

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**KUMASI**

**COLLEGE OF SOCIAL SCIENCES SCHOOL OF BUSINESS**

**THE INFLUENCE OF STRATEGIC MANAGEMENT ON THE  
PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN  
GHANA (A CASE STUDY OF SELECTED SME'S IN THE KUMASI  
METROPOLIS)**

**By**

**CLEMENT OWUSU OSEI**

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## DECLARATION

I hereby declare that the submission of this compilation is the true findings of my own researched work presented towards an award of a second degree in Strategic management and management consulting and that, to the best of my knowledge, it contains no material previously published by another person nor submitted to any other University or institution for the award of degree except where due acknowledgement has been made in text. However, references from the work of others have been clearly stated.

Clement Owusu Osei ( ) ( )

[Pg7642312]

Signature

Date

Dr Wilberforce Owusu-Ansah ( ) ( )  
(Supervisor) Signature Date

Certified by;

Dr Ahmed Agyapong ( ) ( )

(Head of Department)

Signature

Date

## DEDICATION

This dissertation is firstly dedicated to Almighty God, then to my wife Nadia Ayikaikor Osei, my children Maame Oforiwaa and Nana Bobie family and all others for their support in various forms.

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But for God, I could not have accomplished this milestone. First of all, my sincere gratitude goes to the Almighty God, who has made it possible and brought me this far.

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## ABSTRACT

The important role of SME's in the development of a country's economy cannot be overemphasized. SME's have been identified to have the largest percentage of registered companies in Ghana and contribute significantly to GDP. Previous research has also found that the use of strategic management as a management tool in smaller businesses, such as SME's, is being neglected by the managers/owners of SME's as they do not have adequate managerial experience in the functional business areas and these factors have been assumed to lead to the gradual declines in most SME's. The implementation of strategic management practises has yielded considerable results for large companies and businesses in terms of profitability. This research aimed at identifying the extent to which SME's practice long term formal planning in their businesses to enhance their financial performance and business sustainability.

The target for the research was on selected SME's in the Kumasi metropolis. Quota and convenience sampling techniques were used to select the 178 respondents. Predictive Analytical Software was used to analyse the responses received. Strategic management was identified as important for successful business performance; however the adoption of strategic management in business operations wasn't identified as a precondition for improved financial performance. Furthermore the study also revealed a causality relationship running from written strategic plan to effective implementation in businesses. The study recommended that strategic planning activities shouldn't be separated from management of the business operations. Owners-managers should show commitment to strategic plans designed since it is not only enough to have a strategic plan without committing to it. This would go a long way to guarantee a positive impact of strategic planning on the performance of Small and Medium scale Enterprises.

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# CHAPTER ONE

## GENERAL INTRODUCTION

### 1.1 Background of the study

A nation with a high level of determined entrepreneurs is important for the economic development of the country and the development of its free market system. The survival of an entrepreneur's business is a personal achievement to their business egos and a firm measurement of their entrepreneurial performance. Aside the entrepreneurs who have interest in starting small businesses, the various governments of both developed and developing countries have been firmly committed to the development of small to medium scale enterprises, this the way by which the governments have recognised the important function that small companies have and still continue to perform in their individual economies.

The important role that small and medium Enterprises, (SME's) have performed in the development of the country's economic development has been identified in the past (Le Roux, 1998). Le Roux (1998), in his research in South Africa, the SME sector was known to have accounted for 85% of formal businesses in 1991 which accounted for 30% of the GDP. In terms of employment, it accounts for 2.7 million people in formal sector and another 4.4 million in the informal sector. Also Islam et al, (2011) stated that the SME sector in Thailand accounts for 76.1% of businesses in manufacturing and employ 64% of the total industrial workforce in Thailand.

To complete the impact of SME's in Africa, Chodokufa (2009) gave indicators that portrayed the developmental contribution of SME's in African countries. SME's have dominated the business activities in Africa and make up about 90% of total operations and also provide jobs to about 50% of the population and their GDP. Zacharakis, Neck, Hygrave and Cox (2002), also emphasized that SMEs have been regarded as a significant contributor to the development of economies, major employers of the population, mobilisation of incomes and promoter of technology development in both advanced and developing countries.

Businesses with good business principles have been known to perform better as indicated by Mandal et al (2008). Others have also stated that the use of quality management principles and systems in the running of a company will result in a consistent increase in the company's performance, mainly in enterprises that has its major functional areas practising excellent business delivery ( Neneh and van Zyl 2012).

Major large scale multi-national companies have long realised the importance that the use of strategic management in its activities has been to the success of its operations. It's helped them in identifying opportunities, reducing business risks and guiding the company to achieve its objectives of growth and financial performance, Le Roux (1998). The desire of SME's to enhance their effectiveness and efficiency in their business operations are built on imitating the large firms to develop appropriate management activities through a suitable process of knowledge transfer.

## 1.2 Problem statement

The development of country's economy, reducing poverty and creating jobs in developing countries is highly dependent on the success of the SME sectors (Hallberg 2000). The SME's employ the highest number of people in developing countries therefore the labour market is highly interested in the development of SME's in the respective countries (Kirchhoff 1994).

The socio-economic development of economies is very reliant on the successful development of the SME's sector in countries, likewise the industrial developments in the countries. The World Bank Group (2004) recognised that the SME's were pivotal to the ability of the countries to promote economic growth and reduce poverty through the ability of SME's to create jobs and sources of livelihood for its people.

A great deal of research was done in the past as to what actually causes SME's to go bankrupt. Problem factors ranging from a lack of funding, high interest rates, hostile labour relations and inflation to unsupportive governments were named in various studies as reasons for the failure of these businesses but most important was the lack of strategic plan and management skills as the primary source of this pandemic (Amalui et al 2003, Le Roux, 1998 etc.)

Previous research has also found that the use of strategic management as a management tool in smaller businesses, such as SME's, is being neglected by the managers/owners of SME's as they do not have adequate managerial experience in the functional business areas ,these factors have led to the gradual declines in most SME's. In Ghana, whilst strategic management concept is being practiced by some large firms, its acceptance and application by SMEs in the country in order to enhance growth is still marginal.

The research was intended to identify the influence that strategic management has on the performance of SME's in Ghana and particularly the city of Kumasi (Ghana's second largest city).

### **1.3 Objectives of the study**

To accomplish the study, various objectives were set to establish a valid conclusion. For the purpose of the study the research objectives were subdivided into general and specific objectives.

#### **1.3.1 General Objectives**

The objective of the research is to examine the influence of strategic planning on the performance of SME's in Ghana.

#### **1.3.2 Specific Objectives**

The main aim of this research is to examine the influence of strategic management (long-range planning) on the performance of SME's in Ghana. In addressing that, the following specific objectives need to be addressed.

- 1) To examine the relationship between strategic management and performance of Small & Medium Businesses in the Kumasi metropolis
- 2) To examine the importance that SME's in the Kumasi metropolis place on strategic planning.
- 3) To examine the relationship between a written strategic plan and strategic management process in SME's in the Kumasi metropolis.

### **1.4 Research Questions**

- 1) What is the relationship between strategic management and performance of Small & Medium Businesses in the Kumasi metropolis

- 2) What is the importance that SME's in the Kumasi metropolis place on strategic planning?
- 3) What is the relationship between a written strategic plan and strategic management process in SME's?

### **1.5 Significance of the study**

Islam, et al (2011) acknowledged that earlier researches identified the important roles of SME's in national development. Prior research documented that SMEs play a significant role in the economy of a country. Thus the success of the SME sector is a key indicator of the nation's performance.

The important roles of SME's in countries have long been established. It is however important that the survival of these SME's is very important. For most of these SME's to survive means performance. It is therefore important to identify the role that strategic management play in ensuring that SME's are able to improve their performance.

This would further enhance the national productivity and enhance the competitiveness of Ghana. Moreover it would contribute to materials that other researchers can utilise to research further into strategic management and SME performance in developing nations.

### **1.6 Scope of the Study**

The study is to establish the influence of strategic management on SME's in Ghana. Geographically, the study is concentrated on firms in the Kumasi Metropolis. The definition of small and medium in our research would include the NBSSI definition as enterprises that have less than 29 workers with total investment in plant and machinery (land and building exclusive) not higher than 100,000 USD. This informed us on what

constitute SME's and how to select our sample. The study targeted mainly businesses operating in the services, retail, hospitality agribusiness, education and manufacturing companies. The time scope comprised of SMEs registered within 2005 to date. This time frame was selected due to long time nature of strategic planning.

The design scope was also limited to cross sectional descriptive survey.

### **1.7 Limitation**

The first limitation was the time needed for the project. There was limited time to conduct the research which was quite challenging. The study was therefore limited to some chosen SME's in the Kumasi metropolis. The banks were reluctant to provide some relevant information which they deem private and the tight schedules of the respondents didn't enable them provide the needed full attention and the scarcity of new articles and journals on the subject in the Ghanaian libraries was also a challenge. There were high financial constraints in questionnaire printing ,information searches from credible sources and the travel costs of visiting various SME's due to how dispersed they were situated was high and respondents had to be contacted several times to gather information for the researcher. Regardless of the challenges encountered, the researcher was able to develop strategies that guaranteed the timeliness and accuracy of data needed to establish the real situation in the Ghanaian context.

### **1.8 Brief Methodology**

This research utilised research tools such as interviews and questionnaires for its data collection. The framework for the methodology would be a combination of both quantitative and qualitative analysis .Some staff and management amongst the selected SME's in Kumasi would be the population for the study. The outlook for the research

would be a reflection of the entire SME's in Ghana but we will be limited to the Kumasi metropolis for collection of Data.

Primary data will be collected in order to solicit responses directly from the field. The conclusions and discussions on the research will be based on information gathered from the field. The sample size for the study will be limited to 178 SME's from the selected SME's).

The Statistical Package for Social Sciences (SPSS) will be used to enter data collected from the field. Descriptive statistical tools such as tables, frequencies, percentages will be used. A Pearson chi test will be performed to establish the effect of strategic management and performance of Small & Medium Businesses as well as the relationship between written strategic plan and strategic management in SME's. A more detailed description of the methodology is in the chapter three of this report which contains the population and sampling procedures.

### **1.9 Organization of the study**

The study was organized in five (5) chapters as follows.

Chapter one is the introductory chapter to this study. The back ground of the study, previous literature on the topic, the statement of the problem , research questions, and objectives of the study, justification of the study, scope and limitation of the study, methodology of the research and organization of the study.

Chapter Two includes reviews of relevant literatures to the study. This chapter also discusses the previews works relevant to the study. This is an indication of the review

of related literature on the concepts of small and medium enterprises; strategic planning/management are defined. Strategic management process, its importance and application in SME's was reviewed.

Chapter Three also deals with the methodological issues regarding the study. Sub headings here include the study area, sources of data, target population, sampling methods and techniques, research instrumentation, data analysis plan as well as issues from the field and ethics and how they were addressed.

Chapter Four will be centered on data presentation, analysis and discussion. The chapter shall contain tables, figures, graphs among others to elaborate more on the issues being discussed. Beside, in respect to this study correlation and cross tabs were applied. Chapter Five has to do with summary of findings, conclusions and recommendation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents conceptual definitions and theoretical background of the study in relation to the established objectives. In particular, the concepts of small and medium enterprises, strategic planning/management are defined. The contributions of SMEs towards national development as well as the challenges were also reviewed. Strategic management/planning process and the relevance of planning to small businesses were again review. Importance of strategic management and its application in the small enterprises was reviewed. The chapter ends with summary of the overall review and identification of gap in literature.

## 2.1 The Definition and Concept of SMEs

Different definitions have been provided for this type of business by various writers. SMEs are no exception to the many problems encountered with concepts that have a lot of components. Various researchers differ in definitions of companies using their sizes. Some have attempted to use the landed assets of the company while others use the labour force and revenue levels. Some have defined MSMEs in terms of their legal status and how they produce.

The risk of size used as a means of defining the status of a company was elaborated by Storey (1994), he says that all companies may be classified as being small in certain industries whereas in other industries none can be classified as a small firm.

The definition of a small company by the Bolton Committee (1971) was based on an “economic” and “statistical” basis. A company was supposed to fall under three main conditions before it could be regarded as being small: its dominance on the market is small; managements is mainly done personally by the owners, and has not got a formal structure of management and it is separate entity on its own, implying that it is not a subsidiary of a big organization.

