

**INFLUENCE OF STRATEGY IMPLEMENTATION ON  
THE PERFORMANCE OF MANUFACTURING SMALL  
AND MEDIUM FIRMS IN KENYA**

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**DECLARATION**

This thesis is my original work and has not been presented for a degree in any other university.

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## **DEDICATION**

To Joyce, Consolata, Perpetua and Tracy

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>ANOVA</b>	Analysis of Variance
<b>DCV</b>	Dynamic Capability View
<b>EC</b>	European Commission
<b>CEO</b>	Chief Executive Officer
<b>CRM</b>	Customer Relations Management
<b>GST</b>	General Systems Theory
<b>HR</b>	Human Resources
<b>HRM</b>	Human Resource Management
<b>ICT</b>	Information Communication Technology
<b>IFC</b>	International Finance Corporation
<b>ISO</b>	International Standard Organization
<b>Kshs</b>	Kenya Shillings
<b>Kms</b>	Kilometers
<b>MBEP</b>	Management-by-Exception Passive
<b>MLQ-6S</b>	Multi-factor Leadership Questionnaire short form
<b>MMR</b>	Moderated Multiple Regression

<b>MSE</b>	Micro and Small Enterprise
<b>OLS</b>	Ordinary Least Square Regression
<b>PESTEL</b>	Political, Economic, Social, Technological & Legal
<b>R &amp; D</b>	Research and Development
<b>RBV</b>	Resource Based View
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>RoK</b>	Republic of Kenya
<b>SME</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>USD</b>	United States Dollars
<b>VRIO</b>	Valuable, Rare, Inimitable and Organization

## **DEFINITION OF TERMS**

### **Strategy**

Strategy is a choice of a unique and a valuable position which is rooted in system of activities that are much more difficult to match. (Porter, 1996). Jonas (2000) defines strategy as a plan of action that allows the organization to accomplish her mission in terms of goals, objectives and purpose.

### **Strategy implementation**

This is the process that turns strategies and plans into actions in order to accomplish strategic objectives/goals (Jouste & Fourie, 2009; Sage, 2015). It focuses on the processes through which strategies are achieved. Questions addressed are who, where, when and how, the organizational objectives will be achieved (Barnat, 2012).

### **Strategic leadership**

It is a leadership style that provides vision and direction for the growth and success of an organization. Its purpose during strategy implementation is to maintain effective communication, make crucial decisions, motivate staff and build a strong team that deliver good results (Mehdi & Rowe, 2009).

### **Strategic direction**

This refers to the courses of actions adopted by an organization that leads to the achievement of goals of an organizational strategy. Components of a good strategic direction include a vision, mission, goals

and objectives of an organization (Dess & Picken, 2000).

### **Leadership style**

This refers to the consistent pattern of behavior exhibited by leaders when relating to subordinates and others. Major issues include the way leader's presents, communicate, and control the people or situation (Higgins, 2005).

### **Performance**

Performance is a major construct in strategy because almost every researcher attempts to relate their constructs to organization's performance (Sorooshian, Norzima, Yusuf, & Rosnah, 2010). Combs, Crook and Shook (2005) views performance as an "economic outcomes resulting from the interplay among organizational attributes, actions and environment. Performance is mostly measured in financial terms (Barnat, 2012) and it encompasses three specific areas namely: (1) financial performance (profits, return on assets, return on investment); (2) market performance (sales, market share); and (3) shareholder return (total shareholder return, economic value added)

### **SME**

"SME" stand for Small and Medium sized Enterprises, which according to the literature, has no universally accepted definition. According to World Bank (IFC, 2012), an SME is a registered business

where small businesses employ between 10-50 people, has a total annual sales of between 100,000 to 3 million USD while a medium enterprise employ between 50-300 people, has a total annual sales of between 3 million to 15 million USD. Most definitions of SMEs are based on the number of employees since it is easier to collect information about employees than any other criteria used to define SMEs.

### **Structure**

It is a set of building blocks that can be used to configure an organization (Griffin, 2013). It refers to the hierarchical arrangement of duties and responsibilities, lines of authority, communications and coordination of activities in an organization.

### **HR Management**

HRM is the term used to describe all those activities concerned with recruiting and selecting, designing work, training and developing, appraising and rewarding, directing, motivating and controlling workers in an organization (Wilton, 2013).

### **Technology**

Technology is a means to fulfill a human purpose. It is a method or process or device, it may be complicated, or it may be material, or it may be nonmaterial. Whichever it is, it is always a means to carry out a human purpose.” (Arthur, 2011).

## ABSTRACT

This study aimed at establishing the influence of strategy implementation on the performance of manufacturing SMEs moderated by age and size of the firm. Specifically, the study intended to establish whether leadership styles, structure, human resources, technology and strategic direction influences the performance of manufacturing SMEs in Kenya. The study is anchored in the Dynamic Capabilities View of the firm where successful firms master and develops unique capabilities that drive them to superior performance. Guided by the philosophy of logical positivism, a mixed design involving quantitative and qualitative designs was used to obtain information from 115 firms drawn from the total population of 593 registered SMEs in Kenya. Stratified sampling technique was used to classify these firms as small or medium, young or old. A systematic random sampling was the used to select the SMEs that participated in this study. In each firm selected, a self-administered questionnaire was then used to collect data from 115 respondents who were either the real owners or CEOs. Data was analyzed using SPSS and summary statistics such mean scores, variances, standard deviation and inferential statistics namely; correlation and regression results were used to present the data. Bivariate correlations and regression results were also used to test the hypotheses. The results provided statistical evidence that a positive and significant influence exists between strategy implementation and performance of the manufacturing SMEs. Specifically, four out of five drivers tested in this study were found to be significant and positive influence on the performance of manufacturing SMEs. These drivers are leadership styles, structural adaptations, human resources and technology embraced by the SME firm. The emphasis on the strategic direction of the firm was found to be statistically insignificant. The study also noted that the age and size of the firm does not significantly influence on the relationship between strategy implementation and performance of the SMEs in Kenya. In the practice, this study recommends that the manufacturing SMEs should build more and stronger capacities and capabilities in leadership skills by adopting more of the transformational leadership qualities, maintain flexible structures that are well matched to their goals, maintain a proper balance between strategy and human resources and pay close attention to their technology requirements. On methodology, the study recommends further studies using experimental designs since strategy implementation is a process and actual effects, influence or impact can only be well captured using a longitudinal approach. On policy, the study recommends that the Kenyan government need to assist the SMEs by setting a strong policy framework that focuses on technological needs and improvements; market and capacity building to enable these firms run and perform better.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Strategy implementation is the second step in the strategic management process and it is usually regarded by many scholars and practitioners of management as the most difficult, challenging and time consuming activity (Barnat, 2012; Sage, 2015; Sial, Usman, Zufiqar, Satti & Khurheed, 2013). Other steps in the process include the strategy formulation and control which come first and third respectively.

The strategy implementation process determines whether an organization excels, survives or dies (Barnat, 2012) depending on the manner in which it is undertaken by the stakeholders. In turbulent environments, the ability to implement new strategies quickly and effectively may well mean the difference between success and failure for an organization (Drazin & Howard, 1984; Hauc & Kovac, 2000). The practical experiences and scholarly works in the past have indicated that strategy implementation has a significant influence on organizational performance (Hrebiniak & Joyce, 1984; Li, Gouhui & Eppler, 2010). Therefore, it follows that successful execution and implementation of strong and robust strategies will always give a firm a significant competitive edge (Sage, 2015), especially in the industries where unique strategies are difficult to achieve (Noble, 1999).

Before a strategy is implemented, it has to be formulated first. The strategy formulation and implementation activities are intertwined and should not be separated during the strategic planning stage. However, the literature indicates that many scholars in strategic management have concentrated their researches on strategy formulation and neglected research works on strategy implementation (Heracleous, 2000; Hrebiniak, 2005),

therefore, the literature on strategy implementation exists in pockets, is fragmented and is inadequate (Noble, 1999).

Strategy implementation is a more elaborate and difficult task than strategy formulation (Sage, 2015) and involves concentrated efforts and actions and by all stakeholders in an organization. Hrebiniak (2006) underscored that it is not only true for people to believe that strategy formulation is a difficult task because it is even more difficult to implement that strategy throughout the organization.

The meaning of term strategy has been approached differently by different scholars. According to Porter (1996), the essence of a strategy is to choose a unique and a valuable position rooted in system of activities that are much more difficult to match. The term strategy was first used by Chandler (1962) to refer to the determination of basic long term goals of an enterprise, the adoption of the courses of action and the allocation of resources necessary to carry out these goals. This implies that a strategy is a long term plan of an organization that shows how resources will be mobilized, marshaled and deployed in a way that guarantee success to an organization in terms of goal achievement and attaining competitive advantage. It is documented by the researchers in strategic management that strategy became the most important concept in management sciences in the second half of twentieth century (Sial et al., 2013).

The main focus of the earlier researchers in management after Chandler (1962) was in strategy formulation at the expense strategy implementation and control. However, in recent studies, the situation has changed and attention of the researchers, practitioners and other stakeholders in management has shifted towards successful implementation of strategic plans in organizations (Sial et al., 2013). This phenomenon may be explained by the ability of successful strategy implementation process to deliver better organizational performance and success.

Speculand (2009) underscored the importance of the strategy implementation and concluded that the success of any business entity is not governed by how well strategies are formulated but how a good strategy is implemented in order to realize the goals and objectives it was set to achieve. Strategy implementation is viewed as a dynamic activity within the strategic management literature that define the manner in which organization should develop, utilize and amalgamate organizational structures, control systems and manage culture in implementing strategies that lead to competitive advantage and improved performance (Jooste & Fourie, 2009; Sorooshian, Norzima, Yusuf & Rosnah, 2010).

Several other researchers in strategy have underscored the importance of strategy implementation and made the following observations, strategy implementation is a critical process that guarantees proper functioning and survival of an organization during turbulent times (Sial et al., 2013), it is an essential factor and a formula for success of any business organization (Noble, 1999), implementation of strong and robust strategies gives any organization better performance and a competitive edge (Awino, 2013; Okwachi, Gakure & Ragui, 2013; Sage, 2015 ), both practical experience and research indicate that strategy implementation has a substantial impact on organizational performance (Giles, 1991).

The foregoing discussion clearly indicates that a good strategic plan is of little use to an organization without a means of putting it to action. Equally true is that, strategies that are well formulated and not implemented can be described as mere a cosmetic that does not add any value to an organization and are only good as the paper that contains them. It therefore follows that strategy implementation is an integral and essential part of strategic management process and organizations that develop strategic plans must seriously think of a better process of applying them.

### **1.1.1 Strategy Implementation Drivers**

The strategic management literature indicates that, several researchers have identified various drivers in strategy implementation that leads to superior performance in an organization.

Kaplan and Norton (1996) identified four key factors that assure the success of implementation of strategic plan. These factors are, clarified and translated strategy according to structure of the organization, links and relationships with the executive team, planning and goal setting and strategic feedback and learning (Kaplan & Norton (1996) cited in Sial et al. 2013).

Mackenzie, Wilson and Kider (2001) focused on the leadership style of an organization by which one can obtain the desired goals and objectives of the company through creating the vision for the organization according to the setup of the firm, aligning the staff for the achievement of the goals of the firm rather than personal goals, providing the assistance to the intellectual in complicated things and clarifying expectations of the organization from the team and their performance for the organization.

Aatonen and Ikavalko (2002) identified three main factors that bring success in strategy implementation process. These factors are proper and significant communication among the executors and top management, strategic acting, identifying, supporting and assisting the major key player of strategy implementation and also establishing the relationship between the system and structure of the organization with the content and context of the strategy.

Brenes, Mena and Molina (2007) identified the key factors which determine the success of strategy implementation in an organization. These key factors are the execution process in an organization, strategy formulation procedure from internal scanning to external scanning of the organization, strategy control process and motivation of the top

level management and top leaders to achieve objectives of the organization, strategy control process and motivation of the top level management and strategic leader to achieve objectives of the organization, and corporate governance issues in an organization,

Sorooshian et al. (2010) summarized various drivers of strategy implementation identified by most of the researchers in strategic management literature and grouped them in three categories that is attention to organizational structure, attention to leadership styles and attention to human resources.

Among the intentions of this study was to find out whether, apart from the three main drivers (leadership styles, human resources and attention to organization structure) mentioned by most researchers, technology is a major driver explaining the success of strategy implementation and performance in organizations today.

### **1.1.2 Leadership Styles and Strategy Implementation**

Several studies in the past have underscored the importance of leadership in strategy formulation and implementation (Jooste & Fourie, 2009; Mapetere, Mavhiki, Nyamwanza, Sikomwe & Mhonde., 2012; Okwachi et al., 2013; Sorooshian et al., 2010).

Strategic leadership defines the ability of a leader to anticipate, envision, empower others and maintain flexibility in creating strategic change as necessary (Hitt, Ireland & Hoskission, 2007 cited in Jooste & Fourie, 2009). The purpose of strategic leadership during strategy implementation is to maintain effective communication, make crucial decisions, motivate staff and build a strong team that deliver's good result. Strategic leadership has been identified in the past studies as one of the key drivers of effective strategy implementation (Bossidy & Charan, 2002; Collins, 2001; Freedman & Tregoe,

2003; Hrebiniak, 2005; Kaplan & Norton, 2004; Lynch, 1997; Noble, 1999; Pearce & Robinson, 2007; Thompson & Strickland, 2003; Ulrich, Zenger & Smallwood, 1999).

### **1.1.3 Structure and Strategy Implementation**

A study of 200 senior managers in United States of America established that performance of an organization is largely influenced by how well a firm's business strategy is matched to its organizational structure and behavioral norms of its employees. Three structural dimensions that affect communication, co-ordination and decision making, which are core to strategy implementation, are formalization, centralization and specialization (Osion, Slater & Hult, 2005).

The relationship between structure and strategy an organization adopts was first championed by Chandler (1962). He argued that the strategy of an organization determines the long term goals and objectives. In order to do this better, there is the need, in the organization, to determine the course of actions, allocate adequate resources and determine the appropriate structure that supports a given strategy.

Organizational structure and strategy are related because organizational strategy helps the organization to define and build an appropriate organization structure that enables the accomplishment of the set goals and objectives. A good structure in an organization defines how employees work together and it clearly establishes the roles and responsibilities each employee performs in order to support the achievement of the set goals and objectives.

The type of structure adopted in an organization also determines the number of employees and managers required. Due to the market dynamics such as competition, demographic changes, technological advancements and other environmental changes, strategy formulation and implementation is a dynamic process and organizations generates new strategies from time to time that dictates structural revisions and new

alignments to suit the environmental dynamism and the resultant strategic changes that take place in a given industry.

#### **1.1.4 Human Resource Management and Strategy Implementation**

Human resources refer to people in terms of, time, personnel skills, capabilities, experiences and knowledge they bring to their work place. Human resource capital is obtained through a variety of means which includes formal education, job training, on the job learning and real life experiences. Management of human resources in an organization is very crucial for the survival and proper functioning of an organization and recent studies have shown that human resource practices play an important role in formulating and implementing strategy (Myloni, Harzing & Mirza, 2004). Accordingly, human resource management should be looked at as part of the overall organizational strategy of a firm and its importance has made human resource managers to be part of decision making process during strategy formulation and implementation. Lee, Lee and Wu (2010) indicated that there is a direct relationship between a firm's strategy and the use of human resources.

A review of literature by Abdullar, Ahsan and Alam (2009) indicated that most researchers suggest that human resource management is vital in order for an organization to achieve competitive advantage and organizational success. According to Gupta and Carol (1996) human resource management plays an important role in strategy implementation therefore if human resource in an organization is not managed effectively, it would potentially cause disruptions to the strategy implementation process (cited in Wei, 2006)

Since human resource plays a crucial role in strategy implementation and the attainment of organizational goals and objectives, there is need for an organization to develop an elaborate human resource policy that promotes employees understanding and expectations of the organizational goals, encourages communication between the

employees and leadership. The elaborate HR policy should include the selection of employees, recruitment and hiring procedures, training and development, performance appraisal and rewards and incentives.

### **1.1.5 Technology and Strategy Implementation**

Technology refers to knowledge, products, processes, instruments, procedures and systems which helps in producing goods and services. An organization's technological capabilities allow them to implement technology strategies that best fit their goals. The experience gained from implementing technology strategy feeds back into the technological capabilities which then enable firms to improve and build their core competencies to help them maintain their competitive advantage (Burgelman & Rosenbloom, 1989).

In a dynamic environment that characterizes organizations today, development of technological capabilities becomes very vital in order to cope with environmental demands. New and innovative technological competencies are needed for survival in a highly competitive environment (Burgelman & Rosenbloom, 1989). One of the key areas of technology is the information technology which has become a key business function for almost every organization and most have great expectations of their investment in information technology for future benefits to the business expectations that will enable the business to reduce cost, enhance productivity, implement new business strategies and gain competitive advantage.

A study by Chung, Hsu, Tsai, Huang and Tsai (2012) underscored the importance of information technology in implementing Customer Relationship Management (CRM) strategy and concluded that there is a positive relationship between information technology and implementation of CRM strategy. Proper alignment of technology and business strategy should be a focus of organizations aiming at achieving competitive advantage. Therefore, the current study investigated whether attention to technological

requirements by the organizational leadership is a major driver explaining success in strategy implementation processes.

### **1.1.6 Manufacturing SMEs Sector in Kenya**

For the purposes of this study the terms “enterprise,” “firm,” “business,” and “organization” have been used interchangeably. A manufacturing “enterprise”, as used in this study, refers to any income-generating activity derived from making of goods and services in an industrial processing establishment.

“SME” stand for small and medium sized enterprises. There is no universally accepted definition of an SME and several parameters have been used in different countries to define an SME firm. In Europe, an SME is defined using the number of employees and or annual the turnover or the balance sheet total: In this case small firms employ less than 50 employees and has a turnover of up to 10 million Euros or a balance sheet total of up to 10 million Euros. A medium enterprise on the other hand employs up to 250 people and has a turnover of up to 50 million Euros or a balance sheet total of up to 43 million Euros (EC, 2015).

In USA and Canada, a small firm employs less than 100 people while a medium firm employs up to 500 employees. According to World Bank, an SME is a registered business where small businesses employ between 10-50 people, has a total assets of between 100,000 to 3 million USD and a total annual sales of between 100,000 to 3 million USD while a medium enterprise employ between 50-300 people, has a total assets of between 3 million USD to 15 million USD and a total annual sales of between 3 million to 15 million USD (IFC, 2012). In Japan, an SME is defined according to the type of industry, paid-up capital and number of paid employees. SME’s in manufacturing industry have a stated capital of up to 300 million yens and employing up to 300 people (SMEA, 2013). In Kenya, SME manufacturing enterprises are defined as

enterprises with fulltime employees not exceeding 100 or annual sales turnover not exceeding Ksh 150 million (RoK, 2007).

The small and medium scale enterprise plays a major role in the growth and development of the Kenyan economy in line of creating employment, poverty reduction, and investment distribution as stipulated in the Kenyan economic report (2013). The SME's sector is fast growing employing 42% of the working population and accounting for 75% of all modern accomplishments in Kenya as at 2011. According to the Kenyan economic survey 2011, out of 503,000 jobs created in the year 2010, 440,400, or 80.6 percent were in small and medium enterprises, with only 62,600 or 12.4 percent were created in the formal sector (RoK, 2011).

The performance of SME's in the manufacturing sector is still dismally low. The 2013 economic reports observed that while the number of employees in micro and small enterprises (MSE's) increased between 2010 and 2011; there was a decline with respect to employees in medium and large enterprises. The manufacturing value added contribution made by MSEs also increased, though the contribution is still low, accounting for 14.2 per cent yet two thirds (67%) of manufacturing firms are micro and small enterprises (Kippra, 2013) This dismal performance is likely to slow down the path of economic development as envisioned by vision 2030 strategic plan.

The Kenyan Vision 2030 (RoK, 2008), which is the main strategic blueprint for the country, envisages a vibrant and a robust small and medium scale firms in the formal and informal sectors as one of the engines of growth and development in Kenya. According to the blue print, Kenya's competitive advantage lies in agro-industrial exports and one of the key strategies is to strengthen the manufacturing sector, specifically strengthening SME's to become the key industries of tomorrow. This goal can be accomplished by improving their productivity and innovation. The Vision 2030 Kenya's strategic plan document (RoK, 2008) therefore recommends the need to boost

science, technology and innovation in the SME's sector by increasing investment in research and development.

The Kenyan government has also recognized the need to fully support this important SME's sector of the economy by creating an elaborate policy framework that would lead to full support and growth of the sector. According to the economic report 2013 (Kippra, 2013), SME's dominate in majority of the sectors in the Kenyan economy, including wholesale and retail trade, restaurants, hotels, community and social services, insurance, real estate, business services, manufacturing, agriculture, transport and communication and construction. Due to the structure of Kenya's per capita income, most of businesses in Kenya would fall in the SME strata and as such any attempt by the government to grow the economy would logically include the development and sustenance of the SME sector.

The official policy framework of SME's in Kenya is contained in the "Sessional Paper No. 2 of 2005" which enacted policies to institutionalize SMEs and to give direction among other key issues like the legal and regulatory environment, markets and marketing, business linkages, the tax regime, skills and technology and financial services (RoK, 2005).

Despite the important role played by small and medium enterprises and numerous policy prescriptions and interventions by the government, the sector is still riddled with numerous challenges that inhibit its growth and development. Some of these challenges include but not limited to inadequate financial support, unfavourable policy environment, inadequate knowledge and business skills, low usage and absorption of technology, limited access to information, underdeveloped infrastructure among other problems (RoK, 2005).

Recent studies in Kenya acknowledge that the small and medium scale enterprises are engaged in strategic management to boost their performance (Awino, 2013; Gakure &

Amurle, 2013; Okwachi et al., 2013). However, majority of these firms encounters a lot of difficulties and some are kicked out of the market before they reach five years.

## **1.2 Statement of the Problem**

Implementation of a chosen strategy requires the managers to break down that strategy into a series of activities and actions that leads to the achievement of the intended goals and objectives (Jouste & Fourie, 2009). Strategy implementation is the second stage in strategic management process that involves operationalization of the strategic plans into work activities that leads to the realization of the organization goals and objectives. The strategic management literature has documented that this stage is the most important and most difficult in the entire strategic management practices (Carter & Pucko, 2010; Sage, 2015). According to Sage (2015), strategy implementation process is an important stage in a firm/organization which is even more important than strategy formulation itself.

Literature of the past scholarly works documents a high failure rate in strategy implementation in most organizations all over the world. Carter and Pucko (2010) noted that 60 to 80 % of organizations worldwide perform very well in strategic formulation but either fail or seriously struggle during the strategy implementation process. A high failure rate in strategy implementation does not only discourage the stakeholders involved but also makes it difficult for these firms to fully realize their goals.

The Kenyan Vision 2030 (RoK, 2008) envisages a vibrant manufacturing sector as one of the key sectors meant to make the economy industrialized by the year 2030. However, the manufacturing sector has recorded poor performance in the past contributing a dismal 14.2% to the country's value addition (Kippra, 2013). This phenomenon not only paints a gloomy picture of the sector, as a one of the key pillars of economic growth, but also threatens to slow down the realization vision 2030 dream. The manufacturing SME firms outperformed large industries in terms of growth and job creation (Kippra, 2013).

These manufacturing SME's in the country are likely to perform even better when they fully embrace and get committed to their strategic plans.

The impetus of this study is that not all SME's in Kenya are engaged in strategic management practices (Gakure & Amurle, 2013) and the gap existing in the literature where past studies globally have largely ignored the strategy implementation process. Several scholars in Kenya have conducted researches on the strategic management practices among the SME's (Awino, 2013; Bowen, Morara & Mureithi, 2009; Gakure & Amurle, 2013; Okwachi et al., 2013). Awino, Wandera, Imita and K'obonyo (2009) studied the challenges facing implementation of differentiation strategy in Mumia Sugar in Kenya while Gakure and Awino (2011) studied Amurle (2013) studied strategic planning practices in ICT firms. Okwachi et al. (2013) examined the effects of business models in strategic plans implementation in SME firms. Atikiya (2015) examined the effects of competitive strategies on performance of manufacturing firms in Kenya.

Among all these studies, the key drivers of strategy and their effects on the overall outcomes have not been adequately addressed. The SME's can grow faster as envisioned by Kenyan Strategic Plan (RoK, 2008) through proper practices of strategic management and when it is very clear to them the factors they need to pay attention to when implementing their strategies. It is on this backdrop that the current study undertook to investigate the key drivers of strategy implementation and their influence on the overall outcome in the manufacturing SME's in Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The overall objective of this study was to establish the influence of strategy implementation on the performance of manufacturing small and medium firms in Kenya.

