing environment	8 (8.00%)	52 (52.00%)	18 (18.00%)	17 (17.00%)	5 (5.00%)	3.41	1.02
Formulating mission statement	3 (3.00%)	25 (25.00%)	17 (17.00%)	42 (42.00%)	13 (13.00%)	2.63	1.08
Establishing objectives	43 (43.00%)	27 (27.00%)	21 (21.00%)	9 (9.00%)	0 (0.00%)	4.04	1.00
Monitoring and control progress	0 (0.00%)	28 (28.00%)	61 (61.00%)	11 (11.00%)	0 (0.00%)	3.17	0.60
Long term view of strategic planning	0 (0.00%)	43 (43.00%)	34 (34.00%)	22 (22.00%)	1 (1.00%)	3.19	0.81
Cost reduction	0 (0.00%)	24 (24.00%)	31 (31.00%)	36 (36.00%)	9 (9.00%)	2.70	0.93
Product differentiation	0 (0.00%)	18 (18.00%)	38 (38.00%)	32 (32.00%)	12 (12.00%)	2.62	0.91
Focus to give competitive advantage	11 (11.00%)	34 (34.00%)	23 (23.00%)	32 (32.00%)	0 (0.00%)	3.24	1.02
Allocate resources to implement strategy	18 (18.00%)	40 (40.00%)	28 (28.00%)	14 (14.00%)	0 (0.00%)	3.62	0.94

Responding to the extent scanning and assessing the environment was done before starting their businesses, 8(8.00%) of the respondents said that they practice scanning and assessing the environment before starting their business a very great extent, 52(52.00%) scanned and assessed the environment a great extent, 18(18.00%) said moderate extent while 17(17.00%) and 5(5.00%) practiced scanning and assessing the environment to little extent and no extent respectively. This had a high mean of 3.41.

When asked to what extent the entrepreneurs formulated mission statement for their enterprises, 3(3.00%) said to a very great extent, 25(25.00%) said to a great extent, 17(17.00%) formulated mission statement to a moderate extent while the remaining 42(42.00%) and 13(13.00%) formulated mission statement to a little extent and to no extent respectively. This was rated at a mean of 2.63. Establishing of business objectives was another planning strategy employed by the SMEs in the Rice cooperative society. 43(43.00%) practiced this to a very great extent, 27(27.00%) to a great extent, 21 (21.00%) to a moderate extent while only 9(9.00%) established business objectives to a little extent. This was rated at a mean of 4.04. The findings corresponded with others studies where SMEs in which strategic planning was adopted performed better than those with none (Allison & Kaye, 2015).

Responding to what extent entrepreneurs adopted monitoring and control the progress in strategy implementation, 28(28.00%) of the respondents said monitoring and control was used to a great extent, 61(61.00%) said they adopted monitoring and control to a moderate extent while 11(11.00%) adopted monitoring and control to a little extent. This was rated at a mean of 3.17. Replying to the extent to which entrepreneurs adopted having long term view of the strategic planning, 43(43.00%) said to a great extent, 34(34.00%) said to a moderate extent, 22(22.00%) said to a little extent while the remaining 1(1.00%) said to no extent. This was rated at a mean of 3.19. Businesses that monitor and control the implementation of the strategic plan have a better chance for growth (Awino, 2013).

When asked to what extent entrepreneurs adopted cost reduction to give their business competitive advantage, 24(24.00%) said to a great extent, 31(31.00%) said they adopted cost reduction to a moderate extent, 36(36.00%) said to a little extent while the remaining 9(9.00%) said they adopted cost reduction to no extent. This had a low mean of 2.70. Replying to what extent entrepreneurs adopted product differentiation to give their business competitive advantage, 18(18.00%) of the respondents said they adopted product differentiation to a great extent, 38(38.00%) adopted product differentiation to a moderate extent while the remaining 32(32.00%) and 12(12.00%) adopted product differentiation to a little extent and to no extent respectively. This was rated at a mean of 2.62. The findings corresponded with others studies where SMEs adopted cost reduction and production differentiation to enhance performance (Allison & Kaye, 2015).

On the extent to which entrepreneurs adopted focus to give their business competitive advantage, 11(11.00%) said they adopted focus to give their business competitive advantage to a very great extent, 34 (34.00%) said to a great extent, 23(23.00%) said to a moderated extent while the remaining 32(32.00%) adopted focus to a little extent. This had a mean of 3.24. Responding to what extent entrepreneurs adopted allocation of resources to implement strategic planning in their business, 18(18.00%) of the respondents said they adopted allocation of resources to implement strategic planning to a very great extent, 40(40.00%) adopted allocation of resources to implement strategic planning, 28(28.00%) of the respondents adopted it to a moderate extent while the remaining 14(14.00%) adopted it to a little extent. This had a mean of 3.92.

The finding was in agreement with those by Goldenberg and Kline (1999) who found that allocation of resources was critical in predicting the performance of the SME.

Table 2: Inferential Results to Strategic Planning

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
1(constant)	.255	.133		4.870	.001
Strategic planning(X ₁)	.131	.131	.041	.335	.000

These are the values for the regression equation for predicting the dependent variable from the independent variable. The result of the coefficient of X₁ is significant. The respective calculated t-statistic for coefficient is .335 with a P-value of 0.000 which is less than 0.05 implying that strategic planning significantly influence performance of SMEs.

Regression equation: $Y = 0.255 + 0.131X_1 + \epsilon$ where Y= Performance of SMEs, X₁ = Strategic planning, β=coefficient, ε= error term. Where Constant = 0.255, shows that if strategic planning, is rated as zero, Performance would be 0.255. X₁= 0.131, shows that one-unit planning results in 0.131 units increase in Performance.

The findings showed that adoption of strategic planning practices influenced the performance of SMEs in Mwea rice growing societies. It was identified that majority of the entrepreneurs adopted scanning and assessing the environment before starting their businesses. The SMEs had formulated mission statement for their enterprises although most of them were not kept in written records. Majority of the SMEs also had established of business objectives. This made the enterprises to be focused encouraging growth of the enterprises. Entrepreneurs also adopted monitoring and control of the progress in strategy implementation, had long term view of the strategic planning and adopted product differentiation to give their business competitive advantage. SMEs entrepreneurs adopted focus to give their business competitive advantage and allocation of resources to implement strategic planning in their business. The findings concurred with Dincer, Tatoglu and Glaister (2006), who found out that the key aspects of strategic planning include the formulation of a mission statement of the enterprise, establishing the objectives, crafting and implementing the strategies, monitoring and controlling the progress in strategy implementation. The study confirmed previous findings where the common elements of strategic planning were found to be assessing the environment, goals, course of action, allocation of resources, long-term view and competitive advantage (Dansoh, 2005).

6. CONCLUSION AND RECOMMENDATIONS

The strategic planning practices adopted by the SMEs included scanning and assessing the environment before starting a business, formulating mission statement, establishing objectives and monitoring and controlling the progress in strategy implementation. SMEs also allocated resources to meet strategic planning, had long term view of the strategic planning as well as adopted cost reduction to the SMEs competitive advantage. Additionally, product differentiation, focus and promotions were also used to give the enterprises competitive advantage. The SMEs should keep record, plan and do market assessments from time to time so as to understand the market trends and reduce the high mortality rate noted in the SMEs.

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