The committee proposed the use of the size of the small firm industry and its contributions to gross domestic product, employment, exports, etc.; the degree to which the small firms contribute to economic development has changed over the period and using the statistical definition to compare the economic contributions of small companies across various countries. The Bolton Committee defined the small companies differently based on its operating sector. Definition of firms in the field of manufacturing, mining and construction was done using the number of employees (firms with a staff base of less than 200 were classified as small firms), monetary

revenue was employed in the services, retail and wholesale, etc. to define small companies (companies ranging between 50,000-200,000 Pounds were regarded as being small companies). The classification of small firms in the transport industry was on having vehicle strength of 5 or lower. Various criticisms have been made against the definitions proposed by the Bolton group. The focus of the criticisms was solely focused on how inconsistent their definition using the staff size and using the company's approach management

The number of employees was used as the criteria in the European Commission (EC) definition of SMEs, firms with between 0-9 workers as micro enterprises; between 10 - 99 workers as small scale enterprises; and 100- 499 employees as medium scale enterprises. Therefore the MSME segment comprises of companies (exception forestry, agriculture, fishing and hunting) which have in their employment a maximum of 500 workers. This indicates that the European commission's definitions used employment as the main criteria for determining size of the firm without considering other factors. Furthermore setting the maximum limit as 100 employees is most appropriate, given the rise in performance during the two decades past (Storey 1994).

Finally, the European Commission's definition of SME's differentiated between micro, small, and medium-sized enterprises and did not consider them as one identifiable group. Researchers might need to make use of appropriate definitions of small enterprises suitable to their focus group/region as what has been provided by the EC is too general to be applicable to various countries. It must be reiterated that discussions on definitions are not significant unless output is influenced by the size of the entity.

The impact of a financing arrangement on a category of firms was assessed using their size and performance (Storey 1994).

Definition of sizes of enterprises does not have a globally accepted position as indicated by Weston and Copeland (1998). They held that different terms can be used to differentiate between various enterprises. They defined size from different angles such as, number of staff, annual revenue, and type of industry, ownership structure of the firm and the value of its fixed assets.

Privately held firms with number of employees ranging from 1-9 and 10-99 people are classified as small and medium enterprises (Van der Wijst 1989). MSME's were defined as enterprises having less than 100 staff and with lower than €15 million revenue (Jordan et al 1998). Michael et al (1999) regarded small privately owned companies with less than 200 staff and companies having revenue less than €15 million were classified as being small by Lopez and Aybar (2000).

The British Department of trade and industry has accepted the definition of small companies used by the Bolton Committee in its report on Small Companies. This indicated that a small enterprise a standalone business, management is solely performed by the owner or part-owners and with a small dominance on the market size (Department of Trade and Industry 2001).

The definition of SME's provided by UNIDO using the number of employees also gave varying groupings for developed and developing nations (Elaian 1996). Developed countries were classified as following: Big - firms with 500 or more workers; Medium - firms with 100-499 workers; and Small - firms with 99 or less workers.

Developing countries were grouped as follows : Large - firms with 100 or more workers; Medium - firms with 20-99 workers; Small - firms with 5-19 workers; and Micro - firms with less than 5 workers.

We can determine from the numerous approaches of defining SME's that there hasn't been a very clear accepted definition of what an SME is. Countries and industrial sectors have varying definitions of SME's. It is empirical that we review how SME's have been defined in the Ghanaian context.

### **2.1.1 SME definition in the Ghanaian context**

The definitions of small-scale enterprises in Ghana vary but the commonly used criterion is based on the number of workers (Kayanula and Quartey 2000). There is some confusion in using this definition due to the various limits used by different official sources and researchers.

The Ghana Statistical Service (GSS) classifies small-scale enterprises as companies employing lower than 10 workers and those with higher than 10 workers have been classified as medium to large scale enterprises. Surprisingly, companies with total staff sizes of up to 9 were classified as MSME's in the national account of the GSS (Kayanula and Quartey, 2000). Another criteria used to define SME's was on the basis of the book value of its fixed assets.

Meanwhile, the book value of assets and the number of employed staff criteria was used by the National Board for Small Scale Industries (NBSSI) in Ghana. Small-scale enterprises was classified as companies that employ not greater than 9 employees and the value of its machinery and equipment (land, building and vehicles excluded) not

more than 10 million Ghanaian cedis (\$ 9,506). The Ghana Enterprise Development Commission (GEDC) in its definition used a maximum limit of 10 million Ghanaian cedis (\$ 9,506) for plant and machinery. It is important to note the challenges involved in the valuation of fixed assets. Secondly, the consistent depreciation of the Ghana Cedis as against the major trading currencies renders such definitions outdated (Kayanula and Quartey 2000).

In Ghana, Steel and Webster (1991) and Osei et al (1993) used a maximum employee's number limit of 30 workers in their definition of small-scale firms in Ghana. Small –scale enterprises were classified in three main categories, namely: micro - employing less than 6 people; very small - employing 6-9 people; and small - between 10 and 29 employees Osei et al (1993).

The Regional project on Enterprise development in Ghana provided a more current definition in its manufacturing survey by classifying firms into : micro enterprise, less than 5 employees; small enterprise, 5 - 29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal 2002).

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than 5 employees; small enterprise, 5 - 29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal 2002).

### **2.1.2 Contributions of MSMEs to Economic Development**

It has been generally accepted that the performance of SME's is of key importance with regards to the economic and social development amongst developing countries.

SME's have been known to provide a lot of benefits from the economic perspective (Advani 1997). Policy makers in their aim to increase the growth rate in developing countries have recognized the need of a vibrant SME sector as a key success factor.

The potential of SME's as a major source of income and employment among developing countries cannot be over emphasized; they are regarded as the pillar of growth upon which development objectives can be achieved.

SMEs have the ability to easily adjust to various market conditions considering their wide range of skilled technologies as compared to their large-scaled counterparts.

Their flexibility gives them the ability to withstand adverse economic conditions (Kayanula and Quartey, 2000).

The labour intensive nature of the SME's enhances their likelihood of being successful in sub-urban and rural areas; they can help stem the inflow of people to the large cities as they can assist in ensuring a more equitable distribution of economic activities in a region. Small-scale production units contribute to a more even distribution of incomes because they are widely dispersed and labour intensive. They ensure a judicious use of scarce resources and increase the domestic markets efficiency, therefore contributing to long-term economic development (Kayanula and Quartey 2000).

The importance of small and medium Enterprises, (SME's), and specifically the important role that they perform in a country's national economy, have long been realized (Le Roux, 1998). Le Roux 1998, in his research in South Africa, the SME sector was known to have accounted for 85% of formal businesses in 1991 which accounted for 30% of the GDP. In terms of employment, it accounts for 2.7 million people in formal sector and another 4.4 million in the informal sector. Also Islam et al, (2011) stated that the SME sector in Thailand accounts for 76.1% of businesses in manufacturing and employ 64% of the total industrial workforce in Thailand.

SME's in Ghana is a greater majority of businesses .They constitute about 90% of Ghanaian businesses and contribution to the country's GDP is about 70% ,they also employ over 80% of the labour force in the country.

PricewaterhouseCoopers Ghana banking survey (2013) indicated one of the key indicators of a booming economy is the existence of a strong industrious SME sector in the economy. From their survey SME's in Ghana constituted about 90% of total registered companies in Ghana and about 49% of total 2012 GDP was generated by SME's ,which is an indication of their relative importance to the economic growth of the Ghanaian Economy

IFC recognised the growing importance of SME's in the world's economies and advocated for the provision of specific focused finance packages by companies and governments to aid their development. SME's if provided with the necessary support have the potential to grow into large scale companies

### 2.1.3 General Constraints to SMEs Development

Many economic reforms have been initiated to aid in the development of strong SME's in the country but they are mainly hindered by varying constraints mainly attributed to factors such as their inability to produce in an efficient manner, high per unit costs due to limited economies of scale in the use of key resources and difficulties in large capital costs absorption. (Liedholm and Mead, 1987; Steel and Webster, 1990). Below is a set of constraints identified with the sector.

**Finance:** A major hindrance to the activities of small scale enterprises is in relation to lack of finance available to them for their activities. Lack of access to credit was identified by 38% respondents Aryeetey et al (1994). This is mainly due to the limited availability of SME's to access the local and international capital markets due to the perceived high risk and greater intermediation costs for small firms. Majority of debt finance available to SME's in Ghana from microfinance institutions usually come with very high interest rates.

**Equipment & Technology:** SMEs activities are mainly labor intensive with very little access to new technologies and mechanizations. This increases their cost of production and has greater effect on the competitiveness of the SME's. Capital constraints restrict the ability of the SME's to innovation.

**International Markets:** MSME's were initially shielded from international completion but are now exposed to greater external competition from multinationals and imports of cheap Chinese products into the country. Medium-sized firms were the significantly affected by this problem. Less than 1% of the total sample complained about the rapid increase of imported products into the country (Aryeetey et al,

1994:13).

**Regulatory Constraints:** Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level.

**Legal:** Licensing and registration procedures create barriers to SME's as they are normally unable to fulfil all the cumbersome registration requirements, the high costs of claims disputes and delays in court processes have negative effect on the operations of SME's. These were some of the issues often identified by respondents. The bureaucratic procedure for registering businesses and commencement was often cited. This was attributed to less than 1% of the sample per Aryeetey et al (1994). Antitrust legislations are not present in Ghana to the interest of the bigger companies, and SME's are unable to access foreign technologies due to the absence of property rights limits.

**Lack of Entrepreneurial & Business Management Skills:** SME's low appreciation of managerial principles tends to have an adverse effect on SME development.

Managers of SME's tend to have a personal motivation to perform but are usually unable to compete with the larger firms. Many consulting firms are not able to provide the SME's with cost effective solutions to their processes, therefore they are still challenged by the higher unit costs of their products.

**Institutional Constraints:** The lack of unity and scattered range of objectives among SME's hinder their ability to advocate for their collective benefits and how they participate in civil societal needs.

**Associations and collective action:** The impact of associations advocating for the interests of SME's in issues of policy making haven't been very significant compared

to the advocates for the larger firms. Majority of entrepreneurs have not been able to finalise the transition of their goals from being of a protective nature to being more competitive.

## **2.2 The Importance of Planning To the Small Firm**

In the mid-1980s Robinson and Pearce (1984) noticed that the worth of planning in small firms had not received the necessary attention during the 1970s and 1980s. They referred 12 papers dating from 1950s to early 1980s that showed a linkage between planning and positive performance, despite the fact that there were differences in their findings and their methodologies differed considerably.

The earlier researches confirmed that outsiders' involvement reflected positively on the results of two of the researches. D'Amboise (1974) was the key researcher pioneering this field of studies.

The focus of planning must be directed on increasing turnover and marketing needs during the early stages of development. The focus should be more on reducing production inefficiencies and building the human resource needs in subsequent years Robinson et al. (1984).

### **2.2.1 Studies from the 1990s**

There were lots of researches performed in the area of management of small businesses and entrepreneurship in the 1990s. This didn't have a direct resultant effect on the area of strategic management in SME's. They mentioned the benefits of organization and management skills among owners of SME's in the early years of the business. The skills for risk analysis were more important than the level of education or age of the entrepreneur.

Their study proposed that when the owners of SME's gets to be experienced inside their environment and/or where think the environment is under their control ,they will be less inclined to undertake formal planning. An important factor identified in a research done by Watson et al (1999).

They identified that managers of SME's were more likely to participate in planning due to its likelihood to improve performance.

### **2.2.2 Studies from the 2000s**

There hasn't been much change in recent studies on strategic planning, other than new research providing new results from different economies besides the UK, USA and other "English" countries.

Much hasn't evolved from the 1980's concerning the linkage between the theoretical and factual evidence on the benefits of planning to the small firms. The discussions above suggest that a lot of benefits are derived by small firms from planning but the exact nature is not very clear.

All the studies tend to backrests the importance of the owner or key management to the success of planning activities in the firm. Managerial experiences, educational background and the level of planning knowledge among the owners-managers were identified as key factors in the quality of planning results. However, various researches have come up with both differences and conflicting results about planning in small firms. The differences in methods, sizes of the companies and the nature of their businesses were contributing factors to these differences in results.