### **1.3.2 Specific Objectives**

The specific objectives of this study were;

1. To determine whether attention to leadership styles influences the performance of manufacturing SME firms in Kenya.
2. To establish whether structural adaptations influences the performance of manufacturing SME firms in Kenya.
3. To determine whether attention to human resources influence the performance of manufacturing SME firms in Kenya.
4. To establish attention to technological requirements influences the performance of manufacturing SME firms in Kenya.
5. To determine whether the firm's emphasis on strategic direction influences the performance of manufacturing SME firms in Kenya.
6. To establish whether the firm level characteristics (age & size) influences the relationship between strategy implementation and performance of the SME firms in Kenya.

### **1.4 Hypotheses of the Study**

A hypothesis is an educated guess that attempts to explain a set of facts or natural phenomena based on prior knowledge (Bradford, 2015). This proposition can be tested for validity scientifically (Banerjee, Chitnis, Jadhav, Bhawalkar & Chaudhury, 2009). This study sought to test the following hypotheses;

H<sub>01</sub>. Attention to leadership styles has no significant influence on the performance of manufacturing SME firms in Kenya

H<sub>1</sub>. Attention to leadership styles has a significant influence on the performance of manufacturing SME firms in Kenya

- H<sub>02</sub>. Structural adaptations has no significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>2</sub>. Structural adaptations has no significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>03</sub>. Attention to human resources has no significant influence on the performance of the manufacturing SME firms in Kenya
- H<sub>3</sub>. Attention to human resources has a significant influence on the performance of the manufacturing SME firms in Kenya
- H<sub>04</sub>. Attention to technological requirements has no significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>4</sub>. Attention to technological requirements has a significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>05</sub>. Emphasis on strategic direction has no significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>5</sub>. Attention to technological requirements has a significant influence on the performance of manufacturing SME firms in Kenya
- H<sub>06</sub>. The age and size of the firm has no significant influence on the relationship between strategy implementation and performance of the manufacturing SME firm
- H<sub>6</sub>. The age and size of the firm significantly influence on the relationship between strategy implementation and performance of the manufacturing SME firm

## **1.5 Significance of the study**

Strategic management is practiced by organizations of all walks of life (small or large) consciously or unconsciously, formally or informally (Todd, Sergio, Lazzarini & Laura, 2000). While quite a number of SME's do not have formal strategic plans, they plan and strategize informally for their own survival. Large organizations have well laid and elaborate procedures and structures that oversee and coordinate strategy implementation activities. The literature has documented that majority of SME's practice strategic management (Awino, 2013; Bowen, Morara & Mureithi, 2009; Gakure & Amurle, 2013; Okwachi et al., 2013).

This study focused on the SME's in the manufacturing sector in Kenya due to their strategic importance in the country's economy. It has been envisaged that industrialization in Kenya, as contained in Kenyan Vision 2030 strategic plan, is to be partly propelled by a vibrant and a robust small and medium scale firms in the formal and informal sectors. According to the Kenyan economic survey 2011, out of 503,000 jobs created in the year 2010, 440,400, or 80.6 percent were in small and medium enterprises, with only 62,600 or 12.4 percent were created in the formal sector (RoK, 2011). This underscores the importance of SME's in employment, wealth creation and promoting growth and development.

This study further observed that the medium and small business sector is the fastest growing among other sectors of the Kenyan economy despite the perceived inadequate commitment by the Kenyan government. According to Vision 2030 blue print, the Kenya's competitive advantage lies in agro-industrial exports and one of the key strategies is to strengthen the manufacturing sector, and specifically strengthening SME's manufacturing firms to become the key industries of tomorrow. This, according to the policy document, can be accomplished by improving their productivity and innovation. Vision 2030 policy document therefore recommended the need to boost

science, technology and innovation in SMEs manufacturing sector by increasing investment in research and development (RoK, 2008).

Thika Sub-County was selected for the focus in this study for a number of reasons;

First, the town is ranked number three in Kenya, apart from Malaba and Narok towns which are ranked first and second respectively in terms of the easiness to do business according to World Bank Report (2010). Secondly, Thika is one of the key industrial towns in Kenya having over twenty large scale industries and over 100 small industries within and around the town (Kenya book, 2014) The high concentration of manufacturing SME's within the town (Nyang'au, Mukulu & Mung'atu, 2014) and its surroundings informed the choice of the location of this study. Thirdly, the town is surrounded by a rich agricultural neighborhood and most of the manufacturing firms are agro-based (Kenyabook, 2014) giving a relatively homogeneous population.

The study is also justified by its importance to the following stakeholders in the country;

#### **1.5.1 SME Owners/CEO's**

This study helps the owners and chief executives of the manufacturing SME firms to understand the key factors that drive successful strategy implementation process. In this regard, these leaders need to pay close attention to leadership styles, human resources, structures and technological requirements during strategy implementation in order to achieve better results.

#### **1.5.2 The Policy Makers**

This study enables the policy makers in the SME sector to understand the key drivers of strategy implementation and their influence on performance in organizations. With this understanding, the government, as one of the policy makers, is able to play a better role in supporting and strengthening the SME's sector by offering support services like

training, financing, technology and marketing of products locally and abroad. The government creates this platform because the SME firms play a significant role in the growth and development of the Kenyan economy.

### **1.5.3 Scholars in Strategic Management**

This study is important to the scholars in strategic management who may want to carry further researches in the area of strategy implementation and performance among various organizations in the country. The literature underscored the need for organizations to pay more attention in strategy implementation for better performance. The literature also documented the neglect of many scholars in the past to carry out studies on strategy implementation. Given the importance of successful strategy implementation efforts, this study is a pointer to the perceived influence between strategy implementation and performance of manufacturing SME firms in Kenya.

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

In order to maintain a desired level of homogeneity, this study considered small and medium manufacturing firms in Thika town and within 15 km radius from the town.

The manufacturing small and medium firms in Thika town centre and in the surrounding areas like Jamhuri market, Jua Kali, Munene industries, Mandaraka, Kiganjo, Ngoigwa, Landless markets and Witeithie area formed the population of this study.

### **1.7 Limitations of the Study**

The first limitation is that majority of the CEO's of the selected firms were not willing to disclose their profits, annual sales or any financial information in actual figures that this study needed to know concerning performance of the firm. This study opted to use indirect methods to obtain information on financial performance. For example, the CEO's were requested to indicate whether their revenues have increased, decreased or

remained constant in a given period. They were also requested to give their perceptions on financial performance based on more indirect approach where Likert scale psychometric constructs were used. This method worked better and they were able to give directions of the movements of financial variables without necessarily stating the actual figures.

The second limitation is that some of the CEO's/owners of these SME manufacturing firms are not well educated and preferred the questions to be read and interpreted for them. This limited their ability and freedom to take time, interpret and reflect on these questions on their own. The researcher read and interpreted each question slowly in a language well understood by these CEO's/owners. The researcher would then record the answer as given in a designated questionnaire. The researcher also requested to meet these CEO's for more than once since the interpretation process would take much of their time. Others chose to take questionnaires home and be assisted to fill by their family members. The researcher gave adequate time to such respondents to return their filled questionnaire and several follow ups were made to get the questionnaires back.

The third limitation of this study was time. Majority of the CEO's of the manufacturing SME firms are busy and required a lot of time and patience from the researcher. The researcher requested to be given an appointment when they are available and not busy. The researcher complied with these appointments and would even visit these CEO outside the firm to get them to be involved in the study. Some CEO's took more than three months to return a filled questionnaire. Others lost their questionnaires and new ones were given. The researcher, before getting the filled questionnaire back, would go through each questionnaire slowly to make sure that all the items are responded to.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews both the theoretical frameworks and empirical studies related to implementation of strategic plans in an organization. It develops the conceptual framework and reviews the independent variables in relation to the dependent variable. The study then proceeds to critique the literature reviewed, identify the research gaps and finally provide a summary of the chapter.

#### **2.2 Theoretical Framework**

A theoretical framework is the “blueprint” for the entire research which serves as the guide on which to build and support a research idea. It provides the structure to define how a researcher will philosophically, epistemologically, methodologically, and analytically approach the study as a whole (Grant, 2014). Eisenhart (1991) defines a theoretical framework as a “structure that guide’s research by relying on a formal theory; that is, the framework is constructed by using an established, coherent explanation of certain phenomena and relationships”. This study was guided by the theoretical frameworks discussed here below.

##### **2.2.1 The General Systems Theory**

According to Chen and Stoup (1993), the General Systems Theory (GST) emerged from the works of an Austrian biologist Ludwig von Bertalanffy in 1930’s. The theory studies the structure and properties of a system in terms of relationships and interdependencies among various components from which the properties of the whole emerge. The system theory also views the world in terms of relationships and integration and emphasizes the principle of organization.

Bank, Carson and Nelson (1996) define a system as a group of objects that are joined together in some regular interaction or interdependence toward the accomplishment of some purpose. This implies that a system is made up of different components that work together in a regular relationship to accomplish a common goal.

The system components include entities, objects of interest within the system, attributes, or defining properties of entities, states of the system's collective descriptive variables at a given time, activities taking place at a given time, and events that have the potential to change the state of the system (Bank et al., 1996)

Modern organizations qualify as open systems and within an organization as a system; there exist subsystems like human resource, administrative, management information systems, social-technical, structural and others (Swanson & Holton, 2001; Torraco, 2005) The common features of a system include the systems boundary, its external environment, and sensitivity to disturbances both within and outside the system.

The foundation of systems theory is that all the components of an organization are interrelated, and changing one variable brings changes to other variables. Organizations are viewed as open systems where they are continually interacting with their environment. They are in a state of dynamic equilibrium as they adapt to environmental changes. A central theme of systems theory is that sometimes nonlinear relationships might exist between variables where small changes in one variable can cause huge changes in another and large changes in another variable might only have a nominal effect on another.

French, Kast and Rosenzweig (1985) underscored that the systems theory views organizational structure as the established pattern of relationships among different parts of the organization. The most important according to the theory are the patterns in relationships and duties which includes integration (the way activities are coordinated), differentiation (the way tasks are divided), the structure of the hierarchical relationships

(authority systems), and the formalized policies, procedures, and controls that guide the organization (administrative systems).

The relationship between the environment and organizational structure is especially important in the system theory. Organizations are open systems and always depend on their environment for support. Generally, the more complex environments which characterizes today's organizations lead to greater differentiation (Burn & Stalker, 1961). The trend in organizations is currently away from stable (mechanistic) structures to more adaptive (organic) structures. The advantage is that organizations become more dynamic and flexible while the disadvantage is that integration and coordination of activities require more time and effort.

From a systems theory point of view, successful strategy implementation requires a well-coordinated effort and harmonious interactions among various components of an organization. The leadership component in an organization alone may not succeed in strategy implementation effort without creating proper structures and ensuring active participation of other subsystems like human resources (people), social-technical and information subsystem (technology). Moreover, organizations must also continuously interact with the dynamic environment to obtain the required resources that drive implementation of a strategy to success. The systems theory underpins all the variables in this study apart from strategic direction of the firm.

### **2.2.2 The Dynamic Capabilities View**

The dynamic capabilities view of a firm was launched Teece in early 1990s. The framework is based on the works of Barney (1991), Rumelt (1984) and Wernerfelt (1984). The theoretical framework is an advancement of the resource-based view of the firm which views resources as the key to superior organization performance. If a resource exhibits the VRIO attributes, it enables an organization to achieve a competitive advantage (Barney, 1991; Rothaermel, 2012).

According to Barney (2001), the RBV's framework emerged in 1980s and 1990's after the major works published by Wernerfelt, B. (the resource based view of the firm), Prahalad & Hamel (the core competence of the corporation), Barney, J. (Firms resource and sustained competitive advantage). However, the RBV theory failed to recognize the fact that environment in which organizations works today is not static but dynamic and turbulent in nature (Priem & Butler, 2001). The effort to rethink about the applicability of the RBV in a dynamic environmental context that characterizes today's organizations is what gave birth to the Dynamic Capabilities Theory or approach to organizations.

According to Teece (2014), a capability is the capacity to utilize resources to perform a task or an activity, against opposition of circumstance. Capabilities flow from astute bundling or orchestration of resources. While resources base according to RBV refer to physical, human and organizational assets (Eisenhardt & Martin, 2000), dynamic capabilities are learned and stable patterns of behavior through which a firm systematically generates and modifies its way of doing things, so that it can become more effective (Zollo & Winter, 2002).

The dynamic capability theory (Eisenhardt & Martin, 2000) is based on the concept that organizations will always attempt to renew their resources in a way that suits the changes taking place in a dynamic environment. According to Teece, Pisano and Shuen (1997), dynamic capability approach examines how firms are able to integrate, build, and reconfigure their specific competencies (internal or external) into new competencies that match changes taking place in a turbulent environment (Helfat, Finkelstein, Mitchel, Peteraf, Singh, Teece & Winter, 2007).

The dynamic capability framework is based on the assumption that firms with greater dynamic capabilities will always outperform those with smaller dynamic capabilities. Therefore, operations in a dynamic environment call for firms to continuously renew, re-

engineer and regenerate their internal and external firm's specific capabilities in order to remain competitive (Teece, 2007).

The dynamic capabilities are hard to develop and difficult to transfer because they are tacit and are embedded in a unique set of relationships and histories of a firm. Ordinary capabilities, according to RBV (Grant, 2001), are about doing things right whereas dynamic capabilities are about doing right things at the right time based on unique processes, organizational culture and prescient assessments of the business environment and technological opportunities surrounding a firm (Teece, 2014).

Managerial functions are relevant to dynamic capabilities in areas of co-ordination, guided learning, and reconfiguration or transformation. Dynamic capabilities reside in at least part, in managerial entrepreneurship and leadership skills of the firm's top management and in managerial ability to design, develop, implement and modify their daily organizational routines (Teece et al., 1997).

Strong dynamic capabilities include processes, business models, technology, and leadership skills needed to effectuate high performance sensing, seizing and transforming an organization. Firms with strong dynamic capabilities exhibit technological and market agility, they are able to create new technologies, differentiate and maintain superior processes and modify their structures and business models in order to stay ahead of competition, stay in tune with the market and even shape and reshape the market when necessary (Teece, 2014).

The dynamic capability theory underpins three independent variables in this study. Leadership is a dynamic capability and a change in leadership skills is required as the environment of business changes. Organizational structures keep on changing with changes in strategies necessitated by the market changes. Structural capabilities and adaptability are required for organizations to survive in a complex and dynamic environment. Technology is a dynamic capability and keeps on changing with changes

in the environment. Human resource is not a dynamic capability but new capabilities can be created in human resources through training and acquisition of new knowledge and skills in line with environmental changes.

### **2.2.3 Okumu's Strategy Implementation Framework**

Okumu's (2003) identified eleven variables commonly mentioned by other research frameworks that have an effect on strategy implementation and outcome. These variables are; strategy development, environmental uncertainty, organizational structure, organizational culture, leadership, operational planning, resource allocation, communication, people, control and the outcome.

Out of these variables, he developed a new strategy implementation framework by grouping the variables into four main categories namely strategic content, strategic context, operational process and the outcome. Strategic content includes the development of strategy where various issues are addressed like whether the new strategy conforms to the overall strategic direction of the firm, identification of aims of the new initiative, adequate knowledge and expertise in managing change and active participation of management at all levels in an organization.

The second group include strategic context which is divided into two categories; the internal and external contexts. The external context focuses on the environmental uncertainty in both task and general environment. New changes and developments in the general and task environments require a new strategy. The new strategy must fit and be in line with market conditions until it is fully implemented (Okumu's, 2003). The internal context factors includes the organizational structure in terms of its shape, division of labour, job duties and responsibilities, power distribution, decision making procedures, reporting relationships, information flow, coordination and cooperation between different levels of management, of activities, informal networks and politics.

Changes in external context (environment) will cause changes and modification of organizational structure.

The internal context also includes organizational culture which relates to the understanding of the employees about how they do things within the organization. Internal context also include leadership which shows the actual support and involvement of the CEO in the strategic initiative. According to Okumu's (2003), leadership is crucial in using the process factors and also in manipulating the internal context to create a context receptive to change. Key issues considered here include the actual involvement of the CEO in the strategy development and implementation process, the level of support and backing from the CEO to the new strategy until it is completed and the open and covert messages coming from the CEO about the project and its importance.

The third group includes the organizational processes which incorporates operational planning. This is the process of initiating the project and the operational planning of implementation activities and tasks. Issues dealt with here include preparing and planning implementation activities, participation and feedback from different levels of management and functional areas in preparing operational plans and implementing activities, initial pilot projects and knowledge gained from them and the time scale for making resources available and using them. The second key variable in the organizational process is resource allocation which ensures that all the necessary time, financial resources, skills and knowledge are made available. Issues dwelt here include procedures of securing and allocating financial resources, information and knowledge requirements, time available to complete the implementation process and the politics and cultural issues within the company and their impact on resource allocation. The third key variable is people. This involves recruitment of new staff, provision of training and incentives for relevant employees.

According to Okumu's (2003) operational planning and resource allocation has a direct impact on people in an organization. Key issues include the recruitment of relevant staff for new strategy implementation, acquisition and development of new skills and knowledge to implement the new strategy, the types of training activities to develop and prepare relevant managers and employees, provision of incentives related to strategy implementation and their implications and the overall impact of company's overall human resource policies and practices on implementing new strategies.

The fourth variable is communication which is the mechanism that sends formal and informal messages about new strategy. Issues considered here include communication materials like operation plans, training programs and incentives. Use of clear messages when passing vital information to people, implications of using multiple modes of communication, problems related to communication and their causes and the impact of organizational structure, culture and leadership on selling the new strategy. The final variable in the process is control and feedback which is the formal and informal mechanisms that allow the efforts and results of strategy implementation to be monitored and compared against predetermined objectives.

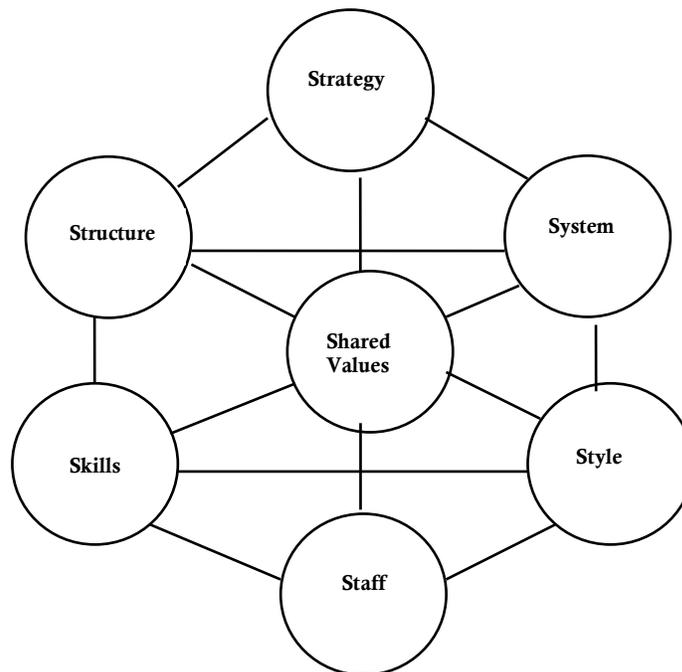
The fourth group includes the outcome which is the intended and unintended results of the strategy implementation process. The key issues considered here include whether the new strategy has been implemented according to plan or not, whether the predetermined objectives have been achieved or not, whether the outcomes are satisfactory or not and whether the company has learnt anything from the strategy implementation process.

Okumu's framework (2003) is relevant to this study in that it underpins all the variables of this study. The framework begins by setting the strategic direction in the strategy content component of the framework. After the strategy has been developed then the organization carries out the implementation process where factors like leadership, organizational structure, human resources (people) and physical resources are taken into

consideration in the internal context component. The implementation of strategy is influenced by the happenings in the external context component which includes the environmental dynamics in general and task environment. Implementation of strategies leads to an outcome (performance) which is either intended or unintended (See Appendix ix).

#### 2.2.4 Higgins 8-S Strategy Implementation Framework

Higgins (2005) revised the original McKinsey's 7-S framework and developed the 8-S framework for implementing strategies in organizations. The famous and widely applied 7-S strategy implementation framework was developed in 1980's by Peters and Waterman (1982). In their study of the "best run" American companies, Peters and Waterman identified seven intertwined components that managers need to pay attention when implementing organizational strategies.

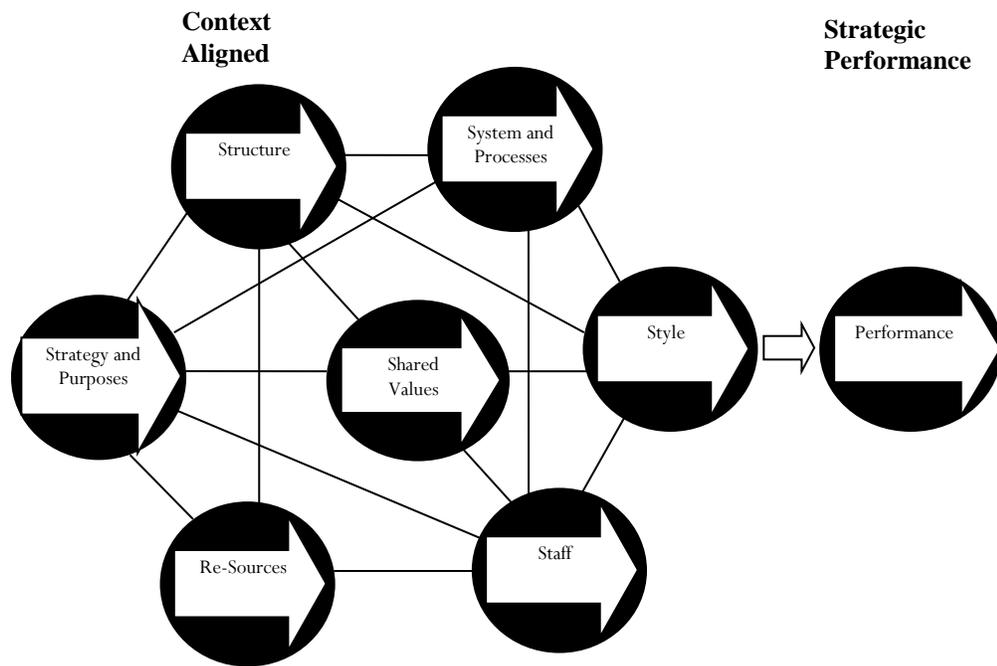


**Figure 2.1: McKinsey 7-S Framework: McKinsey's 7-S Framework: (Pearce & Robinson, 1991)**

Higgins (2005) then revised and improved the McKinsey's 7-S model by adding the 8<sup>th</sup> S component (Strategic performance) which is the derivative or outcome of the interaction of 7-S's components contained in the original McKinsey's 7-S's framework. He also replaced skills as one of the contextual "S" with Re-Sources since organization cannot successfully implement strategy without marshalling additional resources such as money, information, technology and time.

Higgins pointed out that the 8-S's framework enables a manager to work more efficiently and effectively in managing the cross-functional duties and activities associated with strategy implementation. The model observes that executives who realize that strategy implementation is as important as strategy formulation usually spend a lot of their time and efforts in strategy execution and this enables their organizations achieve better performance.

The 8-S's framework states that successful strategy implementation revolves around aligning the key organizational components (the 8-S's) with the strategy that the organization intends to implement. However, due to environmental dynamism and changes that take place in organization's business environment now and then, it is important for managers to continue reshaping their strategies in line with these changes. Therefore, this call for a continuous realignment of the 8-S's components in line with the new strategy and this presents the greatest challenge to managers in their endeavor to successfully implementation strategies. Since the 8-S's components are intertwined, the executives in the organizations must continuously align all these eight cross-functional components with the new strategy for successful strategy execution and better performance (Higgins, 2005).



**Figure 2.2: Higgin's 8-S Framework**

**Higgins, (2005), *Journal of Change Management* 5 (1)**

**a. Strategy and Purposes**

The 8-S model points out that an organizational strategy is formulated with an aim of achieving a given purpose. Therefore, any change in the organizational purpose as contained in the organization's vision, mission and goals and objectives calls for a revision of the earlier strategies applied to achieve that purpose. The model identifies four different types of strategies in an organization that is the corporate level, business level, functional level and the cross functional process strategies. The corporate level strategy focuses on the entire business the organization is involved in and how this business will be accomplished in the best way possible, the business strategy aims at conducting business in a particular manner that brings in a competitive edge over the rival firms, the functional strategies are more specific and

are applied in areas like production, marketing, finance and human resource and are related to the business strategy. Lastly, the process strategies cuts across various functional areas and are intended to integrate the entire organization's processes in a manner that guarantees improved efficiency and effectiveness (Higgins, 2005).