### **2.3 Developing Strategy in the Small Firm**

The long term strategic plans of small companies change as the company grows. The strategy to use at the introductory stage would be different from that which would be employed after start up. The earlier stages of the company will be more concentrated at increasing sales to ensure survival of the company. The secondary stages would be characterized by goals and strategies aimed at improving the profitability of the firm. Pearce and Robinson (1986) proposed that the entrepreneurs will need to adopt an attitude of constant improvement and should continue to analyse their strategies and actions, this would enable them to sufficiently allocate enough resources to the development of new products, markets and their product lines.. The business would have a measure of control and it's prudent the strategies and operational activities are closely matched and assessed.

The process of planning within small companies will have to be more customer focused, with the high likelihood of adaptability to the customer requirements and be directed at the development of the firm's resources capabilities to promote growth in the near future. Studies by Gimenez (2000) indicated that the smaller firms work within the same strategic structures as compared to the bigger companies: conservative Defender, the strategically aware Analyzer, the strategically challenged reactor and the market seeking innovation prospector.

The prospectors and analysers were identified to be the ones with the highest growth just as pertains with the larger companies. Strategy performs a key role in the planning process of small companies is as a form of intermediary factor between performance and the companies available resources. The deployment of a company's resources is

mainly dependent on the strategy practiced by the owner Adopted business strategies should improve upon the existing resources in the company (Edelman et al 2005).

Planning does not need to be entirely up to the owner to undertake, they make requires external assistance to undertake it; however there hasn't been any strict generic process/theory on how the process of planning in small firms should be done. A formal process tends to have certain benefits to the firm, but the level of bureaucracy or complexity shouldn't be excessive. They are however encouraged to seek external help when required. The use of the external expertise has been identified to be of immense help to the rapidly growing companies (Julien and Lachance 2001).

#### **2.4 Strategic Management Defined**

What is strategic management is the next focus of our literature discussion. Strategy as explained earlier is a suitable course of action that will enable predetermined objectives to be achieved. The term strategic management focuses on the establishment of long-range formal plans by business establishment. An analysis of the various theoretical definitions of strategic management has been presented below:

Thompson (1996) defined strategic management as a form of management processes and decision making which are geared towards the long-term objectives of the company and defines its structure. He examined strategic management on the bases of five key variables: timelines for decisions making, organisational structure of the firm, the process of management in the company and managerial decision making.

(Smith, et. al. 1996) defined strategic management as the analyses of the business environment in the immediate and long-term with the purposes of setting up the organization's goals and implementation of control systems to achieve these goals in the immediate and future environment

Kroon (1993) defined strategic management as a progressive long term planning by the management of a company that aims at constantly achieving the firms set objectives through the development and implementation of an appropriate blueprint. The planning process is supposed to be rigorous enough to withstand all forms of environmental changes. They classified strategic plan into two main variables namely strategic planning and implementation of strategy. Strategic management involves the assessment of both the internal (strengths and weaknesses) and external (opportunities and threats) environments of the company to be able to derive appropriate business approaches to be able to take advantage of the market's potential and serving the market with products and services that would tend to promote growth and profitability of the business.

(Johnson and scholes 1989) idea of strategic management was different as they didn't see the process of taking strategic decisions of a company as strategic management. Various managers in the business are usually required to make long-term decisions for achieving their set objectives in areas of sales, production, finance etc., but this process isn't strategic management. They stated practice of strategic management as ambiguous relating to organisation wide processes and not very specific to a particular area of business. Strategic management covers a wider scope than any operational management. Johnsons and Scholes stated that strategic management isn't about making long-term decisions but also ensuring the implementation of those strategies.

They looked at strategic management in a three way process of strategic analysis whereby the strategist tries to understand the strategic position of the organisation, strategic choice which is involved in deriving alternative courses of action and strategic implementation/strategy in practise which is the process of planning how the respective strategic plan would be implemented .

Stacey (1993) provided a contrasting definition to strategic management; he defined strategic management as a process controlled by the senior management in a company to determine the main goals of the company. This process generates a set of planning decisions through which the objectives of the company is expected to be achieved in the long term and strategies for corrective actions in the short term

Hunger and Whelan (2006) defined strategic management as managerial decisions aimed at the achievement of long-term management objectives and ensures the successful continuous performance of the business entity. The process of strategic management starts from the assessment of the environment, formulating of long range plans (strategies), implementing of the chosen strategies and lastly establishment of a system of evaluation and control of strategic plans. This study therefore emphasizes that strategic management involves the monitoring the company's external environmental factors in line with the company's internal factors(weaknesses and strengths) .Strategic management therefore evolves from the desire of management to reduce their risks and reduce their exposures to the increasing uncertainties around businesses.

Strategic management evaluates the whole business holistically and tries to provide explanations to the reasons why some firms grow and develop into bigger firms and others remain stagnant of end up collapsing. Strategic management is distinct from

other management functions in businesses because strategic management is involved in decision making for the long range life span of the business.

#### **2.4.1 The Evolution of Strategic Management**

The surge in globalisation and competition among companies' gets keener coupled with advancement in production methodologies and heightened sensitivity of market responses to business decisions, Managers of companies have to start taking a serious approach to strategic management. The high rate of business collapse in recent times due to financial mismanagement, inability to adapt quickly to customer demands and increased risks of error's occurring in business operations, management of businesses needs to be able to effectively manage the businesses strategically to guarantee its continuous competitiveness in its environment.

Strategic management is developed in various developmental phases as highlighted by certain researchers. The first phase was on the management of financial plan of the business; this entails performing monitoring and control of the company's activities through the management of the company's budget to achieve objectives. The second phase was the company performing effective planning activities to enhance growth by forecasting the future. The third phase was on the company establishing an effective plan aimed at tackling the external environment, this would enable the company to better respond to market responses and competitor activities. The last phase was the company effectively developing its internal resources to be able to have a competitive edge which would enhance the future survival of the business. This last phase of strategic management is what has the component of evaluation and control of the business activities to ensure long-term survival.

### **2.4.2 The Importance of Strategic Management**

Strategic management has been identified by various researchers to have immense value to business operations. Amalui and Farhad (2003) identified various benefits of strategic management system to the success of a business. Strategic management provides the firm with a clear vision and mission of the company. This implies the justification of the businesses existence is identified from the strategic plan. Secondly the business is able to identify its strengths and weaknesses through which the company is able to focus on areas where it has the capabilities to succeed in the competitive environment and focus on it. Thirdly strategic management performs an evaluation of the firm's strategy and provides information on the firms fit with its operating environment which helps the company better understand the scale of environmental change and plan towards it.

Greene et al (1985) recognised the increased ability of the firm to better adapt to the changing business circumstances and ensure the proper functioning of the business operations. The businesses are able to effectively counter the effects of economic changes, advancement in technological development and social changes which when effectively managed and resources allocated to would guarantee the firm's survival

Kroon (1993) said companies that proactively address changes to their business environments tend to outperform their counterparts who adopt a reactive approach to business activities. The value of strategic management is noticed more prominently in businesses operating in complex, continuous changing business environment.

### **2.4.3 Strategic Management Process**

The process of strategic management isn't a set of strictly laid down sequence of steps, according to Johnson and Scholes (1995). From their book there were different ways in

which the practice of strategic management can be developed. Firstly management intent can drive the planning process and systems based on the directions of a group of decision makers. Secondly cultural processes tend to have an impact on how strategies are developed in the organisation. The cultural dynamics of the business, its processes, and routines is likely to have a significant impact into how the assumptions of the businesses core beliefs are conceived and strategic choices are decided. Lastly the complexities of the business operating environments increases the reliance of management in drawing down an appropriate operating framework for the business operations

Kroon (1993) also revealed that different approaches to strategic management would be appropriate for each company in different circumstances. The various approaches can lead to the same results at different stages of the business operations. Firstly the new company has to identify a mission for the business organisation and that is the justification for the business existence. However an already existing company would have to consider its current business performance in accordance with its intended strategy. This would bridge any identified gap between the business performance and its strategic plan. The mission of the company provides a form of identification for the company's existence and the mission should encompass areas of the business such as product lines, markets, technologies and management philosophy.

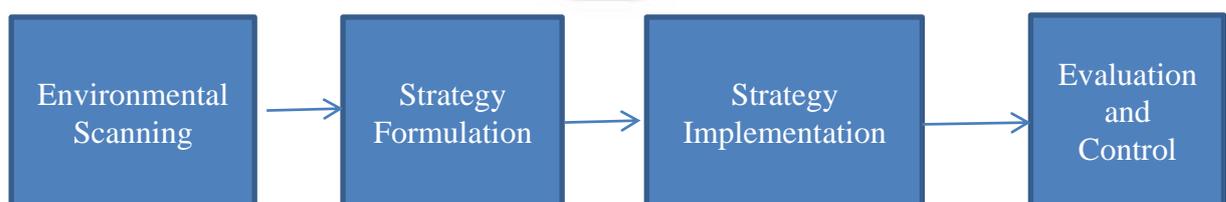
Farhad and Amalui (2003) in their book indicated that the strategic management process begins with an analysis of the company's internal strengths and weaknesses and compare it with the environmental opportunities and strengths. The SWOT analysis provides the company with a way of defining the company's mission taking into consideration it's profile, environment and industry.

The strategic match for each firm is different based on its size and business operations. Companies in their desire to seek the best possible outcome must maximise their competitive advantage. Identifying, understanding and making use of the firm's distinct competencies in such a way that other companies cannot emulate would ensure effective strategy implementation (Ansoff and McDonnell, 1990). Strategy formulation is usually the first step in the strategic management process. The second is implementation of strategies; this includes getting the requisite resources needed for the successful implementation of the strategies and lastly is evaluation of the business operating environment which is subject to constant change and activities.

The company needs to institute measures that would enable it to effectively monitor environmental changes that would require management to adjust the company's missions, goals, strategies and implementation approaches. In order to identify the characteristics of a good strategic management system, we need to evaluate one model of strategic planning.

#### **2.4.4 Strategic Management Model**

Various models have been developed to reflect the strategic management process in organisations. Majority of the models have centered on the various techniques of strategic management. Hunger and Wheelen (2006) attempted to define their model based on how the process of strategic management should be performed. According to them the strategic management process is made up of 4 components.



The process of strategic management begins from the activities aimed at scanning the environment of the firm internal(strengths and weaknesses) and external(opportunities and threats) .Strategy formulation looks at the setting of mission statements based on which companywide objectives can be set and strategies and policies derived. Programs, processes and budgeting are tools utilised by the company in the strategy implementation stage and lastly programs, processes and activities are evaluated by the company to and corrective actions taken where necessary.

#### **2.4.4.1 Environmental Scanning**

This involves the assessment of the company's internal capabilities and competencies that are under the control of management of the company (strengths and weaknesses).Afterwards there is a review of the external environment which encompasses the opportunities and strengths' of the business The business should be able develop its strengths to capitalise on opportunities that exist in the external environment of the business. The company needs to be able to align what it wants with what the environment is able to provide to it.

Johnson and Scholes stated that expected environmental changes results in changes in business strategies, these portray environmental opportunities and alert them of environmental threats. Companies need to design a suitable organisational structure and effective culture to counter the dynamics of a rapidly changing environment. The initial environmental audit starts with an understanding of the political, economic, social and technical influences commonly referred to as PEST. This enables the businesses to identify major influences of change and provide the means of analysing the extent of it's impacts in the organisation.

#### **2.4.4.2 Strategy Formulation**

The process of planning for the long-term impact of the business is termed as strategy formulation. These plans are aimed at managing the environments opportunities and threats with the strengths and weaknesses of the company. The SWOT analysis has been identified by Hunger and Wheelan (2006) as the basis for strategy formulation. They developed a scientific approach for performing the SWOT analysis whereby they combined the external strategic factors with the internal strategic factors which is built together into a summary of strategic factors with weights assigned to each. The result of the summary is a reflection of the company's internal and external strategic factors. Other methods can be utilised in strategy formulation such as Boston consulting group share matrix, product /market evolution matrix etc.

#### **2.4.4.3 Strategy Implementation**

This has been described as the process where the strategies and policies of companies are converted into performance measures like budgets, procedures and programs. This is the most critical part of process of strategic management. This involves the daily decisions taking on how resources are allocated .Hunger and Wheelan (2006) described the implementation of strategies as operational planning. They developed a model that describes how the strategy implementation fits into the whole business strategic management process.

Hunger and Wheelan (2006) state that after the formulation of policies and business strategy the next course of action for the business should be implementing the strategies. They said companies should make certain considerations on the tasks that must be performed, the resources needed for performing the strategic plan and the method of implementing the plan. Without due recourse to these considerations the strategic plan

is subject to failure regardless of how good/complex the plan is. Improper implementation of strategies would most likely cause it to fail and even a very good implementation plan can elevate a weak strategic plan to a strong status. Wheeler and Hunger (2006) recognised that more heads of institutions are now focusing more resources to the strategic implementation process and trying to solve major issues encountered in the implementation process. The good strategy depends on factors such as allocation of resources, motivation programs, information systems, company culture and the organisational structure.

#### **2.4.4.4 Evaluation and Control**

This is the last stage of the strategic managing activity and it's very crucial to the success of the implemented strategy. This serves to close any implementation gaps that exist between the strategic plan and the actual implemented strategic plan. Kroon said the ultimate test for a successful strategy is whether the company's objectives, goals and the company's mission is achieved. Effective control mechanisms would be able to determine whether the strategy was able to achieve its intended purposes.

Evaluation and control is the process where company examines their pre-set objectives and goals by comparing their actual performance with the expected outputs Hunger and Wheelan (2006), this stage requires the input of all managers responsible for key processes. They stated that a clear feedback which is free from all forms of biases is needed by managers to compare with actual performance to identify any gaps. They classified this process into five stages;

Stage one involves the determination of the implementation process to measure and evaluate. The process should be structured in a manner that can be easily measured.

Stage two is the determination of expected standard based on which actual performance

can be compared with the established standards. Stage three is the actual performance measurement takes place followed by stage four which is a comparison of actual performance with pre-set standards to determine deficiencies and gaps. The last stage is the review stage whereby all needed corrections are undertaken to bridge any performance gaps and alternative measures taken to curb repeat of such instances.

## **2.5 Strategic management and business performance**

The impact in which the practise of strategic management affects the financial performance of SME's is the main objective of this research. Strategic management as applied in larger businesses have yielded tremendous benefits over time in their businesses and this has been confirmed by various scholars such as Johnson and Scholes (1995), Hunger and Wheelan (2006) and Amalui et al, 2003.

Pushpakumari and Toshimitsu Watanabe (2009) established a relationship between business good long-term strategies of companies and their financial performance which was measured in terms of sales and profitability. They found an empirical relationship between corporate strategies and performance in an examination of SME's in the manufacturing industries in Sri Lanka and Japan. They realised that companies that strategized proactively realised an increase in sales, profits, number of employees and market share.

Pevros P, (2012) on a study on strategic management and business performance identified a positive correlation between strategic management and the success of businesses. The research also supported earlier works that formal strategic management alone isn't enough justification for successful business performance. The conclusion

arrived at was that strategic management provided companies with an enhanced chance of survival in the long-term as compared to those not practising it.

Dauda et al, (2010) in their study on strategic management and corporate performance amongst SME's in Lagos realised that majority of the SME's surveyed were practising some aspect of strategic management in their business operations. Companies practising Strategic management were realised to have an improvement in their market share and had a positive relationship with their profitability. Owners of SME's were encouraged to practise the processes of strategic planning, analysis and implementation. They identified strategic management as indispensable to the organisational performance of SME's in Nigeria. Their view goes to support the conclusions of the earlier researchers on the positive impact of strategic management on SME's performance.

However despite the many conclusions by various researchers on the positive relationship between strategic management and business performances, Yusuf and Saffu (2005) didn't identify a relationship between management and performance of small companies in Ghana except those in the formal manufacturing industry. Their conclusion was that even though planning is of significant benefits to the firms, the solutions to greatly improve on their performance is through tackling challenging poor economic issues in their environment.

Efendioglu and Karabulut, (2010) in their study on the impact of strategic management and performance in the Turkish SME's sector also didn't identify any direct correlation between strategic management and operational performances of the companies that implemented it. However there was significant growth in profitability

amongst the companies that utilized some tools of strategic management such as SWOT and budgetary reviews. Local companies in Turkey were actively involved now in strategic management and management has started allocating specific resources to its implementation.

## **2.6 Strategic Management In Small And Medium Scale Enterprises**

The main focus of this research is on strategic management and SME's .The various discussion above relating to how strategic planning/management is performed on the basis of the Small businesses. Most of the researches reviewed in early studies didn't fully address the strategic planning process of small firms entirely and they addressed them in different ways.

Planning is an all involving process comprising the individual and firm wide goals of the entrepreneur. How formal the planning process is largely affected by the nature and firm size. However, they all support the setting up of a formalized planning process. In their perspective a well-developed plan is important than how much planning is performed.

(Amalui et al, 2003) regarded strategic management of having immense benefits to the performance of small businesses. This assertion might be proven to be true and practical; it still remains a fact that many small businesses do not make full utilization of this process in their business operations.

(Hassan et al, 2007) research proved that firms practicing strategic management principles showed a positive trend of growth in their performances. The adoption of strategic management principles provided the companies with benefits such as the

ability to make reliable and accurate forecasting, reduced cost in business operations and increased the business decision making process. A number of advantages that accrue to small business due to their size and entrepreneurial approaches have been listed below:

- The business owner is able to make key strategic decisions due to the increased ability to have a more in-depth appreciation of his business process and operations.
- The market size, customer base and geographical boundaries of the SME's are limited in size as compared to the larger companies. Strategies can easily be changed and adapted to suit different environmental situations quicker.
- The controllers of the strategic plan is usually the owner who is actively involved in the management of the business operations ,they don't have to depend on information from a third party upon which to base strategic decisions on

Some researchers have postulated that strategic management shouldn't necessarily have to be formal for it to be effective in the operations of the small businesses. Some indicated that the emphasis on having a documented strategic plan have detrimental effects on the SME's as it reduces the degree of flexibility usually critical to the success of their business operations. However according to (Hunger et al 2001), the written model of strategic management implementation is equally as important to the small businesses as the larger counterparts. They indicated that the chances of success of small businesses are enhanced if they have a fixed business strategic plan that they can follow in the achievement of their business objectives. They also concluded that there

would definitely be a difference between the strategic management approaches used in the large firms.

According to Hunger and Wheelan (2006) management should concentrate their efforts on the activities and decisions that would affect the long-term survival of the company. These activities in the SME's would be less formal as compared to their large counterparts. They exhibited this difference in the approaches in a tabular format and said even though the approaches differ the expected outcomes and objectives are very similar.

**Table:1.2. Differences between planning activities for small and large enterprises**

FORMAL (BIG)	INFORMAL (SMALL)
Defining Mission	What does the company stand for ?
Strategy Formulation	What is the company trying to accomplish?
Determination of policies and procedures	What should be the framework by which the job would be performed?
Establishment of activity programs	How would the operation be organized to ensure successful completion as effective and efficient as possible?
Budget Preparation	What is the cost involved in the project and how are we going to finance it?
Performance assessment determination	What will be the factors that would ensure that we achieve our objectives and how can we monitor them ?

Le roux (1998) revealed that small companies who do not practice strategic management principles in their business operations are more susceptible to failure or run into serious financial challenges as compared to their counterparts who do so.

They concluded that even though strategic management planning by SME's might not guarantee success, it provides the SME's who practice it a greater survival chance than other SME's not practicing strategic management.

Amalui et al, 2003 recognized the many benefits of strategic management to SME's amongst which are the ability of the company's to have a mission or purpose for its existence. Proper goals and objectives are set for the organization as well as provide the means for the company to achieve these goals and objectives and measure their performance.

The strategic management process was identified as having more significance than merely owning a business plan and it was also revealed that the tools and systems employed by the bigger companies wasn't always suitable for the small entities Bakamibona and D'Amboise (1990). Planning has been assumed to be influenced by how complex the environment is, however bigger companies have the tendency to plan more intensively than their little counterparts and the planning reduces with the age of the company Masurel and Riesseeuw (1994). Their conclusion was that it was necessary to have a good understanding of the environment and market for effective planning, plus the linkage between output and planning is not very strong.

A good training in entrepreneur development as realized by Messeghem (2003) would enable the small firm to be characterized by high levels of standardization, specialization and formalization, and develop an advanced system on external information, likewise a system advanced in control and planning. His identified

evidence to support his propositions on his study concentrated on small companies in food processing, this suggests that increased formalization may be identified with the entrepreneurial training received by the company's management. The success of the strategic management process and the degree of its formality is largely dependent on the owner-manager.

### **2.6.1 Limitations Of Strategic Management Implementation In SME's**

Despite the many benefits of strategic management to SME's a majority of managers simply try to avoid the process of implementation or do not try it all. Amalui et al, 2003 realised that the managers of the SME's might not have adequate knowledge about the benefits accruing to the business if they practice it.

Majority of the managers are not aware about strategic management techniques and methodologies to be able to implement such procedures in their business operations. SME managers have the preconception that strategic management is only suitable to large companies and not beneficial to smaller companies.

Managers of SME's are the main people involved in the daily business operations of the company and are involved in almost all aspects. Strategic management and the process of long-term planning is usually quiet involving and demands some devotion of time and resources .The SME's managers are reluctant to devote adequate time out of the time needed for the normal daily operations to undertake effective strategic planning and management because they normally are oblivious to the happenings of the future concerning their business.

The assertions on the limitations of strategic planning by SME's was also confirmed by Kaihan Krippendorff 2012.He advocated for managers of SME's to reduce the time

involved in their strategic planning process and rather take more short term decisions. He was of the view that SME's shouldn't always try to emulate the activities of the large companies in order to survive as the business dynamics of their operations are different. Large companies have the skills, resources, finances and personnel to plan, implement and monitor strategic plans. He recommended that they adapt an adaptive opportunistic approach to strategy and should take less decisions in the board rooms but rather do more on the production floor.

## **2.7 Chapter Summary**

It can confidently be said that, the above review does reflect a good cross section of the studies published in the area of planning and strategy formation by small firms over the past twenty years. This gives the readers an understanding over the concepts toward SMEs, strategy development, strategic planning, strategic management as well as the link between strategic management and performance and also looked at the strategic management approach by SMEs. All companies go through the same theoretical modules in strategic planning and management but the approaches vary based on the size of the company.

In the next chapter, the research methodology deployed for the study had been elucidated in line with this review and the objectives of the study.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter focuses on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design and provides details regarding the population, profile of the study area, sample and sampling techniques, sources of data, data collection techniques, data analysis design as well as ethical considerations.

#### 3.1 Research Design

Saunders Saunders et al. (2007), defined the research design as the total outline on how the answering of the research questions be conducted. It is the structure conceptualisation on which the research will be performed. This is the general plan upon which data will be collected, measured and analysed. The method of gathering data which involves people answering a series of questions (questionnaire form). The sufficiency of the size and degree of which information collected is bias free enhances the reliability of the results of the survey. (Encarta, 2009)

Exploratory, descriptive and causal are the three types of research designs. This is a causal research which aimed at trying to draw the relationship between strategic planning and performance of SME's in the Kumasi metropolis, this involved evaluating the importance that managers of SME's in Kumasi place on strategic management and lastly whether the process of strategic management or the plan was the critical success factor.

Qualitative and quantitative approaches were employed in the research. The quantitative method involves gathering data in numbers and concise presentation that will be analysed with the aid of statistical methods and diagrams and answers “How many?”. The research that is mainly of a subjective nature and answers “What? “or “Why?” in the study, this mainly entails gathering data which is in a standard form and uses concepts to analyse the data. (Saunders, Lewis, & Thornhill, 2003)

The questionnaire used for the data was mainly of a quantitative nature and some element of qualitative information that would be used to provide further explanations of the quantitative data gathered. This provided the researcher with the means to further investigate into the research problem in detail and be able to arrive at appropriate conclusions from data from the field.

### **3.2 Population**

The people or objects that make up the subject of the study are termed the population. This is simply the individuals or elements, objects or an item that is the focus of what is being studied in the research. Saunders et al (2007). This study adopted all the players in the MSME’s industry as the target population. The study population is comprised of entrepreneurs and officers from Association of Small Scale Industries (ASSI), Ministry of Trade and Industries (MOTI), Kumasi Metropolitan Assembly (KMA), Chamber of Commerce (COC), National Board for Small Scale Industries (NBSSI), Microfinance and Small Loan Centre (MASLOC) and Association of Ghana Industries (AGI), and to contribute to this research both on what they know as challenges and recommendations to help address these objectives.