#### **b. Structure**

The 8-S model views organizational structure as made up of five different elements namely, the job itself, the line of authority to perform these jobs, the grouping of jobs in a given order that allows achievement of the objectives, the coordination mechanism applied by managers to supervise jobs effectively and the span of control that shows the number of subordinates that a manager can effectively supervise. The success in a given organization is determined by how well the organization is structured along its business strategy. Therefore, strategy implementation calls for proper decisions to be made in line with proper identification and grouping of the jobs, delegating and giving authority to perform these jobs, coming up with different departments and divisions to serve the job purpose, establishing proper communication and control mechanisms to ensure jobs are done well and defining the span of control that will ensure effective supervision of these jobs (Higgins, 2005).

#### **c. Systems and Processes**

The 8-S model describes systems and processes as formal and informal policies and procedures applied by an organization to enable achievement of the set objectives. These policies and procedures enable the organization to carry out her daily activities in a successful manner. These procedures are applied in different areas like in resource allocation, budgeting, planning, human resource management, information and technology, quality control and other important areas in an organization (Higgins, 2005).

**d. Style**

The 8-S's model describes style as the leadership mode exhibited by managers or leaders when they are relating or dealing with employees and other stakeholders in an organization. Style is all about what leaders or managers focus on and how they treat their colleagues and other employees in the process of doing work meant to achieve organizational objectives (Higgins, 2005).

**e. Staff**

The 8-S's framework views staff as the manpower required to help the organization achieve her strategic purpose. This component defines the number of the employees required, their backgrounds, skills, aptitudes qualities and characteristics. It also deals with issues like staff training, career development remuneration and promotion of employees (Higgins, 2005).

**f. Resources**

Sufficient resources are required for an organization to successfully implement a strategy. It is important that in the strategy implementation process, managers must ensure that the organization has fully access to the required resources such as materials, manpower, money, technology and other management systems (Higgins, 2005).

**g. Shared Values**

Higgins (2005) state that shared values relates to the culture established by an organization in its endeavor to accomplish her strategic purpose. These are values held in common and shared by members of an organization (Higgins, 2005).

#### **h. Strategic performance**

The 8-S model views strategic performance as a derivative of the other seven 'S's and refers to the total outcome after the interaction of the 7-S's components identified by McKinsey's 7-S's framework. It is the results obtained in an organization as a whole and it is best measured in financial terms. Balanced Score Card is the best approach in measuring this kind of performance in an organization.

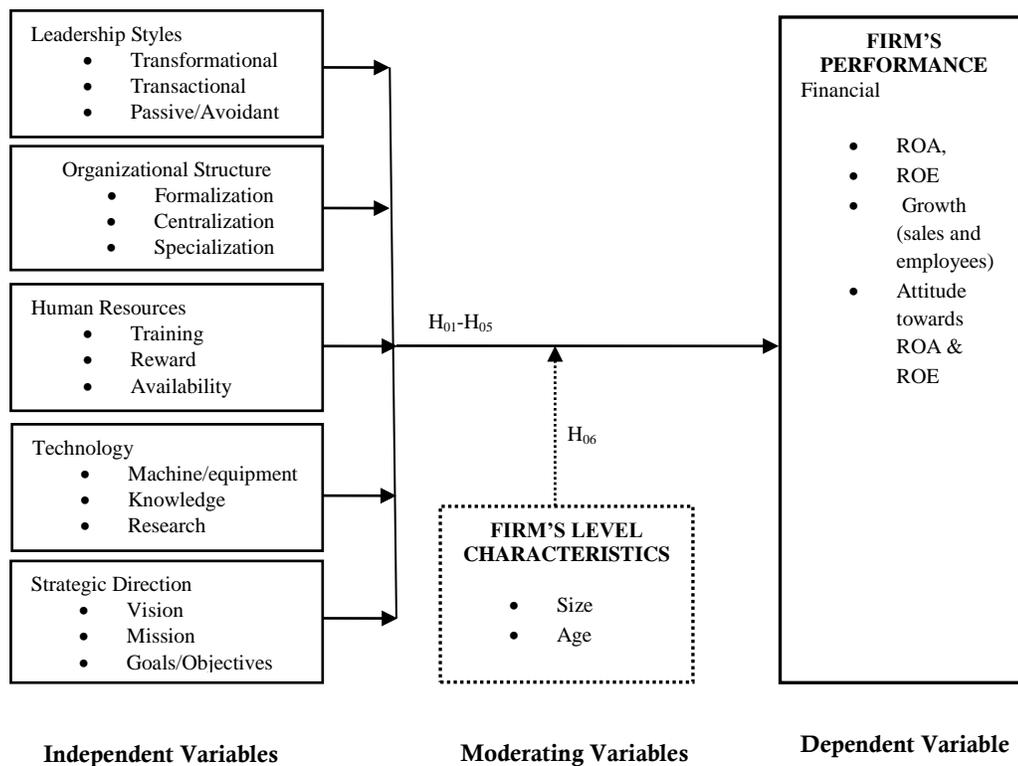
The Higgin 8-S model points out clearly that the components of strategy implementation are intertwined and this reinforces the idea of systems thinking in strategy implementation process. The model brings out the need of constantly realigning organizational strategies to environmental changes in order to make strategies workable, finally, the model help managers to detect problems in the system and avoid failures when implementing strategies (Higgins, 2005).

The 8-S framework is relevant to this study since it underpins all variables in this study. The framework goes a step further than Okumu's model by explaining how the 8-S variables work together in a closely aligned relationship. This supports the systems theory that postulates that objectives of a system are realized when components work together in a regular relationship (Higgins, 2005).

### **2.3 Conceptual Framework**

A conceptual framework is a written or visual presentation that explains either graphically or in a narrative forms the main things to be studied like the key factors, concepts or variables and their presumed relationship among them (Miles & Huberman, 1994; Robson, 2011). Kothari (2003) define a variable as a concept which can take on qualities of quantitative values. A dependent variable is the outcome variable that is being predicted and whose variation is what the study tries to explain while independent variables are factors that tries to explain variations in the dependent variable.

The current study adopted the Higgins 8-S framework (2005), where all components influencing strategic performance are intertwined and aligned from a systems theory's perspective, and Okumu's strategy implementation framework (2003) as a lens in developing a suitable conceptual framework that explains the influence of strategy implementation on performance in SME manufacturing firms in Kenya. The relevance of these two models is that the five main strategy implementation drivers that influence performance, that is, strategic direction, leadership, structure, human resource and technology are well underpinned. The models also give managers a clear direction of the key variables to focus on during strategy implementation.



**Figure 2.3: The Conceptual Framework**

## **2.4 Review of Literature and Variables**

This section reviewed the past studies based on the influence of the independent variables (Leadership styles, Structure, Human resources and Technology) on the dependent variables (Performance).

### **2.4.1 Firm's Performance**

Many scholars in management strongly believe that the strong practices of strategic management have a significant positive effect on business firm's performance (Griffins, 2003; Griffins, 2013; Hrebiniak & Joyce, 2005; Jooste & Fourie, 2010; Kaplan & Norton, 2004; Kihara, Bwisa & Kihoro, 2016; Lynch, 1997; Noble, 1999; Okumu's, 2003; Pearce & Robinson, Sage, 2015; 2007; Sial et al., 2013; Sorooshian et al., 2010; Teece, 2014; Thompson & Strickland, 2003; Ulrich, Zenger & Smallwood, 1999).

Griffins (2003) define business performance as the extent to which the firm is able to meet the needs of its stakeholders and its own needs for survival. The International Standard Organization (ISO) views performance as a measurable outcome out of attainment of organizational goals and objectives efficiently and effectively or measurable results out of the organizations proper administration and management of its actions and activities (ISO, 2015). Performance is the results obtained in an organization as a whole (Higgins, 2005) or an outcome obtained after successful efforts in implementing a strategy.

In the systems approach to organizations, Bank, Carson and Nelson (1996) define a system as a group of objects that are joined together in some regular interaction or interdependence toward the accomplishment of some purpose. This implies that a system is made up of different components that work together in a regular relationship to accomplish a common goal. The common goal referred to here is the overall outcome of various interactions of different components that make up a system. This is what this

study refers to as firm's performance. The RBV and DCV, on the other hand, consider firms resources as the key to superior performance and competitive advantage (Barney, 1991; Grant, 1991; Rumelt, 1984; Wernerfelt, 1984, Teece, 2009; Teece, 2014).

Performance is a major construct in management because almost every researchers and scholars attempts to relate their constructs to business firm's performance (Sorooshian, Norzima, Yusuf, & Rosnah, 2010). Combs et al. (2005) views performance as an "economic outcome resulting from the interplay among organizational attributes, actions and environment. Performance is mostly measured in financial terms (Barnat, 2012) and it encompasses three specific areas namely: (1) financial performance (profits, return on assets, return on investment); (2) market performance (sales, market share); and (3) shareholder return (total shareholder return, economic value added)

#### **2.4.2 Leadership styles and Firm's Performance**

A leader in strategy implementation is someone who is responsible for owning up, steering and driving forward the implementation efforts towards achievements of the set objectives. He is responsible for fully supporting strategy implementation efforts by providing the necessary resources, giving directions and creating an enabling environment for the employees to perform without fear or intimidation.

Teece (2014) underscored the importance of leadership by stating that a leader must possess superior skills required to effectuate high performance through sensing, seizing and transformation. A strong leadership skill is an important dynamic capability required to drive superior performance in organizations operating in a dynamic environment that characterizes organizations today.

Thompson and Strickland (2007) further stated that strategic leadership keeps organizations innovative and responsive by taking special plans to foster, nourish and support people who are willing to champion new ideas, new products and product

applications. Griffins (2011) identified leadership in an organization as one of the main factors influencing strategy implementation by providing a clear direction, up to date communications, motivating staff and setting up culture and values that drives organizations to better performance.

Van Maas (2008) identified leadership as an important variable affecting organization performance. Consequently, strategy implementation and superior performance requires a leader who drives the implementation effort successfully by motivating employees, by providing the overall direction for the implementation effort, by creating strategic vision and communicating that vision to organizational members, by actively leading the implementation effort as an example or a role model, by radiating and building confidence of the organizational members implementing the strategy, by taking decisive stand when confronted with problems of resistance to change or when they are forced to take tough decisions during implementation effort and by maintaining integrity, honesty and making just decisions during the strategy implementation effort.

Heracleous (2000) identified various roles played by leaders during strategy implementation process and classified them as a commander (a leader who attempts to formulate an optimum strategy), an architect (a leader who tries to designs the best way to implement a given strategy), a coordinator (a leader who attempts to involve other managers to get committed to a given strategy), a coach (a leader who attempts to involve everybody in the strategy implementation efforts) and a premise-setter (a leader who encourages other managers to come forward as champions of sound strategies).

A study by Jousté and Fourie (2009) in South Africa concluded that leadership and especially strategic leadership role of providing direction during strategy implementation is important in influencing organization performance. Noble & Mokwa (1999) found out that manager's commitment to strategy (which refer the extent to which a manager comprehends and supports the goals and objectives of a strategy) and individual

manager's role performance (the degree to which a manager achieves goals and objectives of a particular role) positively influences the success of strategy implementation effort and performance in an organization.

Bourgeois and Brodwin (1998) identified a variety of leadership styles which are practiced by leaders during strategy implementation. This study found out that leadership approaches to strategy implementation varies from being an autocratic leader to a more participative style that involves active engagement of various stake holders in the implementation process. According to Bourgeois and Brodwin (1998), the five main categories of leadership styles practiced during strategy implementation include commander, collaborative, coercive, cultural and organizational change. The commander and organizational change styles are the traditional approach to strategy implementation where the leader first formulate strategy and think about implementation latter on. Collaborative and cultural styles are more current and capture clearly the aspect of stakeholder's active participation during the implementation process while a coercive leader has the monopoly of driving the implementation agenda alone without involving other stakeholders.

Ling, Siek, Lubatkin and Veiga (2008) identified that there is a significant relationship between transformational CEOs and the performance in SMEs. Their findings tended to confirm the Upper Echelons theory's argument that CEO characteristics affect organizational performance.

Aziz, Mahmood and Abdullah (2013), tested three most common leadership styles commonly practiced by SMEs. These styles are the transactional, transformational and passive avoidant (Laissez-faire) leadership styles. The study found out that among the three leadership styles, the transformational leadership has the highest influence and is directly related to the performance in SMEs. These findings are in consistent with a study by Naeem and Tayyeb (2011) in Pakistan who found a positive correlation

between the transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SMEs performance. The study concluded that transformational leadership style positively and significantly influences performance in SMEs in Pakistan.

Okwu, Obiwuru, Akpa and Nwankwere (2011) tested the application of transformational and transaction leadership styles in Nigerian SMEs and found out that transformational leadership traits tested (charisma, intellectual stimulation/individual consideration, inspirational motivation) are weak in explaining variations in performance. On the other hand, the transactional leadership traits (constructive/contingent reward, corrective and management by exception) have a significant positive effect on followers and performance and both jointly explain very high proportion of variations in performance. The study concluded that transactional leadership style is more appropriate in inducing performance than transformational leadership. They recommended that small scale enterprises should adopt transactional leadership style but strategize to transit to transformational leadership style as their enterprises develop, grow and mature.

Ojokuku, Odetayo and Sajuyigbe (2012) examined the impact of the leadership style on organizational performance in selected banks in Nigeria and found that there is a strong relationship between leadership style and organizational performance. The study also found out that the transformational leadership style is positively related to the bank's performance. Transactional leadership style is negatively related to performance but insignificant.

Udoh and Agu (2012) investigated the impact of transformational and transactional leadership styles on performance of manufacturing organizations in Nigeria found that there is a positive and significant relationship between transformation and transactional leadership and organizational performance. In a similar study Ejere and Ugochuku (2012) empirically studied the effect of transformational and transactional leadership

styles on organizational performance in Nigeria and found that transformational leadership style is positively and highly related to organizational performance while transactional leadership style has a positively but weak influence on firms performance.

Koech and Namsonge (2012) investigated the effects of leadership styles on organizational performance of state owned corporations in Kenya and found a high correlation between transformational leadership, a low but significant correlation between transactional leadership style and performance and no correlation between the passive avoidant leadership (Laissez-faire) style and performance. Okwachi et al. (2013) studied Kenyan SMEs and found out that leadership practice has a direct relationship with strategy implementation. The study concluded that managerial practices greatly affect implementation of strategic plan in Kenya.

Zumitzavani and Udchachone (2014) examined the influence of leadership styles on organizational performance in hospitality industry in Thailand and found out that transformational leadership style has a positive influence with organizational performance; Transactional leadership style has a weak positive influence while passive avoidant leadership style has a negative influence with organizational performance. All these studies on leadership styles reinforces the idea that leadership style as contained in Higgins 8-S strategy implementation framework (2005) positively or negatively affects performance in organizations.

### **2.4.3 Structure and Firm's Performance**

A structure is a hierarchical arrangement of duties and responsibilities, lines of authority, communications and coordination in an organization. It refers to the shape, division of labour, job duties and responsibilities, distribution of power and decision making procedures within a company (Okumus, 2003)

Higgins (2005) views an organizational structure in terms of five different elements

that make a structure namely, the job itself, the line of authority to perform these jobs, the grouping of jobs in a given order that allows achievement of the objectives, the coordination mechanism applied by managers to supervise jobs effectively and the span of control that shows the number of subordinates that a manager can effectively supervise. He posits that the success in a given organization is determined by how well the organization is structured along its business strategy.

Studies on organizational structure dates back in 1960s when Alfred Chandler studied hundreds of American large companies in order to establish the relationship between organization's strategy and its structure (Robbins, 2006). His study came into a conclusion that modifications in the strategy of these companies led to changes in their structure. Expansion of the production line in these companies necessitated revision of their structures so that they can cope with the increased output and conform to the new strategies. According to Chandler (1961) an organization structure must follow her strategy for better performance. Companies with limited product lines initially had centralized structures with less complexity and formality but when they increased and diversified their production lines, they were forced to adapt different structures that matched their new strategy. Chandler (1961) concluded that when organizations diversifies, they must employ different structure compared to firms that follow single-product strategy (Robbins, 2006)

Burns and Stalker (1961) studied about 20 British and Scottish companies with an aim of finding out how their managerial activities and structures differed in relation to changes in the environment. They found out that the structures adopted by organizations operating under stable environmental conditions differed from those operating in a dynamic environment. In a stable environment, organizations tended to adopt a mechanistic structure that is characterized by low differentiation of tasks, low integration between departments and functional areas, centralization of decision making and standardization and formalization of tasks. Organizations operating in a dynamic

environment tended to adopt a more flexible organic structure that allows for changes to be made in line with the environmental changes. Organic structures are characterized by high differentiation of tasks, high integration of departments and functional areas with rapid communication and information sharing, decentralized decision making mechanisms and little formalization and standardization of tasks and procedures. They came to a conclusion that firms will adopt a structure in relation to the environment they are operating in. Most of businesses today operate in turbulent environments and they are likely to adopt an organic structure that allow for changes and modifications to be made in line with changes taking place in the environment (Robbins, 2006)

However, variant to Burns and Stalker's study, Sine, Mitsuhashi & Kirsch (2006) posits that the effect of structure is contingent to the stage of development in an organization. In their study, they found out that structures increases performance of new ventures even in the context of very dynamic sector. This applies to small firms and start-ups where the study found that firms with more employees tended to outperform those with small number and that new ventures that formalize functional assignments and assign important tasks to team members who specialize in those assignments outperform firms whose founding teams have relatively undefined roles. The study concluded that in a dynamic and uncertain environments, new and mature organizations face fundamentally different challenges requiring different approaches to organizational structure.

The mature organizations with well-defined structure and embedded practices need to become more organic and flexible in order to adapt to dynamic environments, the opposite is true for new ventures because they are already flexible and attuned to the environment but what they need are the benefits of organizational structure which they lack, lower role ambiguity, increased individual focus and discretion, lower coordination costs and higher levels of organizational efficiency.

A study of 200 senior managers in United States of America by Oslon, Slater and Hult (2005) revealed that performance of an organization is largely influenced by how well a firm's business strategy is matched to its organizational structure and behavioral norms of its employees. The researchers identified three structural dimensions that affect strategy implementation and performance in an organization that is formalization, centralization and specialization. Formalization is the degree to which decisions and working relationships are governed by formal rules and procedures. The benefits of using rules and procedures include defining and shaping of employee behaviour, problems are solved easily, activities are organized to the benefit of individuals and the organization, efficiency and lower administrative costs and the firm is able to exploit previous discoveries and innovations.

Centralization is the decision making authority which is held by the top, middle or lower level managers in a firm. In a centralized structure, the top layer of management has most of the decision making power and has tight control over departments and divisions. Communication much easier and faster, while there are only few innovative ideas, implementation is much straight forward and faster once the decision has been made. The benefits of a centralized structure are only realized in stable noncomplex environments while specialization refer to the degree to which tasks and activities are divided in an organization (Oslon et al., 2005)

A study by Meijaard, Brand and Mosselman (2005) entitled "organizational structure and performance of Dutch small firms" found out that small firms occur in a wide variety of structures with various degree of departmentation. Secondly, departmentation in these firms has a strong correlation with firm's size. A third finding is that decentralized structures perform well in several contexts notably in business services and manufacturing. Firms with strong centralization and strong vertical specialization only occur and only perform well in relatively simple structures. Apparently for large firms, strict vertical specialization requires at least some decentralization in order to be

efficient. The fourth finding is that hierarchical, centralized structure with strong specialized employees occurs frequently in SMEs and performs well in terms of growth. In combination with complex coordination mechanisms, hierarchically structured and departmentalized firms with formalized tasks and specialized employees perform well in terms of growth as well, particularly in manufacturing and financial services. Non specialized, simple organizational structures in business services perform well in term of profit to sale ratios. They finally concluded that given contextual conditions, different types of organizational structures perform well.

Organizations need to pay more attention to their structures and restructure according to the environmental needs from time to time achieve better performance. A study by Leitao and Franco (2011) on the individual entrepreneurship capacity and SMEs performance found out that the economic performance of SMEs is positively affected by maintenance of efficient organizational structure and at the same time the non-economic performance of SMEs is also affected by enthusiasm at work, incentives and maintenance of efficient organizational structure in a dynamic environment. These findings reinforce the idea that structure affects organizational performance.

#### **2.4.4 Human Resource and Firm's Performance**

The influence of human resources on performance in an organization has been a hot subject for research for the last two decades. The initial impetus to study this relationship was initiated by the works of Huselid (1995) in his study of the impact of human resource management practices on turnover, productivity and corporate financial performance and Becker and Gerhart (1996), in a study of the “impact of human resource management on organizational performance: progress and prospects”. To date, the empirical literature from several other scholars in management documents a supportive evidence of the existence of a positive influence between human resource practices and performance in an organization (Amin, Ismail, Rashid & Salemani, 2014;

Cho, Woods, Jang & Erdem, 2006; Huselid, 1995; Orlando & Johnson, 2001; Osman, & Galang, 2011; Wong, Tan, Ng, & Fong, 2013; Wright, Gardener & Moynihan, 2003)

Organizations cannot perform well without quality and resourceful people. The Resource Based View of the firm's (RBV) supports this view by recognizing the fact that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage. In order for human resources to provide a sustainable competitive advantage, Barney (1991), identified four conditions that need to be met. First; that human resources must add value to the firm's production process meaning that the level of individual's contribution to the total production really matters, secondly; that human resources must present special skills that are rare to find in an ordinary market place, thirdly; that the combined human capital investments a firm's employees represents cannot be easily imitated by other firms in the market and in the industry and fourthly; that the human resources cannot be easily substituted by technology. However, in the dynamic environment that SMEs find themselves today, the ability of the firm to create dynamic capabilities in human resources is vital for survival and competitiveness. The dynamic capability in people can be developed through injecting new knowledge and skills and continuous improvement of human resources through training and development initiatives (Teece, 2014).

Organizations that often practice human resources management experiences lower levels of labour turnover (Orlando & Johnson, 2001). A study by Cho et al. (2006) which investigated the relationship between the use of 12 human resource management practices and organizational performance measured by turnover rates for managerial and non-managerial employees, labour productivity and return on assets found out that companies implementing HRM practices such as labour management participation programs, incentive plans, and pre-employment tests experiences lower labour turnover rates for non-managerial employees.

The association between human resource management practices and performance may not be direct, something that has been referred to as a “black box” by the scholars, and is mediated by strategy (Orlando & Johnson, 2001), employee’s ability and motivation (Fey, Yakoushev, Park, & Bjorkman, 2007). In support of this observation, a study done by Katou (2008) involving 178 organizations in Greece made a confirmation that a relationship between human resource policies (resourcing and development, compensation and incentives, involvement and job design) and organizational performance exists. The researcher also observed that this relationship is partially mediated through human resource management outcomes (skills, attitudes, behaviour) and it is influenced by business strategies (cost, quality & innovation). These findings imply that human resource management policies associated with business strategies affects organizational performance through human resource management.

Several human resource practices were found to have a significant influence on organizational performance. Beh and Loo (2013) found out that best practices in human resources like performance appraisal, internal communication, career planning, training and development, recruitment and selection and strategic human resource alignment in the organization positively affect firm’s performance. Amin et al. (2014) interviewed a total of 300 employees from a public university and found out that human resource practices like recruitment, training, performance appraisal, career planning, employee participation, job definition and compensation have a significant relationship with university performance.

Other practices identified in the literature include job security, employees autonomy, hiring of new personnel on a selective basis, creation of self-managed and cross functional teams, initiating structures that support decentralization of decision making, a relatively high compensation in line with the performance of the organization, extensive training of personnel, reduced status distinctions and barriers, including dress, language, office arrangements, wage differences, and extensive sharing of information throughout

the organization, incentives and information technology (Ahmad & Shroeder, 2003; Cho et al., 2006; Jayaram, Droge & Vickery, 1999; Lo, 2009; Pfeffer, 1996).

Vlachos (2009) observed that firm's growth as a strategic priority depends on human capital that is selecting, developing and rewarding the best people as well as revealing to them the critical company information in order to make informed decisions. His study on "effects of human resource practices on firm's growth" studied six variables namely: the compensation policy, decentralization and self-managed teams, information sharing, selective hiring, training and development and job security. The study established a strong correlation between selective hiring and market share growth. Compensation policy was found to be the strongest predictor of sales growth. Decentralization & team working were also found to be a significant factor on firm's growth, training and development was related to all firm's growth measures used in the study and showed a higher correlation with the overall firm's performance improvement. The study also found a strong positive correlation between information sharing and sales growth, firm's growth and overall firm performance. However, decentralization and information sharing did not contribute significantly to sales growth while job security was not seen as an important human resource management practice.