The population target is made up of individuals who provide services as SME's or support SME'. This may include but not limited to; agro- business, restaurant operators, hoteliers, dressmakers, real estate and accommodation, general commerce and trading, educational services, consulting, MSMEs developmental organizations among others .

In order to confirm the accuracy and reliability of information from the field. The population targeted for this research was made up of 517 SME's in the Kumasi Metropolis. The Kumasi office of the National Board for Small Scale Business Industries (NBSSI) confirmed that the number of registered businesses with the Board from 2006-2013 was 517.

### **3.3 Sample Size and Sampling Technique**

The portion of the population that is taken as a representation of the total number is referred to as the sample. The sample size should be large enough to serve as an appropriate representation and enable the researcher to provide correct estimates about the views and behaviour of the bigger populations. Kumar proposed that the size of the sample should be large enough to ensure a more precise finding but some other researchers especially Kumekpor (2002) believes that the time and resource capability of the researcher is of more significant importance. Newman (2003) also proposed that the accuracy of the research should be more important than the size in the determination of the sample size.

The sample size was selected based on the formula used by Krejcie and Morgan in their article "Determination of sample sizes for research activities" With a confidence level

of 90 percent and margin of error of 5 percent, the sample size of 178 was arrived at for the research.

The remaining 178 SMEs were selected using the quota technique.

Quota to each division was determined by using the formula;

$$Q = \frac{\text{Business Category} \times \text{Sample Size}}{\text{Sample frame}} \quad \text{where } Q \text{ is the quota}$$

This equation was used to generate the table 3.1 below.

### 3.1.1 Determining Sampling Size

**Table 3.1 Determining Sampling Size**

CATEGORY	TOTAL POPULATION	SAMPLE SIZE	SAMPLING TECHHIQUE
Agro-businesses	$\frac{36 \times 178}{517}$	12	Quota Sampling
Microfinance and foreign exchange beaus	$\frac{52 \times 178}{517}$	18	Quota Sampling
manufacturing	_____	7	Quota Sampling
Hotel and restaurant	_____	36	Quota Sampling
Education services	_____	21	Quota Sampling
Real estate and accommodation	_____	15	Quota Sampling
Trade and commerce	_____	52	Quota Sampling
Others	_____	20	Quota Sampling
<b>Total</b>	517	178	Quota Sampling

A convenience sampling technique was adopted to select the 178 companies to complete the questionnaire (Appendix A).

### **3.4 Sources of Data**

We utilised both the secondary and primary data as our sources of data. The collation of information to provide answers to the questions posted in the discussions is termed data collection.

#### **3.4.1 Primary Data**

Data which is gathered by means of observations and direct interviewee experience is termed as primary data. This type of data is more preferred as it shows the most recent information. We used structured questionnaires to collect primary data from the field.

#### **3.4.2 Secondary Data**

The use of publicly available data collected in an earlier period is termed as Secondary data. This type of data is available without much effort and its not expensive to gather it. We employed the use of manuals, articles and publications, informal sessions with experts, seminars, conferences, hand books and other published information.

### **3.5 Data Collection Instruments**

We identified the use of a questionnaire as a more suitable data collection instrument due to our topic's nature. The use of questionnaires enables a researcher to be able to acquire data from a larger number of people without incurring so much cost. The questionnaires were structured in such a way as to provide objective answers from the respondents who were given the questionnaires.

The closed or forced choice format of questions was used in our work. Respondents were restricted to the choice between different options provided by the researcher in

answering the closed format questions. The closed format was easier to fill, quicker and ensured the effect of discrimination by the less elite respondents was reduced to a minimum (self-administered questionnaire). This method reduced the difficulty in coding, recording and analysing of the results using quantitative techniques and eased the report of results.

### **3.6 Data Analysis**

We resorted to the use of the Statistical Package for Social Services (SPSS) to analyse our quantitative data. The SPSS has the ability to provide us with various statistical methods in our analysis. It also enabled us to produce results in reports and table forms and also aided in the identification of missing data easily. We utilised descriptive and inferential statistical methods in our analyses. The use of graphs and Frequency tables aided in the presentation of our results.

We cross tabulated the results to bring out the results in between strategic management and financial performance as well as the relationship between practising strategic management and a written strategic plan. The Chi-square was then used to test for significances of dependencies between the results.

We performed a critical analysis of open-ended questions to arrive at our conclusions to complement the information derived from the administered questionnaires.

Appendix 1 Shows the finalised structure of the questionnaire employed in the study.

### **3.7 Ethical Consideration**

We informed the respondents about the use of the results for purely academic purposes and any information received from them was handled confidentially without the risk of it being exposed into the public domain.

### **3.8 Profile of Study Area**

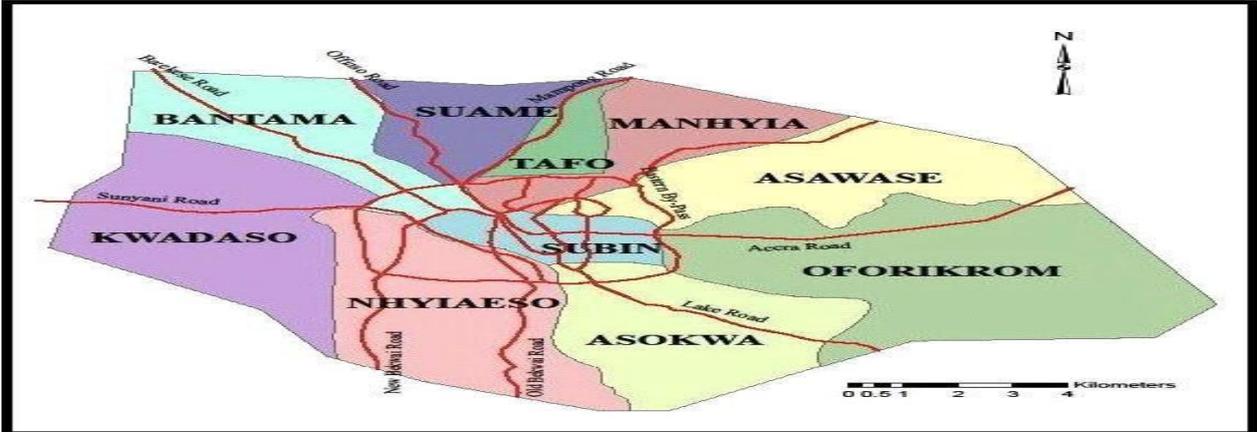
Kumasi can be identified in the part of Ghana classified as the tropical rain forest area of the country; it has very nice landscapes and mainly dominated by green forest areas and some wetlands Adarkwa (2011). The manner of the many forest areas and different types of flowers and green land resulted in the city being called "the Garden City".

Kumasi has a land area of approximately 250 kilometres square. The town has the largest population in the Ashanti region with a population of about 2 million people ,it grows at a rate of 5.47 % per annum and its densely populated with about 5,000 people/square kilometre as evidenced from the Ghana Statistical Service ( 2012) report.Kumasi is made up of ten sub-metros : Suame,Oforikrom,Nhyiaeso ,Bantama, Manhyia ,Asawase ,Kwadaso ,Tafo ,Subin and as depicted in the map in figure 3.1..The urbanisation of Ashanti Region is only second to the Greater Accra region with 87 %. Kumasi even though cannot be classified as fully urban has a large urban population due to it having about a third of the population in the region. The city is mainly dominated by activities relating to trade/service/enterprises which comprise about 70% of the economy, the manufacturing makes up about 23% and the remainder is attributed to the production sector.

Kumasi has generated a name as a key commercial area in the country with the wholesale and retail of commodities being the main business activities in the region.. There are some few activities of the non-bank and banking financial institutions to provide services to these businesses.

The manufacturing of alcoholic beverages and processing of wood products are the main industrial activities in the City. A significant chunk of the industries in the city is centered on Ahinsan-Asokwa-Kaase industrial area, this is the main area demarcated for large scale manufacturing activities. The city is well noted for its famous Suame magazine for the repairs of Vehicles, manufacture of parts and small scaled engineering activities are undertaken, this area contributes significantly to the industrial activities of the metropolis. The activities of the wood craftsmen around Anloga and Sokoban serve to provide services to many people from other parts of the country and some are exported to neighbouring countries. There is the handicraft area which is also rapidly developing.

**Figure 3.1 Study areas in the Metropolitan context showing Sub-Metros areas**



**Source: Kumasi Metropolitan Assembly, 2013**

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

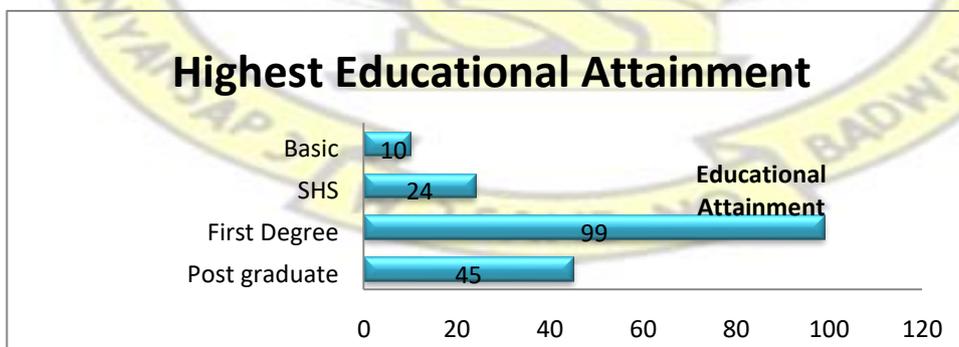
#### 4.1 Introduction

This chapter focuses on the statistical presentation and discussion of data entered from the questionnaire that was designed and distributed to the SMEs selected for the study. Using selected SME's in the Kumasi Metropolis as the study sample, sub sections for this chapter entails: demographic data, relationship between strategic management and performance, relationship between written strategic plan and strategic management, importance placed on strategic planning and how challenges of strategic planning and management can be adjusted. Excel was also used to enhance the outcome of the graphs employed for the presentation of data.

#### 4.2 Demographic Data OF SME's in the Kumasi Metropolis

With respect to the managers of the SME's in the Kumasi Metropolis who were the respondents for the survey, figure 4.1 below shows their highest educational attainment.

**Figure 4.1: A bar chart showing the highest educational attainment of SME managers in the Kumasi Metropolis**

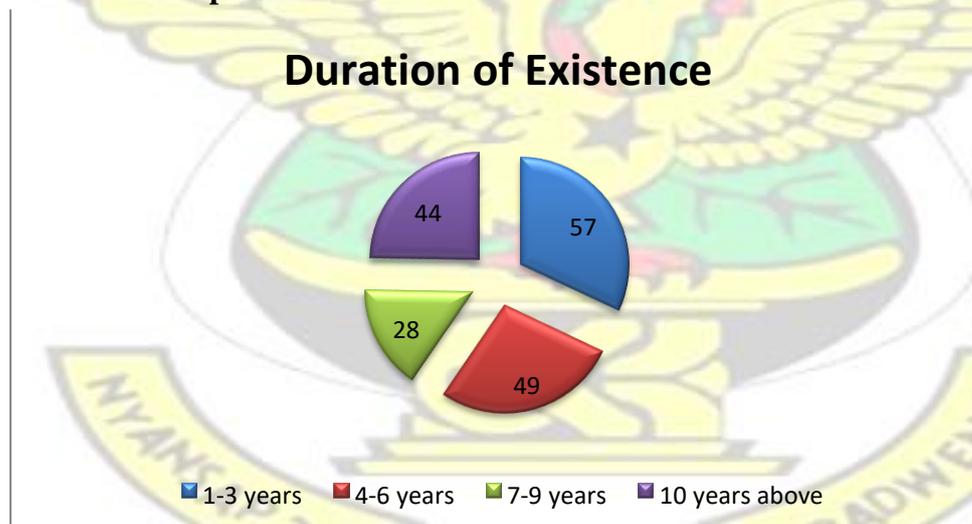


(Source: Field survey, 2015)

As clearly presented on figure 4.1 above, 99 out of the 178 SME managers that were surveyed had attained a degree education, 45 had attained their post graduate, 24 had attained Senior High Education while the remaining 10 had attained only basic education. The results above indicate that majority of the study populates have had at least basic education in their lifetime with majority of the respondents being degree holders. It can be concluded therefore that literacy in the sampled data is on the average high supportive of the fact that information provided are based not only on experience in the field but also intellectually inclined.

The managers of the SME's were requested to state the number of years their SME's had been in existence and figure 4.2 below illustrates their response.

**Figure 4.2: A pie chart showing the duration of existence of SME's in the Kumasi Metropolis**



**(Source: Field survey, 2015)**

From figure 4.2 above, 57 of the managers made it known that their companies had been in existence from 1 to 3 years while 49 said their SME's had been in existence from 4 to 6 years. 28 managers out of the remaining 72 said their SME's had been in

existence for a duration of 7 to 9 years while the remaining 44 said their companies had been in existence for 10 years and over. The information provided above also shows that 117 persons representing approximately 66% of respondents have been in operations for at least 4 years with 26% representing SME's who have been in operations for over a decade. The figures reflect the rich experience of managers of SME's interviewed and how reliable the information they provide likely to be. Management of companies older than three years would have been able to pass through the initial challenges faced by SME's as they grow ,majority of SME's collapse within the first three years of their establishment and those who have been able to exist beyond that time have definitely been practising some form of good business management.

In order to know the size of SMEs managed by the respondents, it was of essence to know the number of employees existing in the surveyed companies. Figure 4.3 below shows the responses of the managers of the SME's with respect to the number of employees.

**Table 4.1 A table showing number of full time employees of SME in the Kumasi Metropolis**

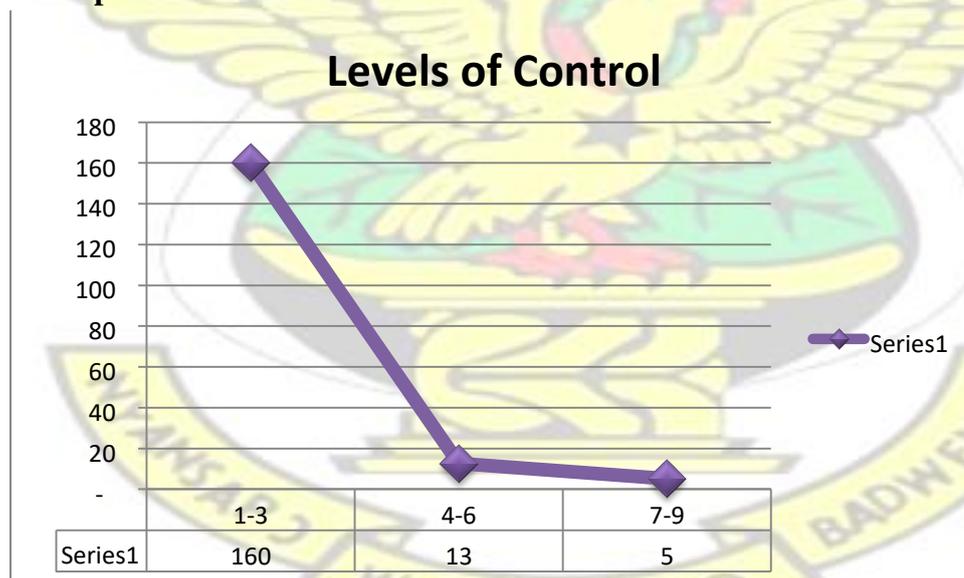
NUMBER OF EMPLOYEES	FREQUENCY	PERCENTAGE
1-5	59	33.0
6-15	74	41.3
16-25	18	10.1
26-40	10	5.6
41-60	5	2.8
61-100	13	7.3
Total	179	100

(Source: Field survey, 2015)

From the table above, it can be noticed that, majority of them as 74 respondents representing 41 percent of the distribution had employed from 6 to 15 workers, 59 out of the 178 SME's surveyed representing 33 percent had employed from 1 to 5 workers, 18 had employed from 16 to 25 workers while 10 had employed from 26 to 40 workers. 5 of the SME's had 41 to 60 employees while the remaining 13 SME's had from 61 to 100 employees. This confirms that about 73% of the total SME's surveyed had a maximum of 15 workers in their establishment.

Aside the number of employees existing in the SME's surveyed, the stages of operating hierarchy that exist in the business was also inquired and figure 4.4 gives the statistical output of their response.

**Figure 4.4: A line chart showing the levels of control of SME's in the Kumasi Metropolis**



(Source: Field survey, 2015)

Figure 4.4 gives a line chart that depicts that 160 of the SME's sampled for the study had from 1 to 3 levels of control, 13 of the SME's had from 4 to 6 levels of control while the remaining 5 SME's had from 7 to 9 level of control.

In summary, it can be said that, majority of the respondents who managed the SME's used for the study had attained a minimum of tertiary degrees. These SME's had operated long enough to provide informed ideas on strategic planning, management and performance with 66% of the SME's having operated for atleast 4years with highest number of employee and levels of control being 6 to 15 and from 1 to 3 respectively.

#### **4.3 Relationship Between Strategic Management and Performance**

One of the objectives was to know the relationship between strategic management and performance. As stated in the work done by (Dauda et al 2010) in the literature review, strategic management has potential advantages and intrinsic values that will eventually translate into improved firm's performance, there is the growing perception of a correlation between strategic management and performance of firms. In view of that, it was necessary to know the tools surveyed companies measure performance with, frequency with which performance is measured and opinion of SME managers with respect to whether there exist a relationship between strategic planning and financial performance. A chi-square test of independence was also done to establish whether there exist a relationship between the planning process adopted by the SME and improvement in their business performance.

**Table 4.2: A table showing tools of measuring performance used by SME's in the Kumasi Metropolis**

<b>MEASURE OF PERFORMANCE</b>	<b>YES (%)</b>	<b>NO (%)</b>
Return on Invested capital	60	40
Return on assets	32	68
Net profit before interest and tax	73	27

Net profit after interest and tax	89	11
Percentage growth in sales/revenue	85	15
Number of customer complaints received	54	46
Number of branches	7	93
No specific measurement	25	75

(Source: Field survey, 2015)

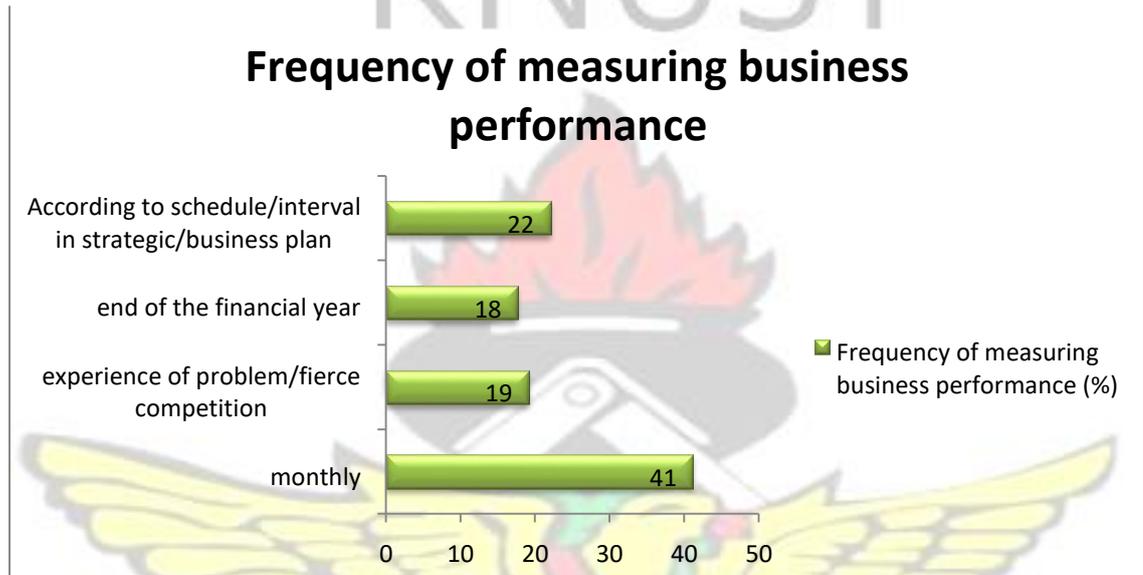
From table 4.1, it can be seen that, 60 % against 40% accepted the use of return on invested capital as a tool for measuring performance. 32% as against 68% accepted return on assets as a tool for measuring performance. With respect to using Net profit before interest and tax as a measure of performance, 73% as against 27% accepted the claim. With respect to using Net profit after interest and tax as a measure of performance, 89% as against 11% accepted the claim. It can also be observed from table 4.1 that 85% of the respondents accepted percentage growth in sales/revenue as a tool in measuring performance while the remaining 15% rejected that claim. 54% of the managers of SME's accepted number of customer complaints received as a tool for measuring performance while the remaining 46% rejected that claim. A higher percentage of 93 rejected using number of branches as a tool for measuring performance while the remaining 7% accepted the claim. Lastly, 75% rejected the claim that they had no specific tool for measuring performance while 25% accepted that they had no specific tool of measuring performance.

Management must not only be interested in setting up objectives in ensuring effective strategic planning. Frequent monitoring both at the individual and organisational levels provides not only insight for conducting reviews of managers and employees, but also helps firms to understand how they are performing relative to their competitors.

Therefore, aside knowing the tool of measuring performance, it was also inquired from the managers how often their company performance were measured.

This is clearly shown on figure 4.5 below.

**Figure 4.5: A bar chart showing the frequency SME's in the Kumasi Metropolis measure business performance**



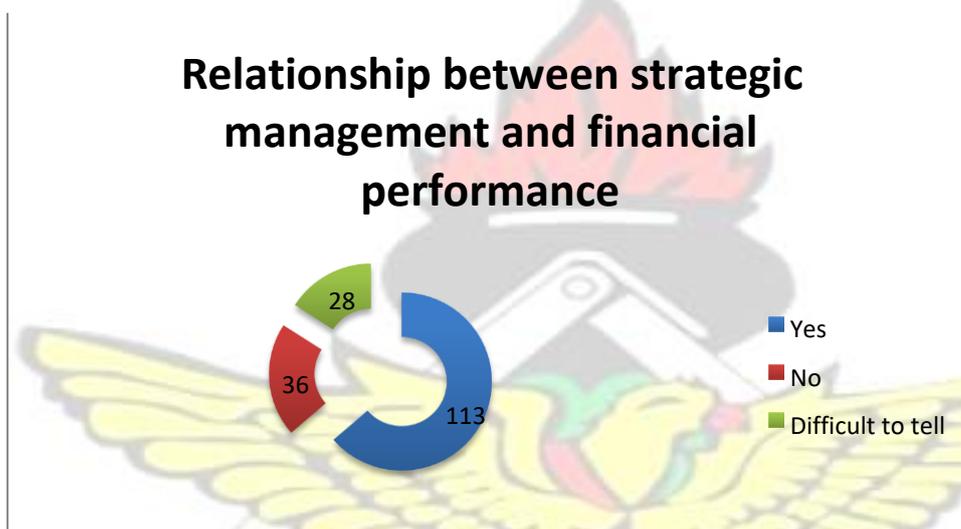
(Source: Field survey, 2015)

Looking at figure 4.5 above, 41% of the SME's measure performance on monthly basis, 19% measure performance when they experience problem/fierce competition, 18% of the SME's measure performance at the end of the financial year while the remaining 22% measure performance according to schedule in strategic/business plan.

The graph shows that on the average 81% of respondents embark on monitoring activities of their firms either monthly, annually or according to schedule. The implication of the results is an indication that SME's in the Kumasi metropolis provide the appropriate environment for management's measurement of performance, report progress, reveal and solve challenges as well as improve motivation and communication in the organisation-an incentive for growth or expansion of business.

It was necessary to know the opinion managers of SME's in the Kumasi metropolis had with respect to strategic planning and financial performance. The doughnut chart below shows the opinion of managers with respect to this relationship.

**Figure 4.6: A doughnut chart showing the managers of SME's in the Kumasi Metropolis opinion on the relationship between strategic planning and financial performance**



(Source: Field survey, 2015)

As presented on figure 4.6 above, 113 representing 64% out of the 178 SME's accepted that there exist a relationship between the strategic planning adopted and financial performance of the company while 36 rejected that there exist any such relationship. However, the remaining 28 SME's said it was difficult to either accept or reject the claim of whether there exist a relationship between the strategic planning employed and financial performance of a company.

A chi-square test of independence was conducted in order to know if planning process and application of strategic planning improved business performance.