Safari, Karimian and Khosravi (2014) ranked HRM practices affecting organizational performance and found that performance evaluation, job design and human resource planning ranked highly, fourth in the ranking was recruitment and selection, employee health and hygiene, training and development and compensation system. Employee communication ranked lowest. On performance evaluation, detecting employee capabilities and improving employee's task doing and performance evaluation by interest groups received most attention.

Human resource is one of the critical components required in order to achieve better performance in an organization (Higgins, 2005; Okumu's 2003). This component needs

to be well aligned with the other components in the 8-S framework and as implied in Teece (2014), the human resources of a firm need to be well aligned with the dynamism of the environment if superior performance in a firm is to be realized. Okumu's (2003) observed that people are required to drive the process of strategy implementation to success. Sorooshian et al. (2010) also observed that the significance of human resource in strategy implementation is based on the idea that people management can be an essential source of sustained competitive advantage of a firm. This implies that organizations need to embrace better HRM practices that build a strong asset in form of people. A strong human resource component is required for proper implementation of strategies and better performance in an organization.

#### **2.4.5 Technology and Firm's Performance**

Technology refers to the body of knowledge, innovations, products, processes, tools, procedures and organization systems used by people to accomplish their daily tasks (Damanpour, 1991). The Resource Based View (Grant, 2001) considers technology as one of the essential capabilities in the organization's bundle of resources that are used by the firm to develop, manufacture and deliver products and services to its customers (Barney, 1991; Wernerfelt, 1984). However, in line with frequent changes that takes place in the firm's industry, the dynamic capability theory (Zollo & Winter, 2002) views technology as a dynamic capability that is embedded in firm's practices and is essential in determining the competitiveness and performance of a firm in a dynamic and turbulent environment. Firms with strong dynamic capabilities exhibit technological and market agility, are able to create new technologies, differentiate and maintain superior processes and modify their structures and business models in a way that ensures they stay ahead of the competition (Teece, 2014).

Building technological capacity within a firm requires a change where new knowledge, skills and experience are developed and injected to drive the existing systems and to generate the required technical change (Lall, 1992; Bell & Pavitt, 1995). Lall (1992)

views technological capability as a continuous process of interacting with the environment to create, accumulate and absorb technological knowledge and skills required by the firm. According to Kumar, Kumar and Madanmohan (2004), a firm achieves technological capability through process learning. The ability to create and manage changes in technologies in production is necessary if a firm has to achieve success in terms of superior performance (Bell & Pavitt, 1995; Trez, Steffanello, Reichert, DeRossi & Pufal, 2012; Zawislak, Alves, Tello-Gamarra, Barbieux & Reichert, 2012).

Since technological capability is often associated with the knowledge of the firm (Jin & Von Zedtwitz, 2008), then it is incremental in nature (Pavitt, 1998) and there is a limit to which a firm can accumulate new knowledge. Therefore, many firms in developing countries go through a learning process after importing new technology which eventually enables them to develop their own technologies. They need to learn how to use the new technology and to them technological capacity means generation of new knowledge and skills (Jin et al., 2008).

In a dynamic environment, creation of technological capacity requires not only new knowledge but also innovative ideas (Teece, 2014). Innovation allows the alteration of the firm's production function and processes and gives the firm a chance to build its distinctive technological competence. At the firm level, innovation is viewed as the application of new ideas that lead to development of new products (Rubera & Kirca, 2012; Therrien, Doloreux & Chamberin, 2011).

Employees in organizations apply technology on a daily basis to carry out their duties and responsibilities. Since it is embedded in almost all organizations activities and practices from production to marketing of goods and services, from the structure, culture, systems, organization to leadership, then technology becomes an important factor that determines the success and competitiveness of a firm. Ulrich and Wayne

(2005) conclude that human resources in a firm regularly apply technology in many ways in order to improve their efficiency and their effectiveness. This in turn influences the firm's performance.

From a system's thinking, a traditional question many researchers have asked is the relationship between innovation, the structure of a firm (formalization, centralization, and specialization) and the industrial environment. From a traditional perspective, it is supposed that differences in firm's innovative activities are basically explained by industry and organizational structural characteristics (Daft, 1992; Damanpour, 1991; Duncan, 1976; Kimberly & Evanisko, 1981; Wolfe, 1994).

In developing countries where the economies are driven by SMEs in terms of growth and employment, technology adoption is a growing area of interest (Mubaraki & Aruna, 2013). Due to their flexibility and robust growth, innovation adoption in SMEs enables them to survive in tight competition, global economic crisis and compete against larger organizations. SMEs structural flexibility and their ability to adapt themselves better enable them to innovate, adopt, develop and implement new ideas (Harrison & Watson, 1998). Through this, they are able to offer customers new products.

SMEs are also increasingly using information technology to leverage on their competitive position and improve their productivity (Premkumar, 2003). Although the rate of IT adoption in developing countries is still low (MacGregor & Vrazalic, 2005), IT tools can significantly assist SMEs by creating the necessary infrastructure for providing appropriate types of information at the right time. IT can also provide SMEs with competitiveness through integration between supply chain partners and inter-organizational functions, as well as by providing critical information (Bhagwat & Sharma, 2007).

Past studies have tried to link technology and better performance in organizations (Nohria & Gulati, 1996). According to Becheikh, Landry and Amara (2006),

technological innovation is a key factor in firm competitiveness and it is unavoidable for firms which want to develop and maintain superior performance in the current or new markets. Manimala and Vijay (2012) maintains that technology adoption is crucial for growth of business in the private sector and Mubaraki and Aruna (2013) observes that technology adoption behaviour significantly improves organizational performance in terms of profit, growth and market share. Lumiste, Lumiste and Kilvits (2004) found that SMEs were engaged in developing their products together with processes. However, Becheikh et al. (2006) recommended that more research is required in both product and process innovations in SMEs because it is limited in literature. Artz, Norman, Hatfield and Cardinal (2010) found that product innovation had a significant impact on firm performance, Therrien, Doloreux and Chamberlin (2011) found out that for firms success in the market depended on early entrance, innovation and introduction of new and novelty products, Atalay, Anafarta and Savan (2013) explored the effect of product, process, marketing and organizational innovation and found out that both product and process innovation has a significant effect on firms performance.

#### **2.4.6 Strategic Direction and Firm's Performance**

The strategic direction of the firm is often embedded in its strategic vision and mission statements. The strategic vision and mission of the firm is the first step in formulating and implementing strategies. The firm's strategic vision provides the logical reason for future plans and directions of the organization. It aims the organization in a particular direction while providing a long term strategic direction to follow in line with the aspirations of shareholders (Madu, 2013).

According to Benson (cited in the Economist, 2009), the pre-requisite of strategic direction is a "mental image" of the possible and desirable state of the organization. "This image, which we call a vision, may be as vague as a dream or as precise as a goal or a mission statement". "To realize strategic intent or direction, some level of activities and behaviour in an organization are required" (Hamel & Prahalad, 1989). In respect to

this, the organization need to redirect all her energies to discover ways that confers success, mobilize, marshal and allocate requisite resources, communicate effectively to all staff, motivate employees and clarify issues on a timely basis when there is change or need to change. “Strategic intent should also create an internal firm wide tension, inspiring and compelling all employees to be dedicated to the specified future direction” (Hamel & Prahalad, 1989).

Before a strategy is implemented, it has to be formulated first. A lot of information and participation of all stakeholders is required during the strategy formulation stage. The firm’s leadership work hard to create the awareness among all employees and the stakeholders the direction the organization is headed and how the stakeholders will benefit from implementation of a new strategy. These efforts are meant to create a shared vision among all stake holders about the benefits of the new strategy. This step is very crucial before and during the strategy implementation process. The strategic direction in this study was considered as an independent variable that is often related to the first stage in the strategic management process which involves strategy formulation. It is during the formation stage that the organization usually sets its goals and objectives which are well aligned to their vision and mission statements. This process also gives the organization a general focus, an identity and the direction needed to be followed to achieve her goals.

A number of scholars in management has attempted to link strategic direction sometimes referred to strategic intent to organizational performance. These studies have yielded mixed results. Outcomes of some of these studies are discussed in the foregoing.

Lumpkin and Dess, (1996) observed that the relationship between strategic orientation and organizational performance is influenced by many third-party variables, and the different effects of third variables may lead to different performance levels. The researcher recommended that studies on the complex relationship between strategic

direction and other predictor variables should be conducted in specific context. As Liu and Fu (2011) noted, several studies on strategic direction has been conducted in large established companies (Jantunen et al., 2005), in the context of SMEs (Wiklund & Shephend, 2005), in industry cluster context (Dai & Li, 2006), in international background (Martin & Lumpkin, 2003) but their findings on the relationship with performance are not consistent.

O'regan & Ghobadian (2006) did a study based on the importance of capabilities for strategic direction and performance management decision. This study found out that generic organizational capabilities have a positive impact on strategy deployment and on the achievement of overall performance. This study concluded that generic capability is one of the main drivers of performance and firms seeking high overall performance would well be advised to ensure that they actively consider their generic capabilities as the basis of their strategic direction.

Odita & Bello (2015) conducted a study on strategic intent and organizational performance in the banking sector in Nigeria. This study found out that strategic direction is positively and significantly related to organizational performance. The study also revealed the existence of a positive relationship between various dimensions of strategic direction such as goals and objectives, mission and vision with the organization's performance. Specifically, the study found that the objectives component of the strategic direction accounted for 58% variance in organizational performance while mission and vision accounted for 47 and 19% variations in organization performance respectively. The study concluded that strategic direction has a significant positive relationship with performance in the banking industry.

Kitonga, Bichanga & Muema (2016) studied the role of determining strategic direction on not-for-profit organizational performance in Kenya and found out that strategic direction has a significant positive influence on performance in these organizations.

Strategic direction is the cornerstone upon which strategies are crafted, developed and eventually implemented. Therefore, it is paramount that strategic direction needs to be very clear and understandable to all stakeholders in an organization. Leaders in SME firms need to develop their directions with vision and mission in mind. Once developed then crystallize it and cascade it downward to all employees who need to know the direction their organization is taking. Finally, the strategic direction should be the impetus upon which strategic actions and activities are designed and operationalized.

#### **2.4.7 Age, size of the firm and Firm's performance**

Firm level characteristics related to size and age has been found in the past studies to have a moderating effect on organizations performance (Anic, Rajh & Teodorovic, 2009; Hui, Radzi, Jenetabadi, Kasim, & Radu, 2013). Firm size is a variable that is widely acknowledged to have an effect on firm's performance. The causal relationship between size and performance has yielded mixed results in a number of studies. Although a study conducted by Capon, Farley and Hoenig, (1990) did not find a significant relationship between size in terms of number of employees and firms performance, several other studies have found a positive relationship between firm's size and profitability (Lee & Giorgis, 2004; Ural & Acaravci, 2006).

Bigger firms are presumed to be more efficient than smaller ones. The size helps in achieving economies of scale and therefore can afford to offer their products in the market at lower prices. Large firms also have power to access capital markets which give them more access to opportunities that are not available to small firms (Amato & Wilder, 1985). However, in a variant study, Zumitzavan and Udchachone (2014) found the number of employees to be negatively related to performance of an organization meaning that organizations with smaller number of employees may perform better than those with large number of employees.

On the other hand, firm's age measured in terms of the number of years a company has been operating in the market is an important determinant of firm's dynamics. Past studies shows a relationship between the age of the firm and firm's growth, failure and variability in growth decreases with age (Yasuda, 2005). Young firms are more flexible and dynamic and more volatile in their growth compared to older firms. As the firm ages they are likely to become more stable in growth, gain more knowledge and innovations, position itself better in the market, develop a better structure that increases efficiency and help lower costs and are more likely to have better investment plans.

Anic et al. (2009) carried out a study involving firm level characteristics, strategic factors and firm performance in Croatian manufacturing industry found out that high performing firms were small and younger companies. The study concluded that these firms are highly motivated to succeed and since they do not carry the burden from the past, they are more flexible in adjusting to dynamic market trends.

Hui et al. (2013) in a study entitled the impact of age and size on the relationship among organizational innovation, learning and performance in Asian manufacturing companies and confirmed that a relationship exist between age, size of the firm with organizational learning, innovation and performance. The study found a significant positive impact on organizational innovation, organizational learning and organizational performance and concluded that larger companies have access to more resources to be invested in organizational innovation and therefore large companies are less dependent on organizational learning than smaller companies. The study also found that age enables firms to develop routines to be able to perform their activities with more efficiency and better performance. Younger firms suffer from missing consolidated routines meaning that innovation needs further attention and work from organizational learning process.

The variables of age and size are frequently cited in the literature as precursors for organization innovation and performance (Hui et al., 2013) and according to research

outcomes, they were found to have the capability of moderating the relationship between the variables identified in this study.

## **2.5 Critique of the Existing Literature**

The review of the literature related to strategy implementation tends to point out that strategy implementation is the panacea to success in organizations in terms of superior performance and competitive advantage (Barnat, 2012). The literature has statistical evidence that a number of the strategy implementation drivers reviewed in this study play a key role in determining superior performance in business firms.

The literature also tends to lead to the thinking that only those firms paying close attention to strategic management processes are guaranteed of success (Sorooshian et al., 2010). This perspective raises fundamental questions concerning those firms which have no clue of what a formal strategy is and yet they succeed in their own unique ways (EC, 2003). Most studies have concentrated on strategies and organizational performance from a formal and direct perspective and largely ignored organization's informal and indirect practices (EC, 2003). According to Gakure and Armule (2013) quite a number of SMEs in Kenya do not have documented plans and yet they still perform well on their own unique ways and styles. Future studies need to look at the informal application of strategies and the performance of business organizations.

The second fundamental issue arising from the literature is why organizations fails or seriously struggles in strategy implementation despite having robust and strong strategies. Carter & Pucko (2010) point out that between 60 - 80% of firms globally fails or seriously struggle in their strategy implementation processes. The implications here is that the same number of firms do not have a good strategies or leadership. Many good CEOs have been fired because of strategic failures but not necessarily that they do not practice strong leadership styles (Ekelund, 2015; Forbes, 2013). Therefore, leadership styles are contingent to the environment the firm is working in and at a particular point

in time (Fuchs, 2007; Hersey & Blanchard, 1969). There are instances where autocratic leadership style yield better and faster results than transformational leadership. The literature has concentrated on three main leadership styles that is, transformational, transactional and passive/avoidant ignoring others (Avolio & Bass, 2004).

A key variable under investigation in this study is organization structure. There is a mixed perception from contemporary scholars that deviates from the original thinking advanced by Chandler (1962) that “structure always follows organization’s strategy”. There are counter arguments in the literature that tend to point out that the opposite also holds some truth. Some scholars have argued that organization “strategy follows the structures that are already laid down in organizations” (Hall & Saias, 1980; Bielawska, 2016). The scholars observed that while most of the studies are in agreement with Chandler’s (1962) works, the nature of the relationship between structure and strategy requires re-examination. The scholars suggested an alternative view by stating that the strategy, structure, and environment are closely intertwined. “Whereas a man builds the structure of an organization, in practice, it is this very structure that later constrains the strategic choices they make” (Hall & Sias, 1980).

There have been divergent views on the contributions of human resources to performance in organizations and the literature has referred this as a “black box” that is often mediated by strategy (Orlando & Johnson, 2001; Fey et al. 2007). Over the years, scholars have argued whether human resources contribute directly or indirectly to the performance in an organization (Huselid, 1995; Becker & Gerhart, 1996; Orlando & Johnson, 2001; Fey, Yakoushev, Park, & Bjorkman, 2007; Katou, 2008; Beh and Loo, 2013). Some of the studies have tended to confirm the findings by Huselid (1995) that a direct link exists between human resources and organizations performance while the divergent views tends to follow Orlando & Johnson’s (2001) arguments that human resource need to be mediated by other variables for it to have a positive effect on organizations performance.

Technology variable, according to the RBV (Grant, 2001) and DCV framework (Wernerfelt, 1984; Rumelt, 1984, Barney, 1991, Zollo & Winter, 2002, Teece, 2014), and strategic direction variable (Hamel & Prahalad, 1989, Madu, 2013) are often embedded in various organizations practices and configurations implying that they do not influence organization's performance directly. The direct treatment of these two variables in previous studies also raises a fundamental question whether these variables need to be treated directly or have to be mediated by other variables. Majority of the past studies have treated both variables directly.

While some of the past studies have documented a direct relationship between technology and organizational performance (Nohria & Gulati, 1996; Becheikh, Landry & Amara, 2006; Manimala & Vijay, 2012; Mubaraki & Aruna; 2013), similar studies in strategic directions have yielded mixed results (Lumpkin & Dess, 1996; Odita & Bello, 2015; Kitonga, Bichanga & Muema; 2016). Some of these studies have found a direct relationship between strategic direction and organization performance (Odita & Bello, 2015; Kitonga, Bichanga & Muema; 2016) while others have found that strategic direction works well when it is embedded in other strategy variables (Lumpkin & Dess, 1996). These studies projects divergent approaches on technology and strategic direction variables. The implication here is that these variables are based on different frameworks and a unitary approach is required in future studies.

The literature reviewed also portends a dual perspective on variation in firm's performance. The first perspective is aligned to environmental dynamism as the main cause of variations in performance (Teece et al., 1997; Teece; 2007; 2014) while the second perspective is based on resources and capabilities (Grant, 2001; Barney, 1991; Wernerfelt, 1984; Rumelt; 1984; Eisenhardt & Martin, 2000; Teece; 2014). These mixed perspectives put scholars in a difficult situation when deciding which one to follow. This could also explain for variations in findings of the past studies as documented in strategic management literature. Several scholars in strategic management have also

observed that the management literature pertaining to strategy implementation is fragmented, inconclusive and lacks theories or comprehensive frameworks (Alexander, 1991; Maas, 2008; Noble, 1999; Okumus, 2001). However, the review of literature related to strategy implementation indicates that the performance is a derivative of the interactions between various components and activities within a firm.

First, the systems theory views performance as a product of harmonious interactions of various components that must work together at all times. However, the theory does not address how the environmental factors like technological changes are likely to influence the harmonious relationships existing between sub-components and in turn affecting the performance of a firm either positively or negatively. The theory assumes that there will always be an agreement between various systems' sub-components and each system sub-components is aware of the end result which is not practically true in a highly dynamic and competitive environment. The systems theory locks out outsider components and assumes that an outstanding performance is as a result of only the sub-components working within the system only. This is also not practically true because performance in an organization may be influenced by other social-cultural, legal, economic and political factors outside the firm's environment.

The Dynamic Capability View of the firm (DCV) attributes good performance of a firm as a result of possession of unique capabilities which are dynamic and tacit in nature and are hard to be imitated by rival firms. These unique dynamic capabilities like superior leadership skills give a firm a competitive edge over her rivals. In the DCV's approach, it is the competitive advantage that explains the superior performance in a business firm.

However, the DCV framework is criticized in that it lacks a proper grounding theory and appears to ride on the foundations of the RBV. The DCV also lacks empirical research and evidences on dynamic capabilities, it lacks conceptual clarity and it is often seen to be inconsistent in explaining successful change in a logical manner. The DCV suffer

from vagueness and has confusing definitions that make it difficult for researchers to pick or capture the constructs properly. Furthermore, the framework is based on the narrow qualitative empirical tests from case studies.

The McKinsey's 7-S framework lays a good foundation of how the variables in the current study are intertwined and work in a harmonious relationship like a system. However, the model is limited because it omits the outcome of these interactions (performance of a firm). It therefore follows that all the variables in the current study are underpinned in McKinsey's framework except firm's performance. This led the current study to adopt the Higgins 8-S framework which is considered more complete.

Finally, the Okumu's strategy implementation framework gives a more comprehensive view of how variables are related and work harmoniously in order to achieve objectives of an organization. In this model, all the variables in the current study are underpinned.

## **2.6 Research Gaps**

The past studies have presented divergent views on the contributions of some of the key variables influencing strategy implementation and consequently organization's performance. For instance first, the scholars don't seem to agree whether human resources, strategic direction and technology should be treated as a direct or indirect independent variables affecting organization's performance or they have to pass through other mediating variables. Secondly, past studies don't seem to agree on how to treat strategic direction, whether as a direct or an antecedent independent variable. Thirdly, the argument that organization's strategy follows structure requires further research.

Previous studies have provided little evidence on the influence of strategy implementation on performance of firms (Okumu's 2001). Sorooshian et al. (2010) did an empirical study of the relationship between strategy implementation and performance in SME's operating in Iran using empirical data sources. Primary data need to be

collected to validate or invalidate the findings in their study. Sorooshian et al. (2010) explored the relationship between three major factors in strategy implementation (Leadership styles, Human Resource Management and Structure). The study did not focus on technology as a major driver. However, the literature reviewed in this study has confirmed that there is a positive and significant relationship between technology and performance of an organization. This gap requires further investigation.

A number of studies in the past have not examined how the strategy implementation variables behave in combined relationships as evidenced in studies done by Joste & Fourie (2009) in South Africa, Oku et al. (2011), Ojokuku et al. (2012), Undo et al. (2012), Ugochuku et al. (2012) in Nigeria, Koech & Namusonge (2012), Okwachi et al. (2013) in Kenya. Further studies are required to establish the effect of strategy implementation drivers in a combined relationship. In Kenya, a number of the past studies have mainly focused on the nexus between strategic planning practices and performance of a firm. Only a handful focuses on the influence of strategy implementation and organization's performance (Awino 2013, Bowen et al., 2009; Bunyasi, Bwisa & Namusonge, 2014; Gathogo & Ragui, 2014; Gakure & Amure, 2013; Kiganane, Bwisa & Kihoro, 2012; Mosoti & Murabu, 2014; Mwangi, 2011; Okwachi et al., 2013; Oseh, 2013) and this gap requires further investigation.

This study aimed at filling part of the existing research gaps by examining the influence among the key strategy implementation drivers on the performance of manufacturing SME's in Kenya: The perceptions from the Chief Executive officers.

## **2.7 Summary**

The empirical review gives a clear indication that leadership styles, organizational structure, human resource practices, strategic direction and technology positively influence business firm's performance. It is also clear that the strategic direction the firm positively influences the strategy implementation efforts. For instance, if the employees

do not know the direction the organization is heading to or do not know the vision and mission of the firm, then they are less likely to be committed in strategy implementation.

In a dynamic environment the SMEs firms find themselves today, success is only guaranteed by development of unique sets of capabilities and competences in technology to enable them develop new knowledge, innovate and develop better products. Strategic leadership is required and managers need better skills that are unique and adaptable to the ever changing environment. Superior skills in human resource management are critical in areas like training, hiring, motivation and creating an enabling environment needed to support the strategy implementation efforts. Finally, firms need to often revise and align their structures with the requirements of new strategy.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter documents the methods and procedures that were used to gather and analyze data on the influence of strategy implementation on performance of small and medium manufacturing firms in Kenya. It presents the research designs adopted, the population of interest, sampling frame, sample size determination and sampling techniques, data collection instruments and procedures, pilot test and data processing and analysis. Also presented in this chapter are the research models that this study utilized to analyze and test various hypotheses developed in the study.

#### **3.2 Research Design**

A research design is a blue print used for collection, measurement and analysis of the data. It is a plan and structure of investigation used to obtain answers to research questions the study intends to answer (Kothari, 2004). This study aimed at establishing the influence of strategy implementation on the performance of small and medium sized manufacturing enterprises in Kenya. To achieve this, the study employed a combination of both qualitative and quantitative designs. Part of the designs in this study was the exploratory design which was guided by the philosophy of logical positivism with the claim that a statement is only meaningful if it can be proven to be true or false (Gathenya, Bwisa & Kihoro, 2012) Under this philosophy, knowledge is accumulated through logical reasoning and empirical experience (Creswell, 2003; Scotland, 2012).

In a nutshell, this study applied a mixed designs approach which is the triangulation of several research designs. This approach had been used by several scholars in the past in similar studies because of its ability to increase validity of the outcomes while at the

same time compensating for the weaknesses of each method used (Creswell & Plano, 2011, Johnson & Onwuegbuzie, 2004; Northhouse, 2013). Quantitative design was used to quantify the hypothesized influence of strategy implementation on performance while qualitative design was used in open ended constructs meant to interrogate a given variable further. Locally in Kenya, mixed research designs have been used by several scholars in related studies (Karimi, 2012; Gathenya et al., 2012) and Atikiya, 2015).

### **3.3 Target Population**

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate (Sekaran, 2003). The population of interest in this study included all the small and medium manufacturing firms engaged in manufacturing activities in Thika Sub-County and employed between 10 and 100 people. A list of all registered business firms within Thika sub-county was obtained from the County Government of Kiambu, as at November 2014. The list contained 593 SME firms engaged in manufacturing, activities.