The hypothesis was formulated as:

H<sub>0</sub>: SME's planning process and application of strategic planning improving business performance are statistically independent.

H<sub>1</sub>: The two variables are statistically dependent.

Decision Rule: If the calculated value of the Chi-Square test was greater than the table value, the null hypothesis was rejected. If the calculated value was less, then the null hypothesis will not be rejected. Therefore the two variables would be statistically independent.

**Table 4.3: Planning process \* Application of strategic planning improved business performance Crosstabulation**

Planning process * Application of strategic management improved business performance Crosstabulation				
Count		Application of strategic management improved business performance		Total
		Yes	no	
Planning process	Informal	76 86%	12 14%	86 48%
	Formal	98 89%	12 11%	92 61%
Total		178	24	178

Table 4.3 above indicates that a majority of respondents who did not have a formal strategic planning process in their business still achieved improved business performance in their business operations representing 86% of total respondents without a formalised planning system in place.

**Table 4.3b Chi Square Tests**

Chi-Square Tests					
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)

Pearson Chi-Square	1.257 <sup>a</sup>	1	.262		
Continuity Correction <sup>b</sup>	.569	1	.451		
Likelihood Ratio	1.223	1	.269		
Fisher's Exact Test				.292	.223
Linear-by-Linear Association	1.239	1	.266		
N of Valid Cases <sup>b</sup>	178				
a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 3.47.					
b. Computed only for a 2x2 table					

The chi – square critical value from the chi – square table is 3.84146

Since the calculated value (Pearson Chi – square) of 1.257 is less than the table value of 3.84146, we do not reject the null hypothesis at a 0.05 significance level. Hence, planning process and application of strategic planning are statistically independent.

With respect to the above analysis it can be said that, SME’s planning process and application of strategic planning does not automatically relate to improvement in business performance.

From the above presentation it can be concluded that, SME’s mostly measure their business performance with the use of returns on their invested capital and on monthly basis. They also believe that there exist a relationship between strategic planning and financial performance of their company. However, a statistical test indicates that,

SME’s business improvement is not dependent on the planning process and application of strategic planning. This confirms the conclusions reached by Yusuf and

Saffu (2005) and Efendioglu and Karabulut when they couldn’t establish a definite relationship between enhanced financial performances from applications of strategic management among companies in Ghana and Turkey respectively. This might be due to challenges that impede effective implementation and management of laid down strategic management plans.

#### 4.4 RELATIONSHIP BETWEEN WRITTEN STRATEGIC PLAN AND STRATEGIC MANAGEMENT PROCESS

Another objective of the study was to establish if there exist a relationship between a written strategic plan and application of strategic management process. Discussed below with the use of a chi-square test of independence is the relationship between written strategic plan and strategic management.

The hypothesis was formulated as:

H<sub>0</sub>: SME's written strategic plan and strategic management are statistically independent.

H<sub>1</sub>: The two variables are statistically dependent.

**Table4.4: Strategic management of business \* Planning process Crosstabulation**

Strategic management of business * Planning process Crosstabulation				
Count		Planning process		Total
		informal	formal	
Strategic management of business	Yes	34	90	124
		28%	72%	71%
Strategic management of business	No	34	20	54
		65%	35%	29%
Total		68	108	174

Table 4.4 above indicated that 124 respondents representing 71% of the total population applied strategic management in their businesses when they have a formal planning process in their business operations. Majority of the populace practise strategic management principles when they have a formalised planning system in place.

**Table 4.4b Chi Square Tests**

Chi-Square Tests
------------------

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	8.254 <sup>a</sup>	1	.004		
Continuity Correction <sup>b</sup>	6.766	1	.009		
Likelihood Ratio	8.158	1	.004		
Fisher's Exact Test				.006	.005
Linear-by-Linear Association	8.136	1	.004		
N of Valid Cases <sup>b</sup>	178				
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.71.					
b. Computed only for a 2x2 table					

The chi – square critical value from the chi – square table is 3.84146

Since the calculated value (Pearson Chi – square) of 8.254 is greater than the table value of 3.84146, we reject the null hypothesis at a 0.05 significance level. Hence, written planning process (formal) and strategic management are statistically dependent. With respect to the above analysis it can be said that, SME's with written strategic plan apply strategic management to their business.

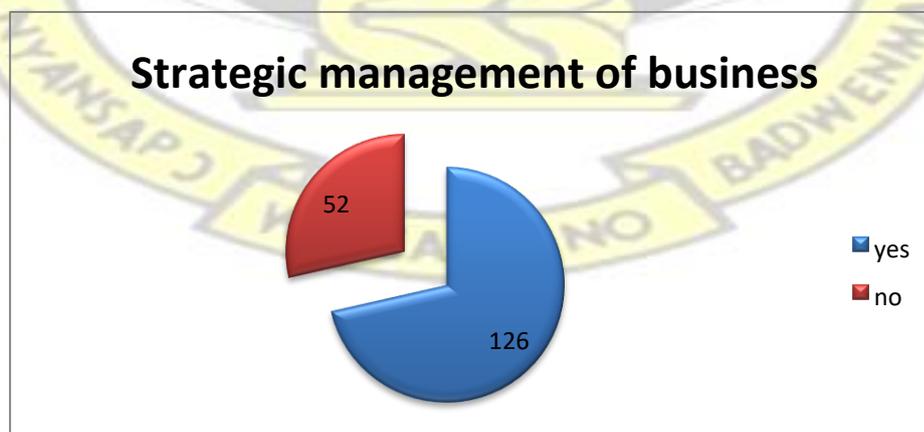
From the above it can be concluded that, there exist a statistically dependent relationship between written strategic plan and strategic management with SME's in the Kumasi metropolis. The study therefore implies that a well written strategic plan serves as a roadmap for program administration in SME's. Thus, it minimises inefficiencies while providing avenue for firms to write down how it plans to achieve its objectives and to ensure effective management control.

#### 4.5 IMPORTANCE PLACED ON STRATEGIC PLANNING

The next objective that was analysed was the importance SME's in the Kumasi metropolis place on strategic planning. In line with this objective managers of SME's were probed to know if they devoted adequate time and resources to the development of strategic management in their business and reasons for not using strategic management if they rejected using it. A chi-square test was also conducted with respect to this objective in order to know if importance placed on strategic planning was dependent on insufficient time to combine strategic management, business operations not being large, expenses of employing external consultants and unfamiliarity with strategic management and planning. Another chi test was conducted to know if importance placed on strategic planning was dependent on educational attainment.

The pie chart shown below depicts the response of managers of SME's with respect to the usage of strategic management.

**Figure 4.7: A pie chart showing whether SME's in the Kumasi Metropolis regard strategic management as important in business operations.**



(Source: Field survey, 2015)

From figure 4.7 above, 126 out of the 178 SME managers representing about 71% of respondents agreed that to the importance of strategic management in business operations while the remaining 52 does not agree to it being relevant.

**Figure 4.8: A bar chart showing the reason some SME’s in the Kumasi Metropolis do not practise strategic management.**



(Source: Field survey, 2015)

From figure 4.8 above, 21 out of the 52 respondents that did not regard the practice of strategic management as important because their business operations were not large enough while 16 of them said they were not familiar with strategic management. With the remaining 15 respondents, 10 said it was because of insufficient time in combining strategic management and other issues while 5 said it was expensive to employ external consultants. According to the results above, size of business operations and inadequate know-how on strategic management and planning constitute the major constraints to effective adoption of strategic management plans.

Discussed below with the use of a chi-square test of independence is whether importance placed on strategic planning was dependent on insufficient time to combine

strategic management, business operations not being large, expenses of employing external consultants and unfamiliarity with strategic management and planning.

The hypothesis was formulated as:

H<sub>0</sub>: The two variables are statistically independent.

H<sub>1</sub>: The two variables are statistically dependent.

**Table 4.5: Reason for not practicing Strategic management \* Strategic management of business crosstabulation**

Reason for not practicing Strategic management * Strategic management of business				
Crosstabulation				
Count		Strategic management of business		Total
		Yes	no	
Reason for not practicing Strategic management	Insufficient time to combine strategic management and other issues	4	12	16
		25%	75%	32%
	business operations are not large enough for strategic management application	4	16	20
		20%	80%	40%
	expensive to employ external consultants	0	4	4
			100%	8%
not familiar with strategic management and planning	0	10	10	
		100%	20%	
Total		8	42	50

The table above shows that majority of the respondents representing 83% of the total populace who didn't practise strategic management in their operations didn't attribute it to factors of on insufficient time to combine strategic management, business operations not being large, expenses of employing external consultants and unfamiliarity with strategic management and planning. This implies there are other factors besides the one's stated above that accounted for them not practising strategic management.

**Table 4.5b Chi Square Tests**

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.019 <sup>a</sup>	3	.797
Likelihood Ratio	1.568	3	.667
Linear-by-Linear Association	.892	1	.345
N of Valid Cases	52		
a. 6 cells (75.0%) have expected count less than 5. The minimum expected count is .25.			

The chi – square critical value from the chi – square table is 7.81473

Since the calculated value (Pearson Chi – square) of 1.019 is less than the table value of 7.81473, we do not reject the null hypothesis at a 0.05 significance level. Hence, importance placed on strategic planning was independent of insufficient time to combine strategic management, business operations not being large, expenses of employing external consultants and unfamiliarity with strategic management and planning.

Another chi test was conducted to know if importance placed on strategic planning was dependent on educational attainment.

The hypothesis was formulated as:

H<sub>0</sub>: SME managers placing importance on strategic planning and educational attainment are statistically independent.

H<sub>1</sub>: The two variables are statistically dependent.

**Table 4.6: Strategic management of business \* Education Crosstabulation**

Strategic management of business * Educational attainment Crosstabulation						
Count						
		Educational attainment				Total
		Basic	S.H.S	First degree	Postgraduate	

Strategic management of business	yes	12	10	10	92	124
		9%	8%	8%	74%	69%
	no	0	16	0	32	52
			30%		60%	31%
Total		12	26	10	124	178

The table above indicates that majority of respondents representing 69% with educational attainment attested to the use of strategic management principles in their business operations. They constitute 124 respondents out of the total sampled population.

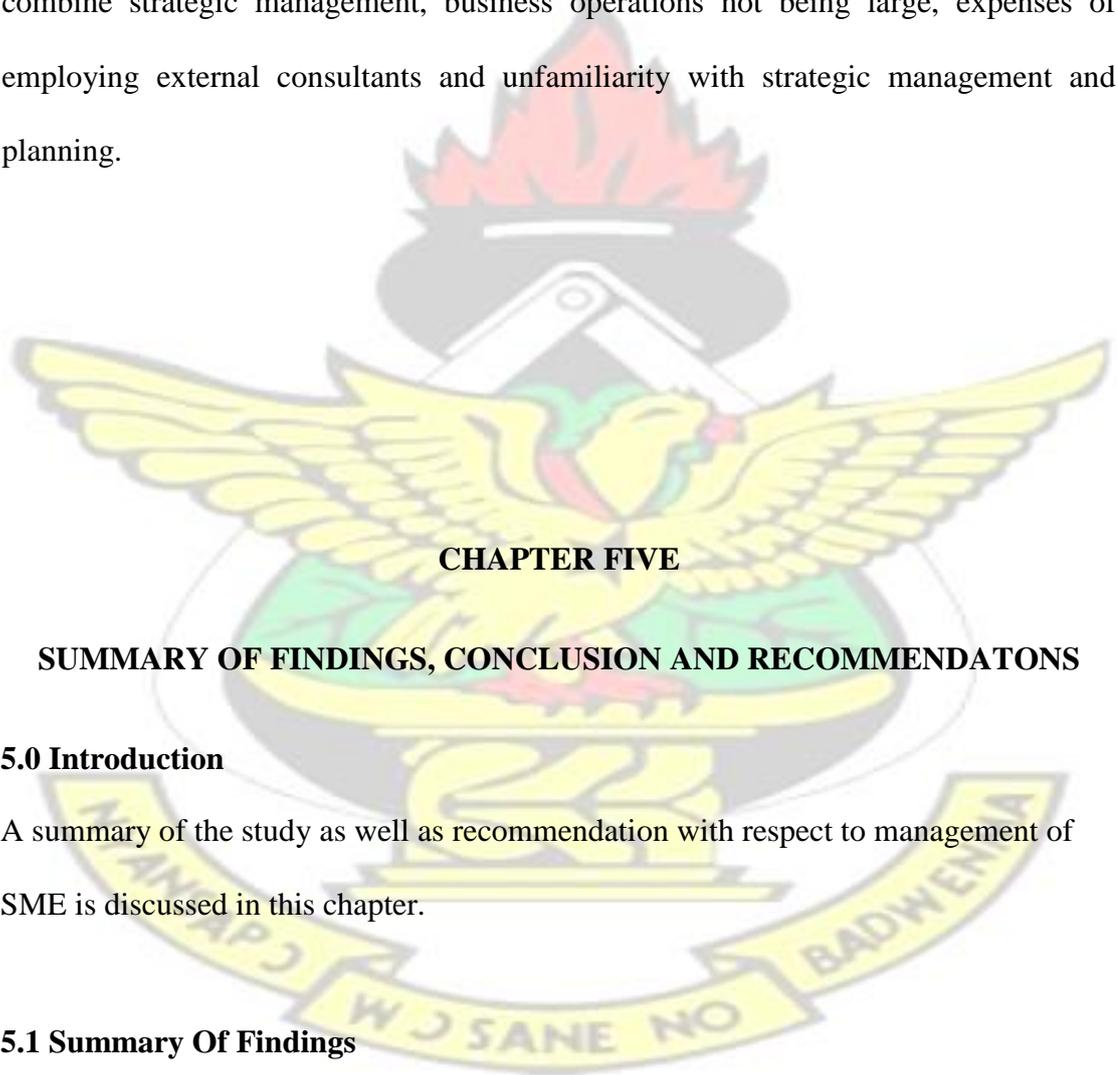
**Table 4.6b Chi Square Tests**

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.533 <sup>a</sup>	3	.006
Likelihood Ratio	13.929	3	.003
Linear-by-Linear Association	.944	1	.331
N of Valid Cases	178		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is 1.14.			