**Table 3.1: Target Population**

<b>SME Type</b>	<b>Population</b>	<b>Percentage</b>
Medium sized firms	10	1.7
Small sized firms	583	98.3
<b>Total</b>	<b>593</b>	<b>100</b>

**Adapted from the County Government of Kiambu (2014): Registered Business Enterprises in Thika Sub-County**

### **3.4 Sampling Frame**

The sampling frame for this study included 593 small and medium sized manufacturing firms which operated within the Sub-County of Thika and were registered by the County Government of Kiambu as at November 2014. These firms were grouped into two main clusters according to size. This led to classifications like the medium sized firms and small sized firms. Since most of these firms were concentrated within Thika town, then the study limited itself to all the small and medium manufacturing firms operating in Thika town and within a radius of 15 kms from the town. The aim of this limitation was to ensure that the sample selected in this study maintained homogeneous characteristics (Gatheya, Bwisa & Kihoro, 2012). Areas that were covered in this study include Thika town, Jamhuri market, Jua Kali, Munene industries, Mandaraka market, Kiganjo market, Ngoigwa and Landless markets.

The entire population of medium and small sized firms within the specified areas was considered in this study. However, an enterprise with less than 10 full time employees and annual sales of less 100,000 to 3 million USD based on the amount of money an enterprise pay for a business license (County Government-Kiambu, 2014) was excluded due to the fact that the enterprise did not fit in well in the working definition of an SME in Kenya. Based on this criterion, 165 business enterprises constituted the sampling frame for this study.

**Table 3.2: Sampling Frame**

<b>SME Type</b>	<b>Population</b>	<b>Percentage</b>
Medium sized firms	10	6
Small sized firms	155	94
<b>Total</b>	<b>165</b>	<b>100</b>

**Source: County Government of Kiambu (2014)**

### **3.5 Sample and Sampling Technique**

Sampling refers to the selection of the elements of the population to be included in the study. A sample is a part of the entire population that can be used for study and has all the characteristics of the entire population. According to Kothari (2004), the ultimate test of a sample is how well it represents the characteristics of the entire population.

#### **3.5.1 Sample Size Determination**

The study sample was selected using the formulae given by Mugenda and Mugenda (2003) where the sample size for a population of 10,000 or more is computed using the formula given below:

$$n = \frac{pqz^2}{e^2}$$

Where, n = Minimum Sample Size

p = Population proportion with given characteristic

z = Standard normal deviation at the required confidence level

e = Error Margin

Mugenda and Mugenda (2003) recommend that since p and q are unknown, both are set at 50%. At a confidence level of 95% that will be used for this study,  $z = 1.96$  and the sampling error of  $e = +5\%$ . Thus, sample size n becomes:

$$N = 50 * 50 * (1.96/5)^2 = 384$$

For a population less than 10,000, the sample is computed as follows;

$$nf = n / (1 + n/N)$$

Where, nf = desired sample size when the population is less than 10,000

n = sample size (when the population is greater than 10,000) = 384

N = estimate of the population size = 165

$$384 / (1 + 384/165) = 384 / 3.33$$

= 115 firms.

Using this formula, a sample size of 115 SMEs manufacturing firms were selected for the purpose of this study as shown in Table 3.3;

**Table 3.3: Sample Size**

<b>SME Type</b>	<b>Population</b>	<b>Formulae</b>	<b>Sample Size</b>
Medium sized firms	10	115(10/165)	7
Small sized firms	155	115(155/165)	108
<b>Total</b>	<b>165</b>		<b>115</b>

### **3.5.2 Sampling Technique**

This study grouped SMEs manufacturing firms according to size resulting to categories like medium sized and small sized firms. A multi-stage sampling technique was used to select the firms to participate in this study where the firms were stratified into two main categories namely the medium and small sized firms. After this stratification, a systematic random sampling procedure was applied to determine the actual number of firms to participate in the study. Every 2<sup>nd</sup> firm from the sampling list was selected. This procedure was repeated several times on the remaining firms until the study obtained the required 115 manufacturing firms that participated in this study.

### **3.6 Data Collection Instruments**

This study utilized open ended and closed ended questionnaires and secondary sources as the main instruments for data collection. The secondary data reviewed mainly concerned the audited financial records which gave an indication of the movement of various indicators for the period sought by the study. However, majority of these firms do not keep proper financial records. This forced this study to rely mostly on the perceptions obtained from the questionnaires given to the CEOs.

The questionnaire included Likert scale psychometric constructs with a scale ranging from 1-5 where each respondent was required to rate each and every statement given describing a given variable. The scale ranged from 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree and 1=Strongly Disagree. Each and every item in the psychometric constructs was meant to measure a certain attribute of the main variable. These constructs were set in unambiguous terms allowing the respondents to react to them without wasting time. At the end of each Likert scale questions, open ended questions were included to allow the respondent give additional information that is not captured in the Likert scales questions. This is the section that enabled the study to capture vital information directly from the respondents based on their understanding of their environment and the challenges they face on a daily basis.

### **3.7 Data Collection Procedures**

Secondary sources of data were also used from the SME manufacturing firms that possessed publications, brochures, financial statements and other vital records useable to inform on the study objectives. Since the owners or CEO's are the major architect of strategy implementation in organizations, one questionnaire was administered to the owner or CEO of each firm selected for this study. A total of 115 questionnaires were administered to 115 selected manufacturing SMEs firms in this study. Included in the self-administered questionnaire are both close ended and open ended and Likert scale psychometric constructs.

Due to the work commitments among the CEO's and the owners of the firms, drop and pick latter method was used for questionnaires. This gave managers enough time to reflect and respond to all questions. The researcher read, interpreted the questions and recorded the responses from those owners who could not read or write or those who indicated that they did not understand the questions well.

The researcher recruited and trained two research assistants to assist in saving time and ensuring proper regular follow-ups are made. Appointments were obtained for those firms where the owners or the CEO's had busy schedules and the researcher ensured that these appointments are kept. The study only required one questionnaire for every firm and therefore it was paramount to adhere to the work schedules and appointments given.

### **3.8 Pilot Test Results**

The research instruments for this study were pretested using a sample of 12 SMEs manufacturing firms in Thika Sub-County as recommended by Mugenda and Mugenda (2003), where a sample of 1% to 10% of the actual sample size is adequate for piloting purposes. The study's respondents were owners or the CEOs of SMEs manufacturing firms with similar characteristics to, but not those which were used in the main study.

The purpose of the pilot study was to assess the reliability of the instruments used in the main study. The results obtained indicated that the instruments were reliable with a Cronbach alpha above 0.70. However, the study suffered the presence of multi-collinearity among the strategy variables that is strategic direction, leadership styles, organization structure, human resources and technology. As a remedy, the items in the questionnaire were thoroughly revised to identify and isolate similar questions in different variables after which the items were further subjected to reliability tests. Several measures of variables and methods used for data analysis were also refined.

#### **3.8.1 Reliability and Validity Analysis**

Reliability is the extent to which a test, experiment or any measuring procedure yields similar results in the repeated trials and can therefore be generalized. The tendency towards yielding similar results in repeated trials or measurements is its consistency. Validity, on the other hand, is the extent to which the constructs are able to measure what it is supposed to measure (APA, 2014).

In order to measure the internal consistency of the study instruments, this study used the Cronbach alpha ( $\alpha$ ) which measures how well items in a set are correlated to each other (Cronbach, 1951). The value of alpha varies from zero to 1 since it is a ratio of two variances. As a rule, an alpha value between 0.70-1.00 is considered an adequate measure of internal consistency (reliability) among the constructs being tested. The results of the Cronbach alpha tests for the dependent variable and independent variables used in this study are shown in Table 3.4.

**Table 3.4: Reliability and Validity Measurement Results**

Constructs	Number of items	Cronbach Alpha
Attention to Leadership Styles	21	0.800
Emphasis on the Strategic Direction	11	0.707
Attention to Human Resources	15	0.706
Structural Adaptations	15	0.705
Attention to technology	13	0.854
Performance	10	0.815

As shown in Table 3.4, organizational performance, which is the dependent variable, had a Cronbach alpha coefficient of 0.815 for 10 items that were investigated. This shows that the measurement of performance was acceptable according to Cronbach's rule for internal consistence and reliability. Attention to leadership styles (21 items), awareness of the strategic direction (11 items), attention to human resources (15 items), structural adaptations (15 items) and the level of technology (13 items) are the independent variables and had a Cronbach alpha of 0.800, 0.707, 0.706, 0.705 and 0.854 respectively. All these variables had Cronbach alpha ( $\alpha$ ) value above 0.70 which indicated that the measures of these variables were consistent and reliable.

### 3.9 Data Processing and Analysis

Prior to the processing of the responses obtained in this study, the questionnaires were edited for completeness and consistency and the incomplete ones were excluded for analysis. Descriptive statistics such as frequency distributions, mean score, mode, median, variance and standard deviations were used to analyze quantitative data. The results were presented in simple and cross tabulations, charts and frequency distributions. Qualitative data was coded into different factors and analyzed through computer aided content analysis. The content analysis (Berelson (1952), is an objective technique that ensures systematic, quantitative description of and communication of information. The technique is able to detect the presence of certain words, concepts, themes, phrases, characters, or sentences within texts and quantify them in an objective manner.

The mean score was used to analyze the Likert scale based psychometric constructs ranging from 1-5 and presented in a nominal scale and the Cronbach alpha coefficient was used to check the goodness of the data leading to consistency and reliability of measures in the Likert scale psychometric constructs. An alpha level of 0.70 and above was used as an acceptable test for reliability and consistence in the items included in the questionnaire (Cronbach, 1951).

Inferential statistics were used to test variable relationships and influences in the regression analysis. The ordinary least square regression (OLS) analysis was used to determine the relationship that the independent variables has on the dependent variable. In order to test the linear relationship between the various independent and the dependent variables in this study; Spearman's rho correlation was used where the designation  $r$  symbolizes the correlation coefficient. This varies over a range of +1 to -1, whereby the sign signifies the direction of the relationship. This coefficient is significant in situations where the significance level is  $P < 0.05$  and  $P < 0.01$ . The regression output

obtained in OLS gave the coefficient of determination ( $R^2$ ) and the F-statistics which were then used to determine the goodness of the fit and the model validity respectively. The F-statistics is significant when p-value  $P < 0.05$  while the  $R^2$  output above 0.75 is generally considered good for the model fitness.

To test the hypotheses in this study, the following two conditions were set such that given  $H_0$  and  $H_1$ , set  $\alpha = 0.05$ , the rule is that reject  $H_0$  if P- value is less than  $\alpha$  else fail to reject  $H_0$  : where

1.  $H_0$ : Null Hypothesis:  $H_{0i}: \beta_i = 0$ . Where, ( $i=1, 2, 3, 4, 5$ )
2.  $H_1$ : Alternative Hypothesis:  $H_{1i}: \beta_i \neq 0$ . Where, ( $i = 1, 2, 3, 4, 5$ )

The bivariate linear Correlation output has a corresponding P-value for a given variable. If  $P > 0.05$  then reject the null hypothesis  $H_0$  and accept alternative hypothesis  $H_1$  otherwise fail to reject the null hypothesis  $H_0$  for P-values less than 0.05. The regression output also provided the t- values and the corresponding p-values. In the test results of the hypotheses where the p-value was less than 0.05 ( $P < 0.05$ ) then null hypotheses  $H_{0i}$  was be rejected in favour of alternative hypotheses  $H_{1i}$  implying that the independent variable ( $X_i$ ) has a significant relationship with dependent variable ( $Y$ ).

### **3.9.2 Measurement of Variables**

The psychometric instruments developed to measure variables in this study were based on the philosophy of logical positivism (Scotland, 2012) where logical analysis is used as a major instrument in resolving philosophical issues or disputes. Several statements which attempt to establish the correlation between real objects or processes and the abstract concepts of the theory were developed as psychometric measures of the independent variables (leadership styles, organizational structure, human resources, technology and strategic direction) and dependent variable (performance) in this study.

**a. Firm's Performance**

The performance of a firm was measured by the degree of satisfaction on the levels of profitability, Return on Assets (ROA), Return on Equity (ROE) and sales turnover. Due to the sensitivity of obtaining information related to financial performance where owners of a firm were not willing to cooperate or information was not available, A 5 point Likert scale psychometric instrument (Boone & Boone, 2012) was developed to capture information using indirect financial measures where the degree of satisfaction with firm's performance was used based on owner's perceptions on performance. The scale ranged from (1= Strongly Disagree, 2= Disagree 3= Not Sure, 4=Agree, 5= Strongly Agree). The mean score was then calculated as an average of the 5 items examined on the enterprises' perceived performance. A mean score of 3.4 and above on each item indicates that the respondents agreed with the statement given while those with a mean score below 3.4 indicates disagreement. Then the average mean score per firm was obtained from aggregating the means on performance and dividing by 5 items. The higher the score, the better the statement is in terms of the firm's perceived performance. This was also reinforced by an indirect approach where the profitability and sales turnover were measured by the degree of satisfaction with firm's performance (Njuguna, 2008). A 5 point Likert scale (with 1= Completely Dissatisfied, 2= Dissatisfied, 3= Neutral, 4=Satisfied, 5= Completely Satisfied) was used for each of the two statements given about the enterprise's performance. The mean score was then computed as an average of the 5 items examined on the enterprises' perceived performance.

**b. Strategy Implementation**

Strategy implementation was used to measure the extent to which a firm pays close attention to the requirements of the key factors that drives successful strategy implementation in a firm. In order to measure the variables under strategy implementation (leadership styles, organizational structure, human resources and

technology), a 5-items Likert scale was developed (Boone & Boone, 2012) which ranged from (1= Strongly Disagree, 2= Disagree 3= Not Sure, 4=Agree, 5= Strongly Agree). The mean score was then computed as the average of the 5 items. The higher the score, the more the variable is important to the performance of small and medium manufacturing firms in Kenya.

**c. Strategic Direction**

Strategic direction of the firm was used to measure the extent to which a firm emphasizes on her vision, mission and goals/objectives as a key guide in strategy implementation efforts. In order to measure this antecedent variable under strategy implementation, a 5-items Likert scale was used (Boone & Boone, 2012) which ranged from (1= Strongly Disagree, 2= Disagree 3= Not Sure, 4=Agree, 5= Strongly Agree). The mean score was then computed as the average of the 5 items. The higher the score, the more the variable is important to the performance of small and medium manufacturing firms in Kenya.

**d. Firm Level Characteristics**

The age and size of a firm was used to measure the moderating effect of the relationship between strategy implementation and performance of small and medium manufacturing firms in Kenya. Age of the firm was considered as the number of years the firm has been operating since its initial establishment. A firm which has been operating for less than 5 years was considered as a young while vice versa is true for an old firm. On the other hand, the size of the firm was measured by the number of full time employees working in a given firm's establishment. A firm that employed between 10-50 people was regarded as small while the one that employed between 50 and 100 people was regarded as a medium enterprise.

**Table 3.5: Operationalization of Variables**

<b>Type of Variable</b>	<b>Name</b>	<b>Operationalized indicator of the variable</b>
Dependent Variable	Firm's Performance	Annual sales, profitability, employees growth, degree of satisfaction on levels of profitability, perceptions towards ROA and ROE
Independent Variables	Leadership Styles	Idealized Attributes, Idealized Behaviors, Inspirational Motivation, Intellectual Stimulation, Individualized Consideration, Contingent Reward, , Laissez-Faire
	Structure	Formalization, Centralization and, Specialized functions
	Human Resource	Training, remuneration, promotion, recruiting and staffing system, Performance evaluation, Job descriptions. motivation and incentives, number of staff,
	Technology	Proper technology reachable for all employees, Consideration of technologies which are facilitators for work processes, R&D efforts for developing technologies needed for organization, Availability of communication technologies Technology auditing system and update service, Consideration of new technologies
Moderating Variable	Strategic Direction	Relevant vision & mission, Mission compatible with the activities that goes on, Employee's contribution to Vision and mission Clearly defined objectives, Motivated staff , Performance targets aligned with objectives
	Size	Number of full time employees
	Age	Number of years the firm has been in operation

### 3.9.3 The Research Model

This study adopted a multiple regression model that attempted to predict the extent to which each of the five independent variables ( $X_1$ ,  $X_2$ ,  $X_3$ ,  $X_4$  and  $X_5$ ) and the two moderating variables ( $Z_1$ ,  $Z_2$ ) influences the dependent variable ( $Y$ ) through strategy implementation initiatives of the manufacturing SME firm. The influence of  $X_i$  and  $Y$  is expressed in the following functional relationship;

$$Y = f(X_1, X_2, X_3, X_4, X_5, Z_1, Z_2) + \varepsilon$$

Where:

$Y$  is the firm's performance,

$X_1$  is the attention to leadership styles during strategy implementation

$X_2$  is the attention to structure during strategy implementation

$X_3$  is the attention to human resource requirements

$X_4$  is the attention to technology requirements

$X_5$  is the strategic direction of the firm

$Z_1$  is the dummy variable for age of the firm where 1 = over 5 years of age  
and 0 = less than 5 years.

$Z_2$  is the dummy variable for the size of the firm where 1 = Medium Enterprise  
and 0 = Small Enterprise

$\varepsilon$  is the stochastic disturbance error term.

To achieve the objectives of this study, the following three multiple regression models were developed to show the steps or the order in which the variables in this study were tested in a hierarchical manner.

**a) Model 1**

$$Y = \beta_0 + \beta_i X_i + \varepsilon, (i = 1, 2, 3, 4, 5) \dots\dots\dots (1a)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \dots\dots\dots (1b)$$

Where:

Y is the firm's performance

$\beta_0$  is the Y intercept / constant.

$\beta_i$  is the coefficient of independent variable  $X_i$  where  $i = 1, 2, 3, 4, 5$ .

$X_1$  is the attention to leadership styles during strategy implementation

$X_2$  is the attention to structure during strategy implementation

$X_3$  is the attention to human resource requirements

$X_4$  is the attention to technology requirements during strategy implementation

$X_5$  is the strategic direction of the firm

$\varepsilon$  is the error term.

These models were used to establish the influence of the independent variables (Leadership styles, Human Resource, Structure, Technology and Strategic Direction) on the dependent variable (performance). The model included the ordinary predictors of

performance in manufacturing SME firms before any moderating moderation effect of age or size of the firm.

**b) Model 2**

$$Y = \beta_0 + \beta_i X_i + \beta_j Z_j + \varepsilon, (i = 1, 2, 3, 4, 5, j = 1, 2) \dots\dots\dots (2a)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_j Z_j + \varepsilon \dots\dots\dots (2b)$$

Where:

$Z_j$  is the moderating variable (dichotomized age/size)

$B_j$  is the coefficient of the moderator as a predictor

The rest of the variables are as defined in the model 1. These regression models were used to test whether the moderating variable is a significant predictor of performance in the presence of the variable to be moderated in the manufacturing firms in Kenya.

**c) Model 3**

$$Y = \beta_0 + \beta_i X_i + \beta_j Z_j + \beta_{ij} X_i Z_j + \varepsilon \dots\dots\dots (3a)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_j Z_j + \beta_{ij} X_i Z_j + \varepsilon \dots\dots\dots (3b)$$

Where:

$X_i Z_j$  is the interaction term between variable  $X_i$  ( $i = 1, 2, 3, 4, 5$ ) and moderating variable  $Z_j$  ( $j = 1, 2$ )

$B_{ij}$  is the coefficient of the interaction term

The rest of the variables are as defined previously. These regression models were used to bring in the interaction terms between  $X_j$  and  $Z_j$ . The models were used to test whether the age/size of the firm has any moderating effect on the relationship between strategy implementation and performance of small and medium manufacturing firms in Kenya.

### 3.9.4 Study Hypotheses

This study utilized different tests for hypotheses as presented in Table 3.6

**Table 3.6: Study Hypotheses**

Variable	Null Hypothesis	Type of Analysis	Interpretation
Leadership Styles	<b>H<sub>01</sub></b> No significant difference	Pearson Correlation Linear Regression	p < 0.05 reject null p > 0.05 fail to reject null
Structural adaptations	<b>H<sub>02</sub></b> No significant difference	Pearson Correlation Linear Regression	p < 0.05 reject null p > 0.05 fail to reject null
Human Resource	<b>H<sub>03</sub></b> No significant difference	Pearson Correlation Linear Regression	p < 0.05 reject null p > 0.05 fail to reject null
Technology	<b>H<sub>04</sub></b> No significant difference	Pearson Correlation Linear Regression	p < 0.05 reject null p > 0.05 fail to reject null
Strategic Direction	<b>H<sub>05</sub></b> No significant difference	Pearson Correlation Linear Regression	p < 0.05 reject null p > 0.05 fail to reject null
Moderation: Age & Size	<b>H<sub>06</sub></b> No significant difference	Pearson Correlation MMR	p < 0.05 reject null p > 0.05 fail to reject null

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

The aim of this study was to establish the influence of strategy implementation on the performance manufacturing SME firms in Kenya as moderated by the age and the size of the firm. Specific objectives were to determine how the attention to leadership styles, structure, human resources, technology and strategic direction relates to the performance of these firms. This chapter presents the results and findings of the study.

#### **4.2 Response Rate**

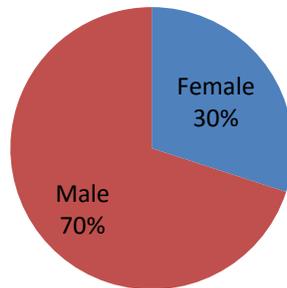
A total of 115 manufacturing SMEs participated in the study. In each firm, one questionnaire was administered to the CEO or the owner of the business. A total of 115 questionnaires were distributed filled and returned. All the questionnaires returned were valid for data analysis and therefore the response rate was 100%.

#### **4.3 Demographics Characteristics of the Respondents**

This study sought to establish the demographic characteristics of the respondents in terms of gender, age, marital status, educational qualifications and current position. Summary results of respondent's demographics is presented in Figure 4.1

##### **4.3.1 Gender of the Respondents**

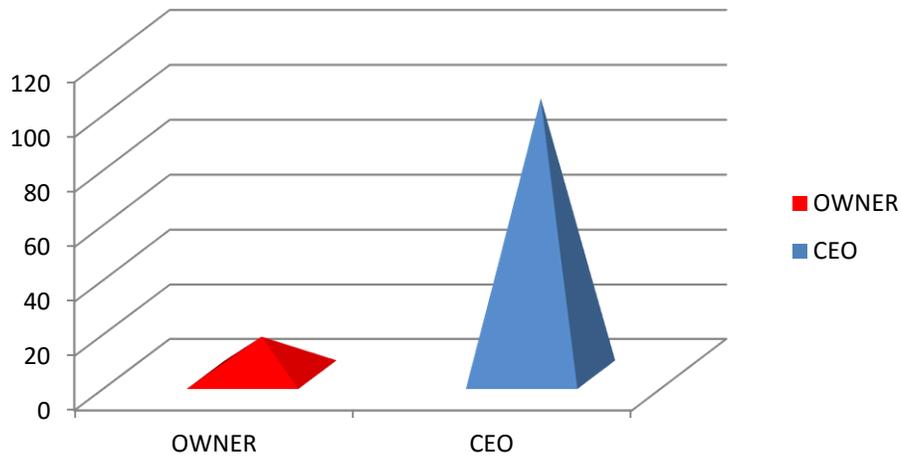
The study findings in Figure 4.1 indicate that there were more male respondents than their female counterparts. Male respondents accounted for 70% of the entire sample while female respondents only accounted for 30%. This implies that the SME manufacturing sector in Kenya is largely dominated by males in terms of gender.



**Figure 4.1: Gender of the Respondents**

#### **4.3.2 Position held in the firm**

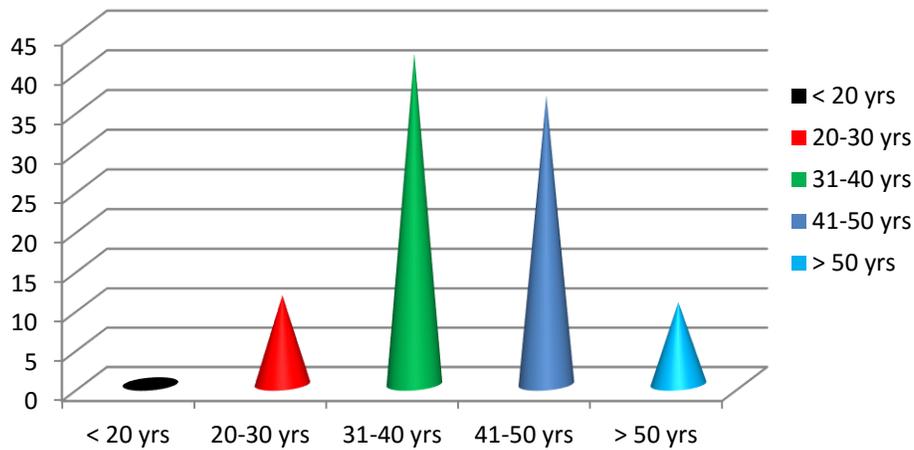
This study intended to find out the current position of the respondents providing the data for this study. The results in Figure 4.2 indicate that majority of the respondents (87.8%) occupied the position of a chief executive officer or closely related titles depending on the firm's structure while the rest (12.2%) were the real owners of the firm. The literature and real life experience has it that it is the CEOs or their representatives who are the chief architects of strategies in organizations. It can be deduced from this finding that the current study collected data from the right sources implying that the results give a true picture of what is happening on the real world of their business firms.



**Figure 4.2: Positions held by the Respondents**

### **4.3.3 Age of the Respondents by Category**

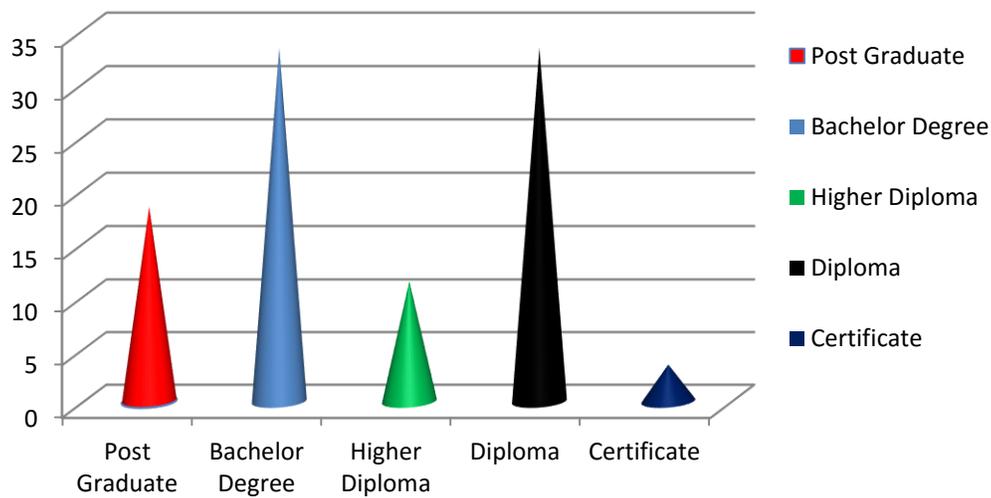
This study wanted to find out the age of the respondents and the findings are presented in Figure 4.3. The study findings indicate that majority of the CEOs in manufacturing SMEs are in their middle ages hence relatively young. Since these businesses are currently operating in a highly competitive environment, these CEOs are relatively flexible in mastering, reacting and adjusting to these environmental changes swiftly.



**Figure 4.3: Age of the Respondents by Category**

#### **4.3.4 Education Qualifications of the Respondents**

The findings in this study in Figure 4.4 indicated that majority of the CEOs are relatively educated with only very few (18.3%) holding a certificate in the job they are doing. Quite a number of the respondents are degree holders (36.5%). The implication of this finding is that the CEOs in the manufacturing SME firms have basic understanding of the importance of strategic management practices. Therefore, they were in a good position to give adequate and reliable information based on their daily encounters on the past and present strategy implementation experiences.



**Figure 4.4: Education of the Respondents**

#### 4.3.5 Gender, Education and Current Position: Cross-tabulation

Information based on important demographic characteristics of the respondents were cross-tabulated and the results are presented in Table 4.1. The results in this table are a cross-tabulation of the position held in the SME firm against one's gender and the highest level of education attained. The findings indicate that among the females who are real owners of the manufacturing SME firm, 60% had attained diploma level of education while the rest 40% had attained at least a bachelor degree. On the other hand, 33.3% of males owners of the SME firm had attained certificate level of education, 55.6% are diploma holders and the rest 11.1% had attained university education. The observation here is that majority of the degree holders in the SMEs are women.

Secondly, the findings also indicate that respondents who had a CEO tag under their names, among the females, 6.9% are certificate holders, 37.9% are diploma holders, 13.8% holds a higher National diploma, 37.8% are bachelor degree holders while the rest 3.4% have a post graduate experience. Among the male CEOs, 22.5% are certificate holders, 26.8% are diploma holders, 12.7% have a higher National diploma, and 33.8%

are bachelor degree holders while the rest 4.2% have a post graduate qualification. The general observation here is that the CEOs who are respondents in this study were more educated than the real owners of the manufacturing SME firms in Kenya.

**Table 4.1: Gender, Education and Current Position: Cross-tabulations**

Position		Highest education qualification					Total			
		Certificate	Diploma	Higher diploma	Bachelor's degree	Post graduate				
Owner	Gender	Female	Count	0	3		2	5		
		% within Gender	0.0%	60.0%		40.0%		100.0%		
	Male	Count	3	5		1	9			
		% within Gender	33.3%	55.6%		11.1%	100.0%			
	Total	Count	3	8		3	14			
		% within Gender	21.4%	57.1%		21.4%	100.0%			
	CEO	Gender	Female	Count	2	11	4	11	1	29
			% within Gender	6.9%	37.9%	13.8%	37.9%	3.4%	100.0%	
Male		Count	16	19	9	24	3	71		
		% within Gender	22.5%	26.8%	12.7%	33.8%	4.2%	100.0%		
Total		Count	18	30	13	35	4	100		
		% within Gender	18.0%	30.0%	13.0%	35.0%	4.0%	100.0%		
Total		Gender	Female	Count	2	14	4	13	1	34
			% within Gender	5.9%	41.2%	11.8%	38.2%	2.9%	100.0%	
	Male	Count	19	24	9	25	3	80		
		% within Gender	23.8%	30.0%	11.3%	31.3%	3.8%	100.0%		
	Total	Count	21	38	13	38	4	114		
		% within Gender	18.4%	33.3%	11.4%	33.3%	3.5%	100.0%		

#### 4.3.6 Age, Education and Current Position: Cross-tabulation

The study findings in Table 4.2 is a cross-tabulation of age of the respondents against position held in the firm and the highest level of education attained. The results show that among the female owners aged between 26-30 years, 66.7% holds a diploma and the rest 33.3% are degree holders. For those aged between 31-35 years, 25% are certificate holders, 50% are diploma holders while the rest 25% are degree holders. The owners aged between 36-40 years, 50% are diploma holders while the rest 50% are degree holders. Between 41-45 years, 50% are certificate holders while the rest 50% are

diploma holders and finally the owners who are over 50 years all of them are diploma holders.

Among the CEOs category, those aged 21-25 years all of them are bachelor degree holders. Those aged 26-30 years 33.3% are diploma holders, 11.1% are holders of higher diploma and the rest 55.6% are bachelor degree holders. Among the CEOs aged between 31-35 years category, 23.3% are certificate holders, 41.2% are diploma holders, 23.5% hold a higher diploma, 5.9% are bachelor degree holders while the rest 5.9% are post graduate degree holders. The CEOs in the age category between 36-40 years, 16% are certificate holders, 24% are diploma holders, 12% are higher diploma holders, 44% are bachelor degree holders while the rest 4% are postgraduate degree holders. Among the CEOs in between 41-45 years of age, 11.1% are certificate holders, 33.3% are diploma holders, 33.3% are bachelor degree holder and 22.2% hold post graduate qualifications. CEOs in between 46-50 years, 14.3% are certificate holders, 28.6% are diploma holders, 17.9% holds a higher diploma while the rest 39.3% are degree holders and lastly among the CEOs, who are over 50 years, 45.5% are certificate holders, 27.3% are diploma holders while the rest 27.3% are bachelor degree holders.

The general observation from these results is that the young CEOs are entering the job market with a university education while the older CEOs have more postgraduate qualifications than the young ones. This can be attributed by the fact that post graduate qualifications take time to acquire. All in all, it can be deduced from this study that all the CEOs in various age categories are well educated.

**Table 4.2: Age, Education and Current Position: Cross-tabulation**

Position			Highest education qualification					Total		
			Cert	Dip	H dip	degree	Post			
Owner	Age	26-30	Count	0	2		1	3		
		% within Age	0.0%	66.7%		33.3%	100.0%			
	31-35	Count	1	2		1	4			
		% within Age	25.0%	50.0%		25.0%	100.0%			
	36-40	Count	0	1		1	2			
		% within Age	0.0%	50.0%		50.0%	100.0%			
	41-45	Count	2	2		0	4			
		% within Age	50.0%	50.0%		0.0%	100.0%			
	Over 50	Count	0	1		0	1			
		% within Age	0.0%	100.0%		0.0%	100.0%			
	Total	Count	3	8		3	14			
		% within Age	21.4%	57.1%		21.4%	100.0%			
	CEO	Age	21-25	Count	0	0	0	1	0	1
			% within Age	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%	
26-30		Count	0	3	1	5	0	9		
		% within Age	0.0%	33.3%	11.1%	55.6%	0.0%	100.0%		
31-35		Count	4	7	4	1	1	17		
		% within Age	23.5%	41.2%	23.5%	5.9%	5.9%	100.0%		
36-40		Count	4	6	3	11	1	25		
		% within Age	16.0%	24.0%	12.0%	44.0%	4.0%	100.0%		
41-45		Count	1	3	0	3	2	9		
		% within Age	11.1%	33.3%	0.0%	33.3%	22.2%	100.0%		
46-50		Count	4	8	5	11	0	28		
		% within Age	14.3%	28.6%	17.9%	39.3%	0.0%	100.0%		
Over 50		Count	5	3	0	3	0	11		
		% within Age	45.5%	27.3%	0.0%	27.3%	0.0%	100.0%		
Total		Count	18	30	13	35	4	100		
		% within Age	18.0%	30.0%	13.0%	35.0%	4.0%	100.0%		

#### 4.4 Demographic Characteristics of the SME Firm

The study sought to establish the location of the firm, its core business, age, size, availability of a documented strategic plan and recent strategies implemented.

##### 4.4.1 Location of the Firm

This study found out that majority of the manufacturing SME firms was located along Kenyatta Avenue in Thika (35.7%). Those located off Garissa Road accounted for 23.8% while those located in town centre were 13.8%. The manufacturing SME firms located in the Light industrial area accounted for 7.3% of the firms. Makongeni area in Thika Sub-County accounted for 5.5% of manufacturing SME firms. Those located in Thika East were 4.6%, Munene area had 3.7% of SME firms selected while Jamhuri and Witeithie area each had 2.8% of the manufacturing SME firms selected to participate in this study. The results base on location of the firm are presented in Figure 4.5

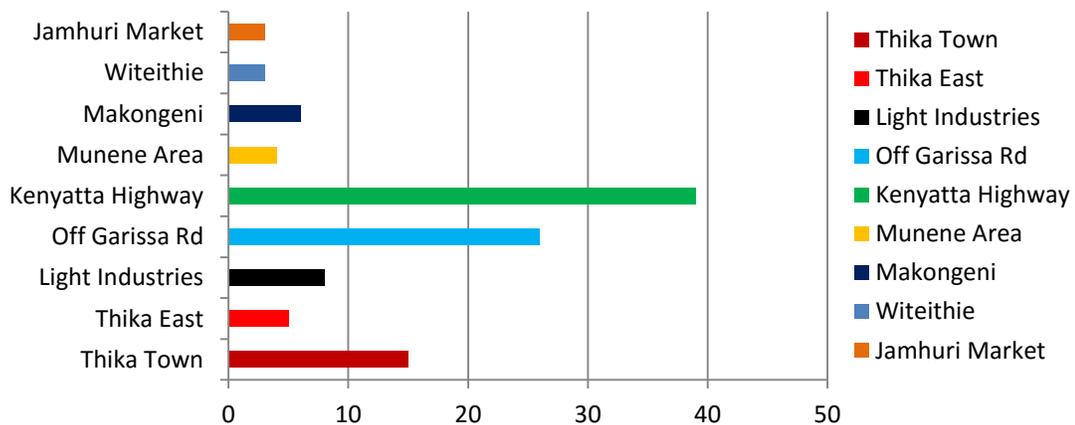
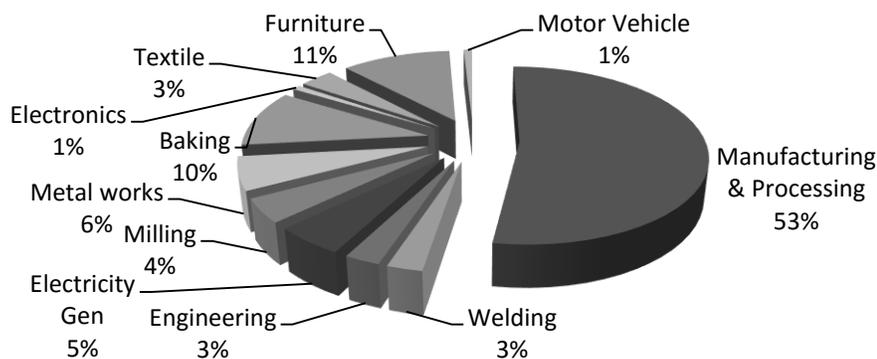


Figure 4.5: Location of the SME firm

##### 4.4.2 Core Business of the SME firm

The study findings presented in Figure 4.6 show the core business of the manufacturing SME firm. Results show that 53% of the firms are engaged in manufacturing and

processing category. Furniture making business accounts for 11% of the SME firms selected while 10% are in baking business. Firms engaged in metal works are 6%. Electricity generation and distribution comprised of 5% of all firms while 4% of the SME firms selected are in milling business. 3% of the firms were in welding & fabrications, engineering & construction respectively and textile business respectively. Lastly, motor vehicle repair and electronics accounted for 1% each.



**Figure 4.6: Core Business of the manufacturing SME**

#### **4.4.3 Age and Size of the Firm: Cross-tabulation**

This study used categories to classify firms in terms of age and size. Those firms in the age category of between 1-5 years were considered young while those above 5 years were considered old. The firms employing between 10 and 50 employees were considered small while those employing 51-99 employees were considered medium. This study found out that 79.5% of all manufacturing SMEs are young while the rest 20.5 are old. In the cross-tabulated results in Table 4.3, the young firms that are small sized accounted for 89.7% while the rest of the young firms are medium sized (10.3%). On the other hand, old firms which have remained small accounted for 75.9% and the rest of old firms are medium sized (24.1%). The general observation here is that there

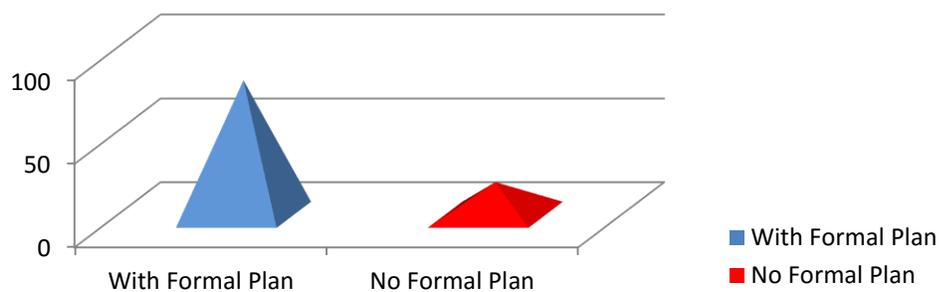
are quite a number of small firms compared to medium sized firms. Secondly, a good number of old firms have remained small for reasons beyond the scope of this study.

**Table 4.3: Age and Size of Manufacturing SME: Cross-tabulation**

		Size of the Firm		Total	
		Small	Medium		
Age of the Firm	Young	Count	26	3	29
		% within Duration the organization has been operating in years	89.7%	10.3%	100.0%
	Old	Count	63	20	83
		% within Duration the organization has been operating in years	75.9%	24.1%	100.0%
Total	Count	89	23	112	
	% within Duration the organization has been operating in years	79.5%	20.5%	100.0%	

#### 4.5 Common Strategies Pursued by SMEs

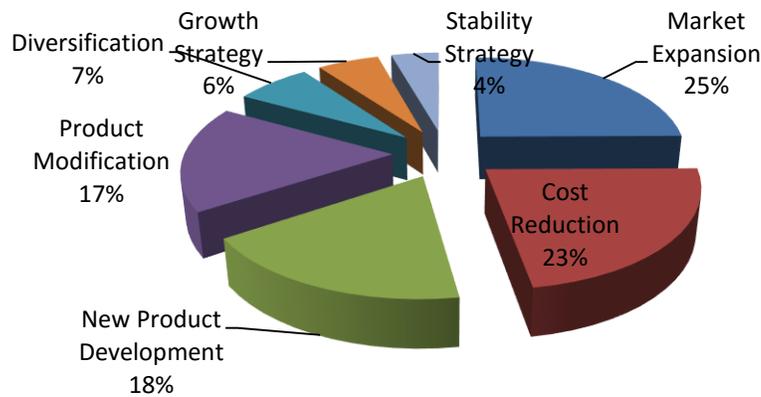
Most of the firms had a documented strategic plan (80.4%) while 19.6% of the firms had not documented their strategic plans as shown in Figure 4.7



**Figure 4.7: Availability of a Strategic Plan in SME firms**

Figure 4.7 and 4.8 indicate that majority of manufacturing firms are practicing strategic management practices. This implies that the perceptions given by the CEOs were based

on experience and therefore they are reliable. Secondly, on the types of strategies the firm was pursued, majority of them had implemented market expansion strategy which ranked first (25%) followed by cost reduction (23%), followed by new product development (18%), product modification ranked 4<sup>th</sup> (17%) fifth was diversification strategy (7%), growth strategy ranked 6<sup>th</sup> position (6%), while lastly, 4% of the firms had implemented stability strategy.



**Figure 4.8: Common Strategies Pursued by the SME firm**

#### **4.5 Descriptive Statistics of the SME firm**

##### **4.5.1 Descriptive Statistics on the SME's Performance**

The performance of the small and medium manufacturing firms in Kenya was the dependent variable upon which this study intended to investigate. Due to unavailable records, sensitivity and/or confidentiality concerns, this study was unable to obtain the actual performance figures and relied on those items that intended to capture performance based on the perceptions of the owners, CEOs/lead managers of SMEs over a period of five years as shown in Table 4.4.

**Table 4.4: Descriptive Statistics on SME Performance**

Construct	N	Mean	Std. Dev
Our Total Profits (Total sales – Costs) have been increasing yearly	115	4.139	.475
The volume of sales has been increasing ever yearly	115	4.078	.664
The number of employees has been rising every year	115	3.183	1.064
The geographical market size of our products has been expanding	115	3.635	.921
We are highly satisfied by the returns from assets invested (ROA)	115	3.374	1.013
We are highly satisfied by the returns from borrowed money (ROE)	115	3.504	.921
Number of customers satisfied by our products has been rising each year	115	3.913	.695
The size of our organization has been expanding for the last five years	114	3.895	.643
The quality of our products has improved considerably	114	3.851	.755
Efficiency of our internal work processes has improved tremendously	115	3.965	.576
Valid N (listwise)	113		

The study results in Table 4.4 indicate that the respondents agreed with the following statements describing the performance of the manufacturing SME firm: Our total profits (total sales – costs) have been increasing yearly (mean, 4.14), the volume of sales has been increasing every year (mean, 4.08), efficiency of our internal work processes has improved tremendously (mean, 3.97), the number of customers satisfied by our products has been rising each year (mean score, 3.91), the size of our organization has been expanding for the last five years (mean, 3.90), the quality of our products has improved

considerably (mean, 3.85), the geographical market size of our products has been expanding (mean, 3.64), we are highly satisfied by the (ROE) returns from borrowed money (mean, 3.50). On the other hand, the respondents disagreed with the following statements on manufacturing small and medium firm's performance; we are highly satisfied by the returns from assets (ROA) invested (mean, 3.37) and that the number of employees has been rising every year (mean, 3.18).

#### **4.5.1 Descriptive Statistics on Attention to Leadership Styles**

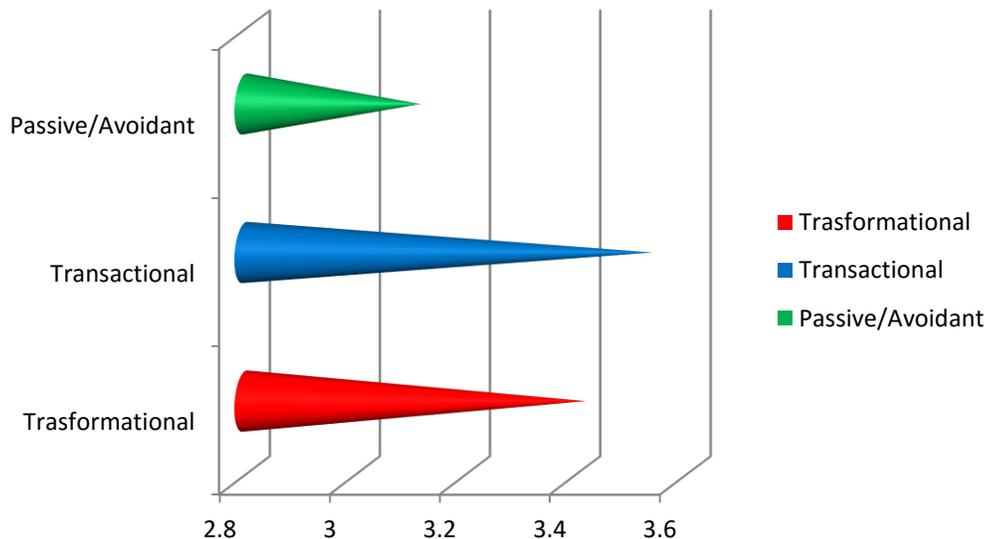
A superior and strong leadership skill is an important dynamic capability required to drive superior performance in organizations operating in a dynamic environment that characterizes organizations today (Teece, 2014). This study adopted the Multi-factor Leadership Questionnaire short form 6-S (MLQ – 6S, Bass & Avolio, 1992) to measure the three dominant leadership styles commonly practiced in organizations today namely the transformational leadership, transactional leadership and passive/avoidant leadership behaviour. The tool consisted of 21 items which are marked from 1-5 rating scale where 1 = not at all, 2 = once in a while, 3 = sometimes, 4 = fairly often, 5 = frequently if not always.

The factors of MLQ 6-S are grouped according to Avolio and Bass's (2004) definitions. The transformational leadership style includes: Factor 1. Idealized influence (item 1, 8 & 15), Factor 2. Inspirational motivation (items 2, 9 & 16), Factor 3. Intellectual stimulation (item 3, 10 & 17), Factor 4. Individualized consideration (item 4, 11 & 18). Transactional leadership style include: Factor 5. Contingent reward (item 5, 12 & 19) and Passive/Avoidant leadership behaviour include: Factor 6. Management-by-Exception Passive (item 6, 13 & 20) and Factor 7. Laissez-faire (items 7, 14 & 21).

According to Avolio and Bass (2004), the MLQ 6-S short form is scored as follows: Summing three scores of specified factor 1, 2, 3 & 4 gives the total score of transformational leadership. The total score of transformational leadership is divided by

four to give the composite mean score of transformational leadership style. Total score of factor 5 gives the total score of transactional leadership. The total score of transactional leadership divided by one gives the composite mean score of transactional leadership style. Summing scores of factor 6 and 7 gives the total score of passive/avoidant leadership behaviour while total score of passive/avoidant behaviour is divided by two to give the composite mean score of passive/avoidant behaviour. The descriptive statistics on leadership styles are presented by mean scores and standard deviations as indicated in Appendix iii.

According to Avolio and Bass’s (2004) definitions of transformational, transactional and passive/avoidant leadership styles as shown in Appendix iii and Figure 4.9, it is evident that majority of the respondents in manufacturing SME firms in Kenya practiced transactional leadership style (composite mean score, 3.54), followed by transformational leadership style (composite mean score, 3.42) and lastly passive / avoidant leadership behaviour (composite mean score, 3.12).



**Figure 4.9: Common Leadership Styles Practiced in SME Firms in Kenya**

The respondents agreed with the following MLQ 6-S statements according to Avolio and Bass (2004): I am satisfied when employees meet the required targets (mean, 4.88), I give employees feedback to let them know how they are doing (mean, 4.18), I let employees to know what they are entitled to after achieving their targets (mean score, 4.05), I do not ask anything more from others than what is absolutely necessary (mean score, 3.94), I tell others in a few simple words what need to be done (mean score, 3.84), I help the employees to find meaning in their work (mean score, 3.82), I remind employees the standards they need to maintain (mean score, 3.65), other people are proud to be associated with me (mean score, 3.57), I help others to think about old problems in new ways (mean score, 3.40), I help other employees to develop themselves (mean score, 3.40).