The chi – square critical value from the chi – square table is 7.81473

Since the calculated value (Pearson Chi – square) of 12.533 is greater than the table value of 7.81473, we reject the null hypothesis at a 0.05 significance level. Hence, SME managers placing importance on strategic planning and educational attainment are statistically dependent. With respect to the above analysis it can be said that, SME’s with high educational attainment place importance on adopting strategic management to their business. Thus, it is expected that managers with relatively higher level of education are expected to adopt high levels of strategic planning relative to those with lower levels of education.

Concluding from the analysis above it can be said that, most of the SME's in the Kumasi Metropolis have attested to the importance of strategic management in their business operations and those that do not use it basically attributed it to the constraint of small size of business operations. Again, it was established that even though an SME manager's decision of placing importance in the usage of strategic management was dependent on the educational attainment, it was independent of insufficient time to combine strategic management, business operations not being large, expenses of employing external consultants and unfamiliarity with strategic management and planning.



## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

A summary of the study as well as recommendation with respect to management of SME is discussed in this chapter.

#### **5.1 Summary Of Findings**

The study aimed at finding out the influence of strategic planning on the performance of SME's in Ghana. After reviewing literature, the study employed the use of a primary survey of sampled SME's in the Kumasi metropolis to examine: the relationship

between strategic management and performance of Small & Medium Businesses, the relationship between having a formal written plan and strategic management process and the importance SME's place on strategic planning. The study came out with the findings below after descriptive analysis and chi-square testing.

In the Kumasi metropolis, SME's are managed by people with at least Senior High School (SHS) education. However, the majority of the managers interviewed had a tertiary degree as their highest level of education. A higher proportion of these SME's have been in existence for a minimum of 3 years running with employees mostly ranging from 6 to 15. Also most of these SME's in the Kumasi metropolis have levels of control ranging from 1 to 3.

Another finding was that majority of the SME's measure business performance in the Kumasi metropolis monthly and annually mainly using profits and percentage increase in sales by the SME. In as much as SME's in the metropolis predict their business improvement is dependent on their planning process and application of strategic planning, there exist no statistical dependence between business improvement and planning process and application of strategic planning.

Also, SME's surveyed in the Kumasi metropolis statistically proved that when there is a formal document of strategic plan, managers have been identified to practice strategic management principles.

Even though a higher percentage attested to the importance of strategic management in the Kumasi metropolis, those with small SME operations disagreed to the importance of strategic management. With respect to SME's in the Kumasi metropolis, it could not

be established statistically that there exist dependence between decisions of placing importance in the usage of strategic management and insufficient time to combine strategic management, business operations not being large, expenses of employing external consultants as well as unfamiliarity with strategic management and planning.

However, it was established statistically that there exist dependence between decisions of placing importance in the usage of strategic management and educational attainment.

## **5.2 Conclusion**

In a developing country such as Ghana, the contributions of small and medium scale enterprises are enormous. This ranges from generating employment, generation of foreign exchange, growth in the economy in general among other things. It is in the light of this that there exists increasing literature on the operations of SME's to ensure they are sustainable in the long-run. To ensure this sustainability, this study examines the influence of strategic management on the performance of SME's in Ghana.

By administering questionnaires to one hundred and seventy eight (178) managers of Small and Medium Scale Enterprises and using SPSS and Excel packages in analysing them by use of line graphs, bar graphs, pie charts and tables, the Chisquared test reveals there exist no relationship between strategic planning and performance of SME's in Ghana even though opinions expressed by respondents suggest a perception that a relationship exists. The study revealed that education attainment influences the adoption of written strategic plans.

### **5.3 Recommendations of the Study**

Based on the findings of the study, this sub-section discusses some policy recommendations relating to the analyses in chapter four and summarised in section 5.1. The result revealed no statistical relationship between strategic planning and firm performance within SME's in Ghana. This finding is surprising given that a laid down plan for an organisation should lead to improvement in firm's performance in the long-run. One possible reason is the existence of challenges in implementing strategic planning measures. It is recommended that organisations that draw out a strategic plan must not see them as a separate activity from management's prime responsibilities and duties. Thus, management should commit to strategic plans designed since it is not only enough to have a strategic plan without committing to it. In addition to the above, the allocation of resources within SME's should be based on developed corporate strategies and not on the distribution of power within SME's. This way, strategic planning is likely to impact positively on performance of Small and Medium scale Enterprises.

The study also reveals a causality relationship running from written strategic plan to implementation. It is recommended that SME's must always ensure that a well written or documented strategic plan be put in place so as to ensure commitment to them. If a strategic plan is to be an effective management tool, it must be written down, used and reviewed continually.

Findings from the study also reveal that there exist dependence between decisions of placing importance in the usage of strategic management and educational attainment. This relationship emphasises the importance of education in adopting strategic planning and management. The finding is not surprising given the fact that majority of the respondents had a degree as their highest level of education. It is recommended

therefore that management of SME's should embark on frequent training programs and orientations to ensure maximum output from a well-structured and informed management plan. There should also be institutional assessment of the impact of the training programs on the effectiveness of strategic plans and management on firm operations. Capacity building can also be in the form of developing training plans and the preparation of strategic and business plans and where management is not well equipped to draw out an effective plan, expert advice might be sought.

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## APPENDIX I

### KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

#### QUESTIONNAIRES FOR SMEs

This questionnaire is designed to elicit your views on strategic management practices and SME's performance. Your participation is voluntary and the information obtained from you will always remain confidential and anonymous. The exercise is for academic purpose only. No information obtained would be shared with any third party. Your answers to these questions are for the purpose of this research only.

Thank you.

**Please Tick (✓) as appropriate**

#### SECTION: DEMOGRAPHIC INFORMATION

1. Which of the age groups do you belong?  
a. 12-20 [ ] b. 21-30 [ ] c. 31- 40 [ ] d. 41-50 [ ] e. 60+ [ ]
2. What is your highest educational attainment?  
a. Basic (Primary & JHS) [ ] b. SHS [ ] c. Graduate [ ]  
d. Post Graduate [ ] e. Other Specify: .....
3. What is your marital status? a. Married [ ] b. Single [ ] c. Divorced [ ]
4. What is your gender? a. Male [ ] b. Female [ ]

#### SURVEY: STRATEGIC MANAGEMENT: SME's

1. **How** many full –time employees do you have in your company?

**2. How many levels of control exist in your organization?**

(Levels of control refer to the stages of operating hierarchy that exist in the business. Is a concept closely linked to the organizational structure?) 3.

What is the form of ownership structure of the business?

1. Sole Proprietorship
2. Partnership
3. Close Corporation
4. Company
5. Trust

**4. What is the duration of existence of the business entity?**

1. 1-3 years
2. 4-6 years
3. 6-9 years
4. 10+ years

5. Which of the business functions below exists formally in your company as independent departments servicing clients and the business?

1. Finance
2. Sales and Marketing
3. Research and Development
4. Human Resources
5. Production

6. Does your company have a Business Plan?

1. Yes
2. No

7. If you have answered yes to Question 8, please indicate for what purpose.

(Please tick one or more appropriate options)

1. For purposes of obtaining loan from finance institution
2. Present to prospective investors
3. Business plan was developed to assist management in taking strategic actions

8. Do you use the services of external consultants/finance experts to prepare the business plan?

1. Yes
2. No

9. On a scale of 1-5, indicate whether the planning process in your organization/business is perceived as formal or informal.

**Informal-** No key managers specifically allocated, no written formal document, any specified implementation dates and action plans.

**Formal-** Formal written documents; managers specifically allocated, detailed environmental analyses, specific measurement instruments in plan.

**Informal 1 2 3 4 5 formal**

(Please encircle your choice)

10. Do you and/or the senior management of the business as part of the planning process analyze the strengths and weaknesses of the business (areas such as culture, structure and resources available to the business?)

1. Yes

2. No

11. If yes, how often do you perform this activity? (Tick choice)

Monthly	
Quarterly	
Yearly	
Every two Years	
One-time exercise	

12. Do you and/or the senior management of the business as part of the planning process analyze the opportunities and threats of the environment you operate in?

1. Yes

2. No

13. If yes, how often do you perform this activity? (Tick choice)

Monthly	
Quarterly	
Yearly	
Every two Years	
One-time exercise	

14. Do you think that you and your management are devoting appropriate time and resources to effectively manage the business from a strategic management point of view?

1. Yes
2. No

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15. If your response to question 16 is **No**, Please choose one of the following factors which are mainly responsible for the lack of practice of strategic management.

Don't have sufficient time to undertake strategic management and manage other important issues.	
My Business operations aren't large enough to apply strategic management principles.	
It is expensive to employ the services of external consultants /finance experts.	
Not familiar with strategic management and planning.	
I don't see the need for strategic management in my operations	

Other reasons than the above

mentioned.....  
 .....  
 .....

16. How is the performance of the company measured by you/senior management?

(Which tool do you use?)

	Yes	No
Return on Invested Capital		
Return on Assets		
Net Profit before Interest and Tax		
Net Profit after Interest and tax		
Percentage growth in sales/revenue		
Number of customer complaints received		
Number of branches		
No specific measurement		

If you use any other method of performance measurement of your business operations, please give a brief description thereof: \_\_\_\_\_

17. **How often/when** do you/senior management measure **the performance** of the business or organization? *(Please tick most frequently use option)*

Monthly	
When we experience problem or fierce competition	

End of the financial year	
According to the schedule or intervals as indicated in our strategic or business Plan	

18. Do you believe (your own opinion) that the application of Strategic Management principles and a concise planning process based on it will/already did **improve the performance** of your business?

1. Yes 2.

No

19. Please indicate the **annual turnover** that the business was able to generate during:

2011	2012	2013

20. Please indicate the **expected/budget annual turnover** that the business will generate in:

2014	2015	2016

21. Do you believe the business structure (refer to question 2, 3 and 5 above) appropriately supports the Business Plan in order to ensure success in the next three to five years?

Not sure	
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Yes	
No	
Will need to review structure	

22. Does your company develop a business budget at beginning of every financial year?

1. Yes
2. No

23. Do you perform a comparison of the actual financial results achieved with what was stated in your financial budget?

1. Yes
2. No

24. If you have answered yes to question 30, please indicate how frequent this function is performed.

Monthly	
Quarterly	
Annually	

25. In your opinion, do you think there is a relationship between Strategic Planning and the Financial Performance of your business? (Please tick most appropriate option)

Yes, there is a definite relationship between Financial Performance and Strategic Planning	
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No, there is not a definite relationship between Financial Performance and Strategic Planning	
It is difficult to establish whether such a relationship exists.	