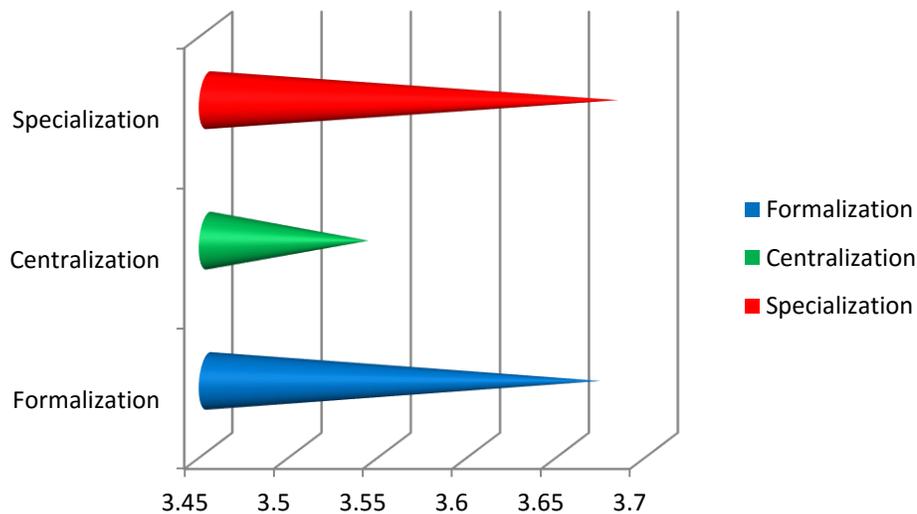
However, the respondents disagreed with the following MLQ 6- S statements according to Avolio and Bass (2004): I reward employees when they achieve their targets (mean score, 3.33), I provide employees with new ways of looking at complex or difficult issues (mean score, 3.33), other people have complete faith in me (mean score, 3.29), I give personal attention to others when they are in need (mean score, 3.25), I tell employees what to do if they want to be rewarded for their work (mean score, 3.24), I help employees to rethink about issues that they had never thought of or questioned before (mean score, 3.13), I use tools, images, stories and models to help other people understand (mean score. 3.04), I make employees feel good to be around me (mean score, 2.84), As long as things are working, I do not try to change anything (mean score, 2.29), I am contented to let others to continue working in the same ways always (mean score, 2.15) and finally the respondents strongly disagreed with the statement that employees are given freedom to do whatever they want to do (mean score, 1.03).

#### **4.5.2 Descriptive Statistics on Structural Adaptations**

Performance of a firm is largely affected by how well a firm's business strategy is matched to its organizational structure and behavioral norms of its employees. Business

firms are structured along three different dimensions that affect strategy implementation namely formalization, centralization and specialization (Oslon et al., 2005). The tool developed in this study to measure structural adaptations consists of 15 items out of which 9 items measured formalization (item 1, 2, 3, 5, 7, 9, 12, 13 & 15), 3 items measured centralization ( item 4, 6 & 8) and 3 items measured specialization (item 10, 11 & 14). The study wanted to find out whether firm’s structural adaptations positively influences the performance of manufacturing SME firms in Kenya (Appendix iv).

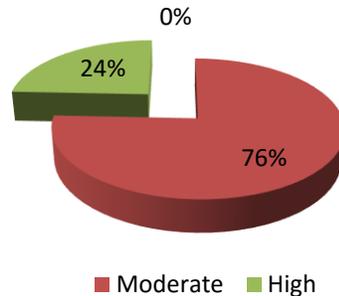
Results in Appendix iv and Figure 4.10 show the mean scores based on the structural adaptations of the manufacturing SME firms during the strategy implementation. The results indicated that structures adopted by these firms are highly Specialized (composite mean score, 3.68), Formalized (composite mean score, 3.67) and Centralized (Composite mean score, 3.54).



**Figure 4.10: Structures Adopted by the Manufacturing SMEs in Kenya**

The results in Table 4.6 also indicated that all the respondents agreed with the following statements: that the organization revises and creates appropriate structures to match the changes in strategy requirements (mean score, 4.17), the organization has a well-designed reporting authority and employees know to whom they report to (mean score, 4.12), the organization is governed by a clear system of with rules, regulations, policies and procedures (mean score, 4.09), there is a central command center that oversees strategy implementation (mean score, 4.08), strategic work activities are well coordinated across sections, departments and divisions (mean score, 4.06), the organization encourages division of work and specialization (mean score, 4.03).

The respondents agreed that there is adequate level of supervision in every section, department or divisions (mean score, 4.01), the organization have a centralized decision structure that allows quick decisions to be made (mean score, 3.92), jobs are well structured with no overlaps, conflicts or ambiguity (mean score, 3.89), the organization's structure allows quick decisions and feedback (mean score, 3.88), the organization makes sure that employees work have adequate knowledge, experience and skills (3.84), the organization encourages employees to refer to the past experience when implementing a new strategy (mean score, 3.77), structures in the organization are flexible enough to allow changes to be effected quickly and timely (mean score, 3.70), the organization's management encourages team work (mean score, 3.50). On the other hand, the respondents disagreed that the organization gives adequate information before a new strategy is implemented (mean score, 3.34)



**Figure 4.11: Level of Formalization in the Manufacturing SME Firm**

The study results in Figure 4.11 shows what the respondents felt about the level of formalization in their organizations. Seventy six percent (76%) of the respondents felt that their organizations are highly formalized while 24% felt that their organizations are moderately formalized. The level of formalization is one of the dimensions of an organizational structure according to Osion et al. (2005).

#### **4.5.3 Descriptive Statistics on Attention to Human Resources**

People in organizations are required in every stage of the strategic management process from strategy formulation, implementation to strategy evaluation and control. Organizations cannot perform well without quality and resourceful people. The Resource Based View of the firm's (Barney, 2001) supports this view by recognizing that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage. This study aimed at establishing whether attention to human resources requirements during strategy implementation process leads to superior performance of manufacturing SME firm in Kenya. The descriptive statistics are presented in Appendix v.

The results in Appendix v indicates that all the respondents agreed with the following statements based on the attention to human resources during strategy implementation:

Jobs and responsibilities are well understood by most of the employees (mean score, 4.04), jobs are well designed and employees are aware of what they are supposed to do (mean score, 3.98), most of the employees are highly committed to do their work well (mean score, 3.97), promotions are always done on merit (mean score, 3.89), rewards and incentives are based on merit (mean score, 3.87), the organization always hire people with adequate skills and experience (mean score, 3.74), the organization have an unbiased system of recruitment and placement of staff (mean score, 3.72),

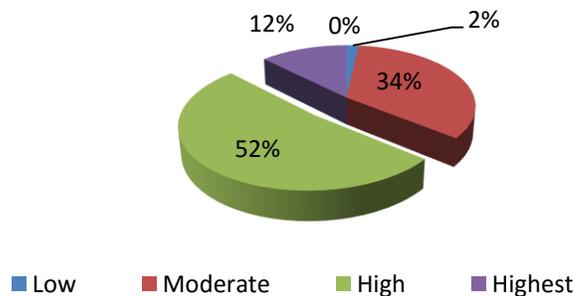
The respondents also agreed that the organization have a well-designed system of rewards, remuneration and promotions of staff (mean score, 3.69), organization's clients are well served all the times (mean score, 3.54), the organization encourages employees to showcase their creativity and competencies among their peers (mean score, 3.53), performance evaluations and appraisals are done on a timely basis (mean score, 3.50), employees are regularly trained (mean score, 3.44), the organization frequently gives incentives to motivate employees (mean score, 3.44). However, the respondents disagreed with the following statements: employees individual needs are well taken care of (mean score, 3.20) and there is no shortage of staff (mean score, 3.16).

#### **4.5.4 Descriptive Statistics on attention to the SMEs Technology**

Technology is a dynamic capability that is embedded in firm's practices and is essential in determining the competitiveness and performance of a firm in a dynamic and turbulent environment (Zollo & Winter, 2002). Firms with strong dynamic capabilities (Teece, 2014) exhibit technological, create new technologies, differentiate and maintain superior processes and modify their structures and business to stay ahead of the competition. This study aimed at establishing whether the level of technology adopted by the SME manufacturing firm affects its strategy implementation performance. The descriptive statistics are presented in Appendix vi.

Study findings in Appendix vi shows that the respondents agreed with the following statements regarding the level of technology in strategy implementation process: That the level of technology in place has greatly assisted the organization to implement strategies (mean score, 4.02), adequate tools, machines and equipments enable employees to their jobs better and faster (mean score, 3.98), the organization uses the current technology in the market to produce good/services (3.78), the organization is keen to ensure that technology required is availed (mean score, 3.70), employees are encouraged to make suggestions of the type and kind of technology required (mean score, 3.65), all departments are well equipped with appropriate technology (mean score, 3.55), the SME organization is quick to respond to the changes in technology (mean score, 3.51), the level of technology is higher than that of our immediate competitors (mean score, 3.46).

The respondents however disagreed with the following statements: the organization have efficient Information Communication Technology (mean score, 3.35), the organization updates and improves our ICT systems to ensure they are efficient (mean score, 3.26), the organization conduct researches in order to develop her products (mean score, 2.90), the organization have a technology audit committee that reviews the technology (mean score, 2.88) and the organization has a budget for research and development (mean score, 2.80).



**Figure 4.12: SME Firm’s Ability to Adapt to Technological Changes**

The study findings in Figure 4.12 show what the respondents felt about their firm's ability to adapt to the technological changes in relation to dynamics in the environment. Majority of the firms (52%) responds highly to the changes in technology as a result of changes in the market while 34% of the firms moderately respond to these changes. Two percent (2%) of the firms have a low response while only 12% of all the manufacturing SME firms in Kenya are able to respond very fast to the technological changes in the market.

#### **4.5.5 Descriptive Statistics on Emphasis on Firm's Strategic Direction**

Before a strategy is implemented, it has to be formulated first. A lot of information and participation of stakeholders is required during the strategic formulation stage. The organizational leadership need to work hard to create the awareness among all employees and other stakeholders of the direction the organization is headed to and the benefits the new strategy will accrue to the organization. These efforts are meant to create a shared vision among all participants of the intentions of the organizations which are beneficial during the strategy implementation. The study sought to investigate whether emphasis on strategic direction contributes positively to the performance of an SME firm. The descriptive statistics on the emphasis on strategic direction are presented in Appendix vii.

The study results in Appendix vii indicate that the respondents agreed with the following statements concerning the strategic direction of the SME firm: that the organization has a clear vision and mission statements to all employees (mean score, 4.23), the mission statement is in line with what is intended to be achieved in future (mean score, 4.19), the mission is well aligned to the work activities in the entire organization (mean score, 4.04), deliberate efforts are made to align the vision and mission statements to the changes in the environment (mean score, 3.97), most of the employees work hard in trying to meet the goals and objectives (mean score, 3.90), performance targets are

frequently reviewed to ensure that they are in line with the organization's goals and objectives (mean score, 3.85).

The respondents also agreed that the employees understand well how their work contributes to the achievement of the organization's vision and mission (mean score, 3.79), employees are frequently reminded about the direction the organization is headed to (mean score, 3.72), the organization regularly revise her goals and objectives to ensure they are in line with the market changes (mean score, 3.60), meetings are occasionally arranged to discuss successes, failures and challenges arising (mean score, 3.53), the respondents however disagreed with the statements that most of the employees are aware of the plans which need to be implemented (mean score, 3.35) and that employees are involved in developing firm's strategies (mean score, 3.28)

#### 4.6 Bivariate Correlations

		Y	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>
Performance (Y)	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	115					
Leadership Styles (X <sub>1</sub> )	Pearson Correlation	.259**	1				
	Sig. (2-tailed)	.005					
	N	114	114				
Structural Adaptations (X <sub>2</sub> )	Pearson Correlation	.442**	.386**	1			
	Sig. (2-tailed)	.000	.000				
	N	115	114	115			
Human Resources (X <sub>3</sub> )	Pearson Correlation	.408**	.337**	.526**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	115	114	115	115		
Technology (X <sub>4</sub> )	Pearson Correlation	.482**	.337**	.468**	.525**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	115	114	115	115	115	
Strategic Direction (X <sub>5</sub> )	Pearson Correlation	.137	.527**	.225*	.447**	.358**	1
	Sig. (2-tailed)	.143	.000	.016	.000	.000	
	N	115	114	115	115	115	115

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

**Table 4.5: Bivariate Correlation Results: All Variables**

Table 4.5 shows the bivariate linear correlations among the key strategy implementation variables in this study and performance of a manufacturing SME firms in Kenya. The

study revealed that leadership styles ( $X_1$ ) has a positive and significant influence on the performance of the manufacturing SME firm ( $r = .259^{**}$ ,  $P = .005$ ). A leadership style has been identified by the literature as one of the key drivers under strategy implementation that influences organization performance. This means that as the leadership styles improve during the strategy implementation process, there is a significant positive change in the firm's performance. The study findings also revealed that there is a positive and significant influence of structural adaptations on the performance of the manufacturing SME firm ( $r = .442^{**}$ ,  $P < .001$ ).

Structure is one of the dynamic capabilities that influence firm performance in a dynamic environment. This means that, as the SME's leadership adopts dynamic structures that fit and support the firms' strategy implementation efforts, the performance significantly improves. The bivariate correlations also revealed that there is a positive and significant influence of human resources on performance of the manufacturing SME firm during strategy implementation ( $r = .408^{**}$ ,  $P < .001$ ). The literature identified human resources as one of the key driver that influences firm's performance positively. The findings of this study support this observation.

The study findings indicate that technology and performance of the SME firm relates positively and significantly during strategy implementation ( $r = .482^{**}$ ,  $P < .001$ ). This study intended to test whether technology is one of the key variables influencing performance of manufacturing SME firm during strategy implementation.

The findings indicated that compared to the other four key variables (leadership styles, structural adaptations, human resource and strategic direction), technology has the strongest and significant influence on the manufacturing SME's performance in Kenya. Lastly, the study found an insignificant influence of the firm's strategic direction ( $X_5$ ) on manufacturing SME performance in Kenya ( $r = .137$ ,  $P = .143$ ).

## 4.7 Inferential Statistical Analysis

The first model under investigation in this study intended to establish the influence of strategy implementation drivers on the performance of the manufacturing small and medium manufacturing firms in Kenya. This model expressed as;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Where: Y= SME's performance,  $\beta_0$  = Intercept,  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = slope coefficients representing the relationship of the associated independent variable with the dependent variable,  $X_1$  = Attention to leadership styles,  $X_2$  = Structural Adaptations,  $X_3$  = Attention to human resources,  $X_4$  = Level of Technology.  $X_5$  = Awareness of the Strategic Direction and  $\varepsilon$  = error term, was the basis under which the first 5 objectives outlined in chapter one were set. Each of these objectives and the hypotheses were tested and analyzed to find out whether they conformed to what the study had proposed to achieve.

### 4.7.1 (a) Test for Normality: All Variables

Many data analysis methods depend on the assumption that data were sampled from a Gaussian distribution (Athanasidou, Debas & Darzi, 2010). The best way to evaluate how far data are from Gaussian is to look at a graph and see if the distribution deviates grossly from a bell-shaped normal distribution. The testing of normality all variables in this study was done by using the Shapiro-Wilk test since it is considered more reliable than Kolmogorov-Smirnov test. Such that given  $H_0$  and  $H_1$ , set  $\alpha = 0.05$ , the rule is that reject  $H_0$  if P- value is less than  $\alpha$  else fail to reject  $H_0$  : where

$H_0$ : The data is normally distributed

$H_1$ : The data is not normally distributed.

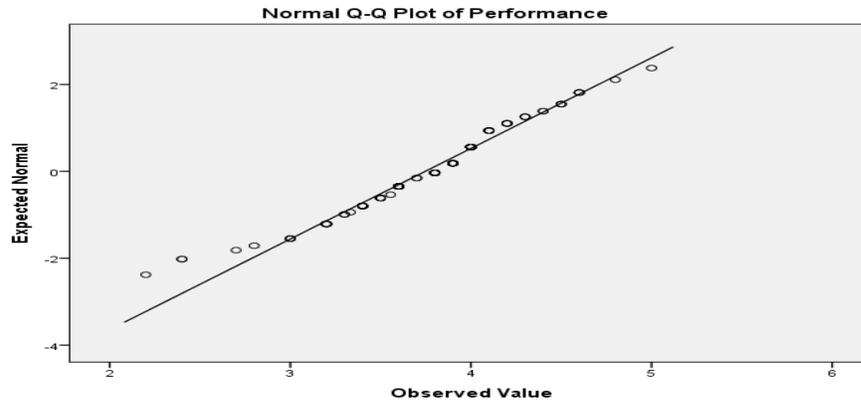
**Table 4.6: Tests for Normality**

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Leadership Styles	.123	114	.000	.960	114	.002
Structural Adaptations	.085	114	.040	.990	114	.535
Human Resource	.073	114	.188	.990	114	.588
Technology	.091	114	.021	.980	114	.091
Strategic Direction	.079	114	.077	.987	114	.348
Performance	.105	114	.003	.969	114	.010

a. Lilliefors Significance Correction

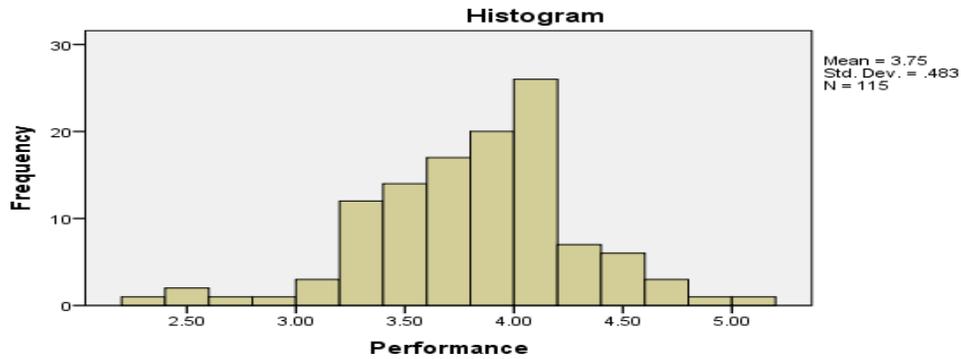
Table 4.6 gives the tests results for all variables. Using Shapiro-Wilk tests of normality which this study considers more reliable, Four out of six variables had P-values greater than 0.05. that is, attention to structural adaptations ( $X_2$ ), Attention to human resource ( $X_3$ ), attention to technology ( $X_4$ ) and strategic direction ( $X_5$ ). This study, therefore, failed to reject their corresponding null hypotheses ( $H_{02}$ ,  $H_{03}$ ,  $H_{04}$ , and  $H_{05}$ ) respectively and concludes that the data sets for these four variables are normally distributed. On the other hand the Shapiro-Wilk tests indicated that the P-vales for leadership styles ( $X_1$ ) and SME performance ( $Y$ ) were less than 0.05. This study further interrogated these two variables further by looking at their normal Q-Q plots.

a) **Q-Q Plot for Manufacturing SME performance**



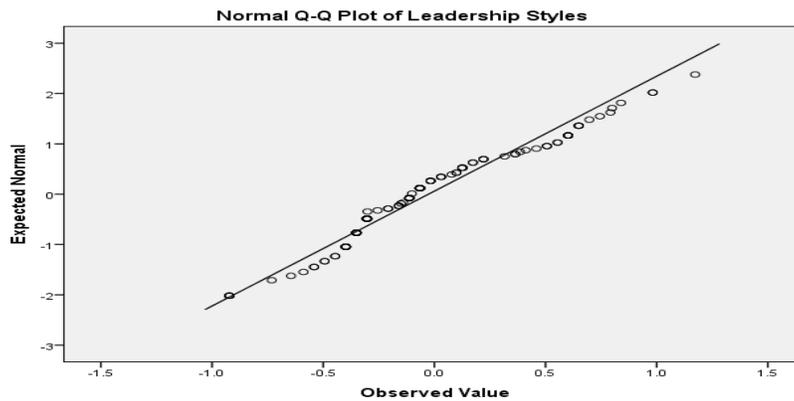
**Figure 4.13: Q-Q Plot for SME performance**

Although the manufacturing SME performance returned a P-value less than 0.05 in the Shapiro-Wilk test for normality, the Q-Q plot shows that apart from some few cases the data collected fits along the line of best fit. From the observations made in the Q-Q plot for SME performance, it true to say that, even when this study results indicate that the null hypothesis ( $H_{06}$ ) need to be rejected, the data on the perceived performance of the manufacturing SME firm does not so much deviate from the normal distribution. This study proceeded for further analysis with the treatment that the data on SME firm as can be seen from Figure 4.13 and Figure 4.14 closely approximates a normal distribution.



**Figure 4.14: Histogram on SME performance data distribution**

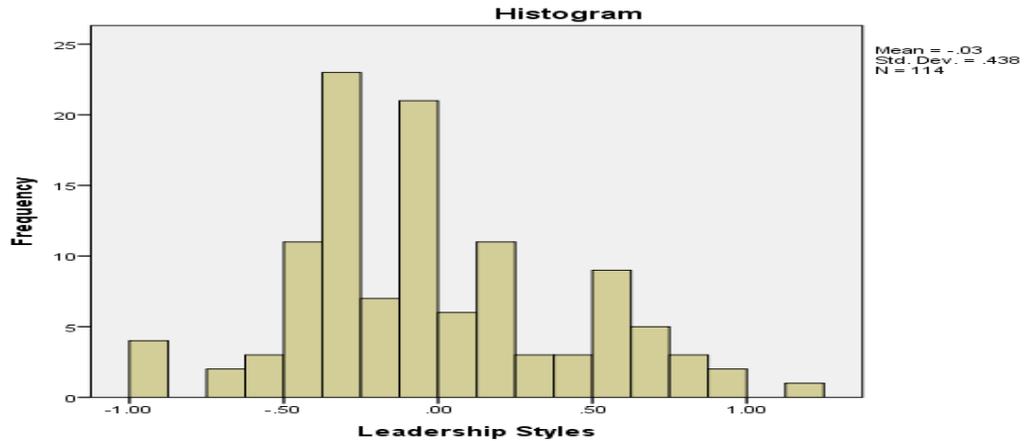
**b) Q-Q Plot for Leadership Styles**



**Figure 4.15: Q-Q Plot for Leadership Styles**

The study results in Figure 4.15 show the Q-Q plot attention to leadership styles ( $X_1$ ). The Shapiro-Wilk test indicates that the P-value is less than 0.05. The observation from the Q-Q plot indicates that the data does not deviate too much from the line of best fit. Although Shapiro-Wilk results indicate that  $H_{01}$  should be rejected in favour of  $H_1$  and conclude that the data is not normally distributed, the Q-Q plot shows that this data does not so much deviate from the normal distribution. This study proceeded for further

analysis on this variable ( $X_1$ ) based on the fact that the data on leadership styles as can be seen in Figure 4.15 and Figure 4.16 fairly approximates the normal distribution.



**Figure 4.16: Histogram on Leadership Styles data distribution**

#### 4.7.1 Influence of Leadership Styles on the SME Performance

Objective 1: To determine whether attention to leadership styles influences the performance of manufacturing SME firms in Kenya

The bivariate correlations in Table 4.5 indicated that there is a positive and significant influence of leadership styles on the performance of the manufacturing small and medium enterprise firms in Kenya ( $r = .259^{**}$ ,  $P = .005$ ). This implies that the performance of the manufacturing SME firms improves significantly when the CEOs and the owners adopt better leadership styles.

These findings were subjected to further analysis where a univariate linear regression model  $Y = \beta_0 + \beta_1 X_1 + \varepsilon$  was used to determine the influence of leadership styles on the performance of the manufacturing SME firm. Results in Table 4.7 shows that the model is valid ( $F_{(1, 112)} = 8.062$ ,  $P = .005$ ) hence the explanatory variable ( $X_1$ , Leadership Styles) is good in explaining total variations in performance of the SME.

**Table 4.7: Leadership Styles Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.745	1	1.745	8.062	.005 <sup>b</sup>
Residual	24.245	112	.216		
Total	25.990	113			

a. Dependent Variable: Performance

b. Predictors: (Constant), Leadership Styles (X<sub>1</sub>)

The study further revealed that leadership styles (X<sub>1</sub>) explains 6.7% of the total variations in the manufacturing SME firm's performance ( $R^2 = .067$ ). The coefficients in the regression model as shown in Table 4.8 indicate that leadership styles will always exist at a certain minimum ( $\beta_0 = 3.754$ ,  $P < .001$ ). The attention to leadership styles during strategy implementation in the manufacturing SME firm positively and significantly influences the performance of the SME firm ( $\beta_1 = .284$ ,  $P = .005$ ). This confirms the findings of the bivariate correlations in Table 10 which indicated that when the leadership styles improve, the performance of SME firm will also improve.

**Table 4.8: Leadership Styles and SME Performance: Coefficients**

Model	Unstandardized		Standardized	R <sup>2</sup>	t	Sig.
	Coefficients					
	B	Std. Error	Beta			
Constant	3.754	.044			85.988	.000
Leadership	.284	.100	.259	.067	2.839	.005

a. Dependent Variable: Performance

The univariate model in Table 4.8 was significant ( $P = 0.005$ ) and therefore, supports objective 1 that attention to leadership styles practiced during strategy implementation

influences positively the performance of small and medium manufacturing firms in Kenya.

**i) Test of Hypothesis One:**

**H<sub>01</sub>.** *Attention to leadership styles has no significant influence on the performance of manufacturing SME firms in Kenya*

This hypothesis intended to test whether there is any influence between the attention to leadership styles and performance of the manufacturing SME firm. The hypothesis H<sub>01</sub>:  $\beta_1 = 0$  versus H<sub>1</sub>:  $\beta_1 \neq 0$  was tested. Results from the bivariate correlation in Table 4.5 shows a significant and positive relationship between leadership styles and manufacturing SME's performance ( $r = .259^{**}$ ,  $P = .005$ ). On the other hand, the univariate regression results in Table 4.8 also show that there is a positive and significant influence between leadership styles and the SME firm's performance ( $\beta_1 = .284$ ,  $P = .005$ ). This leads to the rejection of the null hypothesis (H<sub>01</sub>) and the acceptance of alternative hypothesis (H<sub>1</sub>). The study, therefore, concludes that attention to leadership styles has a significant positive relationship influence on the performance of the manufacturing SME firm in Kenya

The leadership style variable ( $X_1$ ) was further broken down into specific leadership styles identified by Bass and Avolio (1992). The univariate model  $Y = \beta_0 + \beta_1 X_1 + \varepsilon$  was therefore modified to include the effects of these specific leadership styles giving rise to a new model  $Y = \beta_0 + \beta_1 X_{11} + \beta_2 X_{12} + \beta_3 X_{13} + \varepsilon$  Where: Y= Manufacturing SME's performance,  $\beta_0$  = Intercept,  $\beta_1, \beta_2, \beta_3$  = slope coefficients representing the relationship between the independent variable and the dependent variable,  $X_{11}$  = Transformational leadership style,  $X_{12}$  = Transactional leadership style,  $X_{13}$  = Passive/Avoidant leadership style and  $\varepsilon$  = error term. A bivariate correlation was then obtained for these specific leadership styles following the classifications given by Avolio and Bass (2004).

The bivariate correlation in Table 4.9 indicates that the transformational leadership style has a significant and positive influence on the performance of manufacturing SME firm ( $r = .297^{**}$ ,  $P = .001$ ), the transactional and the passive/avoidant leadership styles both have insignificant relationships with the manufacturing SME firm firm's performance ( $r = .180$ ,  $P = .054$ ), ( $r = .169$ ,  $P = .071$ ) respectively. Therefore, the two styles influences very little on the overall performance of the SME manufacturing firm in Kenya.

**Table 4.9: Specific Leadership Styles Bivariate Correlations Coefficients**

		Y	X <sub>11</sub>	X <sub>12</sub>	X <sub>13</sub>
Performance (Y)	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	115			
Transformational (X <sub>11</sub> )	Pearson Correlation	.297 <sup>**</sup>	1		
	Sig. (2-tailed)	.001			
	N	115	115		
Transactional (X <sub>12</sub> )	Pearson Correlation	.180	.395 <sup>**</sup>	1	
	Sig. (2-tailed)	.054	.000		
	N	115	115	115	
Passive/Avoidant (X <sub>13</sub> )	Pearson Correlation	.169	.494 <sup>**</sup>	.480 <sup>**</sup>	1
	Sig. (2-tailed)	.071	.000	.000	
	N	115	115	115	115

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The three specific leadership styles were further subjected to a multiple regression to test their combined effect on the SME's firm's performance. The model containing the three leadership styles in Table 4.10 was found to be valid ( $F_{(3, 111)} = 3.788$ ,  $P = .012$ ) hence they are good predictors of the total variations in the SME firm's performance in Kenya.

**Table 4.10: Specific Leadership Styles: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.466	3	.822	3.788	.012 <sup>b</sup>
Residual	24.087	111	.217		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), X<sub>13</sub>, X<sub>12</sub>, X<sub>11</sub>

The combined leadership styles explains 9.3% of the total variations in manufacturing SME firm's performance ( $R^2 = .093$ ). The constant in the regression model as shown in Table 4.16 indicate that combined leadership styles will be always exist at a certain minimum ( $\beta_0 = 2.864$ ,  $P < .001$ ). The transformational leadership style (X<sub>11</sub>) is significant and is related positively to the performance of the manufacturing SME ( $\beta_1 = .208$ ,  $P = .013$ ). However, the transactional leadership style (X<sub>12</sub>,  $\beta_2 = .049$ ,  $P = .481$ ) and passive/avoidant leadership behaviour (X<sub>13</sub>,  $\beta_3 = .001$ ,  $P = .099$ ) have insignificant influence on the performance of the manufacturing SME's firm in Kenya.

**Table 4.11: Specific Leadership Styles: Regression Weights**

Model	Unstandardized Coefficients	Standardized Coefficients	R <sup>2</sup>	t	Sig.
	B	Std. Error	Beta		
Constant	2.864	.289		9.914	.000
Transformational	.208	.083	.267	2.512	.013
Transactional	.049	.069	.074	.706	.481
Passive/avoidant	.001	.091	.001	.012	.990

a. Dependent Variable: (Y) Performance

The findings in Table 4.9 and Table 4.11 were used to test the three null hypotheses based on Avolio and Bass (2004) definitions of leadership styles. These hypotheses are stated as follows;

**H<sub>01a</sub>.** *The practice of transformational leadership has no significant influence on the performance of manufacturing SME firm in Kenya*

**H<sub>01b</sub>.** *The practice of transactional leadership has no significant influence on the performance of manufacturing SME firm in Kenya*

**H<sub>01c</sub>.** *The practice of passive/avoidant leadership has no significant influence on the performance of manufacturing SME firm in Kenya*

The findings in Table 4.9 and Table 4.11 indicates that the transformational leadership style ( $X_{11}$ ) has a positive and statistically significant influence on the performance of the manufacturing SME firm ( $r = .297^{**}$ ,  $P = .001$ ;  $\beta_1 = .208$ ,  $P = .013$ ). This leads to the rejection of the null hypothesis ( $H_{01a}$ ) and the acceptance of the alternative hypothesis ( $H_{1a}$ ). The study, therefore, concludes that the practice of transformational leadership style has a significant positive influence on the performance of manufacturing SME firms in Kenya. This implies that leaders in the manufacturing SME firms who are able to practice the transformational leadership style during strategy implementation efforts help their organizations to achieve better results. The findings also revealed that the transactional leadership style ( $X_{12}$ ) has an insignificant influence on the SME's performance ( $r = .180$ ,  $P = .054$ ). This study, therefore, fails to reject the null hypothesis ( $H_{01b}$ ) and conclude that the practice of transactional leadership style has no significant influence on the performance of manufacturing SME firm in Kenya. Likewise, the passive/avoidant leadership behaviour ( $X_{13}$ ) has an insignificant influence on the manufacturing SME's performance ( $r = .169$ ,  $P = .071$ ). This study, therefore, fails to reject the null hypothesis ( $H_{01c}$ ) and conclude that the practice of passive/avoidant has no significant influence on the performance of SME firm in Kenya.

## 1. Discussion of the Findings on Leadership Styles and SME Performance

The results of both bivariate correlations ( $r = .259^{**}$ ,  $P = .005$ ) in Table 4.5 and univariate regression analysis ( $\beta_1 = .284$ ,  $P = .005$ ) in Table 4.8 indicates that leadership styles have a positive and significant influence on the performance of the small and medium manufacturing firms in Kenya. This means that the choice of a leadership style affects how manufacturing firms performs during strategy implementation process. This finding concurs with observations and conclusions made by earlier scholars in management that firms' leadership is an important factor that leads to superior performance in a dynamic environment (Heracleous, 2000; Griffin, 2011; Joste & Fourie, 2009; Noble & Mokwa, 1999; Teece, 2014; Thompson & Strickland, 2007; Van Mass, 2008). The role of leadership in owning up, steering and driving forward strategy implementation efforts is a critical factor to the success of a firm.

Further analysis on the specific types of leadership styles practiced in these firms in Table 4.14 reveals that transformational leadership style has a positive and significant influence on the performance of manufacturing SME firm ( $r = .297^{**}$ ,  $P = .001$ ;  $\beta_1 = .208$ ,  $P = .013$ ) while transactional leadership styles ( $r = .180$ ,  $P = .054$ ;  $\beta_2 = .049$ ,  $P = .481$ ) and passive/avoidant behaviour ( $r = .169$ ,  $P = .071$ ;  $\beta_3 = .001$ ,  $P = .990$ ) have insignificant influence on the manufacturing SME's performance.

A comparative analysis of the past studies indicated that the findings of the current study are consistent with the works of several scholars who attempted to relate the three specific leadership styles. Aziz et al. (2013) found out that among the leadership styles practiced by SMEs, the transformational leadership has the highest influence and is directly related to the firm's performance. Ejere and Ugochuku (2012), in an empirical study of transformational and transactional leadership styles in Nigeria, found that transformational leadership style is positively and highly related to organizational performance while transactional leadership style has a positive but weak relationship with organizational performance.

Ling, Simek, Lubatkin and Veiga (2008) found a significant relationship between transformational CEO's and performance of the SME's and noted that their findings tended to confirm the Upper Echelons theory's argument that CEO characteristics affect organizational performance. Udoh and Agu (2012) studied the transformational and transaction leadership styles on performance of manufacturing organizations in Nigeria and found a significant positive relationship between transformational and transactional leadership styles and the organizational performance. However, deviating from Udoh and Agu's findings this study found that, although the transactional leadership style is positively related to performance of the manufacturing SME firm in Kenya, this relationship is statistically insignificant ( $r = .180, P = .054; \beta_2 = .049, P = .481$ ). This can be attributed to the existence of different PESTEL conditions in Kenya and Nigeria.

Okwu, Obiwuru, Akpa and Nwankwere (2011) tested the application of transformational and transactional leadership styles in Nigerian SME's and found out that transformational leadership traits (charisma, intellectual stimulation/individual consideration, inspirational motivation) are weak in explaining variations in performance. Their study also found that the transactional leadership traits (constructive/contingent reward, corrective and management by exception) have a significant effect on followers and performance and explains very high proportion of variations in performance. They concluded that transactional leadership style is more appropriate in inducing performance than transformational leadership style. The current study finds these findings completely the opposite. This study found that, although, the SME manufacturing firms in Kenya are currently practicing more of transactional leadership style, it is only the transformational leadership style which is statistically significant under the Kenyan PESTEL conditions. The leadership styles practiced by these SME's during strategy implementation process were also found to have some transformational attributes.

Naeem and Tayyeb (2011) in Pakistan found a positive correlation between transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SME performance. The findings of these two studies (Neem & Tayyeb; Ejere & Ugochuku, 2012) are in agreement with this study on the significance of the transformational leadership style but disagree on the significance of transactional leadership. Their studies found a weak relationship between transactional leadership and SME performance but the current study indicated that although there is a weak positive relationship between the two variables, this relationship is statistically insignificant. Ojokuku, Odetayo and Sajuyigbe (2012) examined the impact of the leadership styles in unrelated sector to this study which included the banking industry in Nigeria and found a strong relationship between leadership and organizational performance.

The findings of their study indicated that the transformational leadership is positively and significantly related to bank's performance. The transactional leadership style is negatively related to performance but insignificant. Their study findings are in agreement with current study on both leadership styles. Zumitzavani and Udchachone (2014) also examined the influence of leadership on organizational performance in hospitality industry in Thailand and found out that transformational leadership style has a positive relationship with organizational performance; transactional leadership style has a weak positive relationship while passive/avoidant has a negative relationship with organizational performance. Koech and Namsonge (2011) investigated the effects of leadership styles on organizational performance of state owned corporations in Kenya and found a high correlation between transformational leadership, a low but significant correlation between transactional leadership and performance and no correlation between passive/avoidant leadership style and performance. Okwachi et al. (2013) studied Kenya SME's and found that leadership practice has a direct relationship with organizational performance.

#### 4.7.2 The Relationship between Structural Adaptations and SME Performance

Objective 2: To establish whether structural adaptations influences the performance of manufacturing SME firms in Kenya

The bivariate correlation analysis in Table 4.5 indicates that there is a positive and significant influence of the structural adaptations on the performance of the manufacturing small and medium firms in Kenya ( $r = .442^{**}$ ,  $P < .001$ ). This finding implies that the owners, CEOs or other SME leaders who are able to frequently revise and adjust their structural configurations in relation to the environmental changes or adapt structures that support strategy implementation efforts help their organizations achieve better results.

These findings were further analyzed using a univariate linear regression model  $Y = \beta_0 + \beta_2 X_2 + \varepsilon$  to determine whether the structural adaptations of a manufacturing small and medium enterprise positively affects the performance. The model in Table 4.12 containing the explanatory variable ( $X_2$ ) representing the structural adaptations of the SME firm was found to be valid ( $F_{(1, 113)} = 27.480$ ,  $P < .001$ ) meaning that the explanatory variable ( $X_2$ , Structural Adaptation) is a good predictor of variations in performance in the manufacturing small and medium enterprises in Kenya.

**Table 4.12: Structural Adaptations and SME Performance: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.194	1	5.194	27.480	.000 <sup>b</sup>
Residual	21.359	113	.189		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), Structural Adaptations ( $X_2$ )

The study further revealed that structural adaptations of the small and medium manufacturing firm ( $X_2$ ) explains 19.6% of the total variations in the performance of the firm ( $R^2 = .0196$ ). The value of the constant in Table 4.13 shows that the structural adaptations of the firm will always exist at a certain minimum ( $\beta_0 = 3.753$ ,  $P < .001$ ). The structural adaptations were found to influence the performance of the SME manufacturing firm positively and significantly ( $\beta_1 = .677$ ,  $P < .001$ ) meaning that as the SME firm adopts better structures that supports strategy implementation initiatives, her performance will always improve significantly.

**Table 4.13: Structural Adaptations and SME Performance: Regression Weights**

Model	Unstandardized		Standardized	$R^2$	t	Sig.
	Coefficients					
	B	Std. Error	Beta			
Constant	3.753	.041			92.570	.000
Structure	.677	.129	.442	.196	5.242	.000

a. Dependent Variable: Performance

The univariate model in Table 4.13 was found to be significant ( $P < 0.001$ ) and therefore, supports objective 2 that the structural adaptations of the small and medium manufacturing firm positively and significantly influences her performance.

### ii) Test of Hypothesis Two:

**H<sub>02</sub>.** *Structural adaptations has no significant influence on the performance of manufacturing SME firms in Kenya*

This hypothesis intended to test whether structural adaptations positively translate to better performance in the SMEs or not. The hypothesis  $H_{02}$ :  $\beta_1 = 0$  versus  $H_2$ :  $\beta_1 \neq 0$  was tested. The findings from the bivariate correlations in Table 4.5 indicates that structural

adaptations relates positively and significantly with the performance of the SME firm ( $r = .442^{**}$ ,  $P < .001$ ). On the other hand, the univariate regression results in Table 4.13 indicates that a positive and significant relationship exists between structural adaptations and performance of the manufacturing SME firm ( $\beta_1 = .677$ ,  $P < .001$ ). This leads to the rejection of the null hypothesis ( $H_{02a}$ ) and acceptance of ( $H_{2a}$ ). This study, therefore, concludes that Structural adaptations have a significant positive influence on the performance of the manufacturing SME firms in Kenya.

The structural adaptations variable was further broken down into specific structural dimensions identified in the literature by Oslon et al. (2005) as responsible for influencing organization's performance. This led to the revision of the univariate model  $Y = \beta_0 + \beta_2X_2 + \varepsilon$  in order to include these specific structural dimensions leading to a new model  $Y = \beta_0 + \beta_1X_{21} + \beta_2X_{22} + \beta_3X_{23} + \varepsilon$  where: Y= Manufacturing SME's performance,  $\beta_0$  = Intercept,  $\beta_1, \beta_2, \beta_3$ = slope coefficients representing the relationship between the independent variable and the dependent variable,  $X_{21}$  = Formalization of the manufacturing SME structure,  $X_{22}$ = Centralization of the manufacturing SME structure,  $X_{23}$  = Specialization of functions in the manufacturing SME structure and  $\varepsilon$  = error term. A bivariate correlation matrix was then obtained as shown in Table 4.14.

**Table 4.14: Specific Structural Dimensions: Correlation Coefficients**

		Y	X <sub>21</sub>	X <sub>22</sub>	X <sub>23</sub>
Performance (Y)	Pearson Correlation	1			
	Sig. (2-tailed)				
Formalization (X <sub>21</sub> )	N	115			
	Pearson Correlation	.456**	1		
	Sig. (2-tailed)	.000			
Centralization (X <sub>22</sub> )	N	115	115		
	Pearson Correlation	.159	.433**	1	
	Sig. (2-tailed)	.090	.000		
Specialization (X <sub>23</sub> )	N	115	115	115	
	Pearson Correlation	.350**	.611**	.107	1
	Sig. (2-tailed)	.000	.000	.253	

\*\* . Correlation is significant at the 0.01 level (2-tailed)

The results obtained from the bivariate correlation in Table 4.14 reveals that the formalization of the manufacturing SME has a significant positive relationship with the SMEs performance ( $r = .456^{**}$ ,  $P < .001$ ), followed by specialization ( $r = .350^{**}$ ,  $P < .001$ ). The relationship between centralization in the firm's structure and the SME performance was found to be insignificant ( $r = .159$ ,  $P = .09$ ).

These three structural dimensions were further subjected to a multiple regression to test their combined effects on SMEs performance. The model in Table 4.15 containing these structural dimensions was found to be valid ( $F_{(3, 111)} = 10.255$ ,  $P < .001$ ) meaning that a structural dimension is a good predictor of variations in firm's performance in Kenya.

**Table 4.15: Specific Structural Dimensions and Performance: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.762	3	1.921	10.255	.000 <sup>b</sup>
Residual	20.791	111	.187		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), SPECIAL (X<sub>21</sub>), CENTR (X<sub>22</sub>), FORMAL(X<sub>23</sub>)

The combined structural dimensions in Table 4.16 explains 21.7% of the total variations in manufacturing SME firm's performance ( $R^2 = .217$ ). The constant in the regression model indicates that the structural adaptations will be always exist at a certain minimum ( $\beta_0 = 1.156$ ,  $P = .026$ ). Formalization of the structure is significant and positively relates to the SMEs performance ( $\beta_1 = .599$ ,  $P = .001$ ). However, the influence of centralization ( $\beta_2 = -.028$ ,  $P = .780$ ), and work specialization ( $\beta_3 = .100$ ,  $P = .325$ ) on manufacturing SME firm's performance is not statistically significant.

**Table 4.16: The Combined Structural Dimensions: Regression Weights**

Model	Unstandardized Coefficients	Standardized Coefficients	R <sup>2</sup>	t	Sig.
	B	Std. Error	Beta		
Constant	1.156	.511		2.264	.026
Formalization	.599	.179	.402	3.356	.001
Centralization	-.028	.099	-.027	-.279	.780
Specialization	.100	.101	.107	.217	.988

a. Dependent Variable: (Y) Performance

These findings in Table 4.14 and Table 4.16 were used to test three null hypotheses based on the structural dimensions (Oslon et al., 2005) of the SME firm in Kenya.

**H<sub>02a</sub>.** *A formalized structure has no significant influence on the performance of SME manufacturing firms in Kenya*

**H<sub>02b</sub>.** *A centralized structure has no significant influence on the performance of SME manufacturing firms in Kenya*

**H<sub>02c</sub>.** *A specialized structure has no significant influence on the performance of SME manufacturing firms in Kenya*

The findings in Tables 4.14 and 4.16 indicate that formalization ( $X_{21}$ ) has a positive and statistically significant influence on the performance of the SME firm ( $.456^{**}$ ,  $P < .001$ ). This leads to the rejection of the null hypothesis ( $H_{02a}$ ) and acceptance of ( $H_{2a}$ ). This study, therefore, concludes that a formalized structure has a significant positive influence on the performance of SME firms in Kenya. This implies that the leaders who maintain proper procedures, rules, policies and regulations in their firms help their organizations to achieve better results. The findings also revealed that specialized structures posted mixed results where the bivariate correlation in Table 4.14 shows that specialization on its own positively and significantly influences the SME performance ( $r = .350^{**}$ ,  $P < .001$ ) while the multiple regression results in Table 4.16 indicates that specialization has an insignificant influence on the SME firm's performance ( $\beta_3 = .100$ ,  $P = .325$ ). The univariate regression in Table 4.22 indicated that a positive relationship exists between work specialization and firm's performance ( $\beta_1 = 3.27$ ,  $P < .001$ ).

**Table 4.17: Work Specialization and Performance: Regression Weights**

Model	Unstandardized Coefficients		Standardized Coefficients	R <sup>2</sup>	t	Sig.
	B	Std. Error	Beta			
Constant	2.472	.325			7.606	.000
Specialization	.327	.082	.350	.123	3.974	.000

a. Dependent Variable: (Y) Performance

The univariate regression results in Table 4.17 for specialization ( $\beta_1 = 3.27$ ,  $P < .001$ ) and the bivariate correlation results in Table 4.14 ( $r = .350^{**}$ ,  $P < .001$ ) indicates that a positive and significant influence exist between specialization and the SME's performance. This leads to the rejection of the null hypothesis ( $H_{02c}$ ) and acceptance of  $H_{2c}$ . This study, therefore, concludes that a specialized structure positively influences the performance of manufacturing SMEs in Kenya.

The findings on the influence of centralized structures on the SME's performance in both bivariate ( $r = .159$ ,  $P = .090$ ) in Table 4.14 and regression analysis ( $\beta_2 = -.028$ ,  $P = .780$ ) in Table 4.21 is insignificant. This study, therefore, fails to reject the null hypothesis ( $H_{02b}$ ) and concludes that a centralized structure has no significant effects on the performance of SME manufacturing firm in Kenya.

## 2. Discussion of Findings on Structural Adaptations and SME Performance

Results from bivariate correlation ( $r = .442^{**}$ ,  $P < .001$ ), in Table 4.5, univariate regression analysis ( $\beta_1 = .677$ ,  $P < .001$ ) in Table 4.13 and multiple regression ( $\beta_2 = .308$ ,  $P = .049$ ) in Table 4.26 reveals that the structural adaptations of the manufacturing small and medium firms in Kenya are significant and positively influences the

performance of the firm. This implies that these firms need to examine and re-adjust their structures in line with changes in the environment and new strategies being implemented if superior performance is to be achieved. Structure is a dynamic capability and the firms that are able to adjust their structures in line with changes taking place in the environment experience better results. These findings concur with various observations and conclusions made by several scholars in management who have studied organizational structure. This study confirms the work of Chandler (1961) who contended that an organization structure must follow her strategy for better performance, Burns and Stalker (1961) who observed that firms will always adopt a structure in relation to the environment they are operating in, Sine et al. (2006) who observed that structures increases performance of new ventures in the context of very dynamic sector, Oslon et al. (2005) who concluded that performance of an organization is largely influenced by how well an organization's strategy is matched to its structure.

Further analysis on the specific structural dimensions practiced by SME firm revealed that formalization ( $r = .456^{**}$ ,  $P < .001$ ) and specialization ( $r = .350^{**}$ ,  $P < .001$ ) in Table 4.114 are positively and significantly related with the SME performance. On the other hand, the relationship between centralization and SME performance is insignificant ( $r = .159$ ,  $P = .090$ ). This finding is in line with the conclusions made by Oslon et al. (2005) who identified the three structural dimensions along which organizations are structured (formalization, centralization and specialization). This study observes that the benefits of a centralized structure are only realized in stable non-complex environments. This is not the case with the manufacturing SMEs in Kenya since these firms operate in a complex and highly competitive environment. Leitao (2011) found that the economic performance of SMEs is positively affected by maintenance of efficient organizational structure while non-economic performance of the firm is affected by enthusiasm at work, incentives and maintenance of efficient and sound organizational structure.

The findings of this study also confirm the works of Meijaard et al. (2005) in a study entitled “organizational structure of Dutch small firms”. The study found out small firms is structured along many dimensions with various degree of departmentation. The study concluded that departmentation is strongly correlated with the size of the firm, centralization perform well in relatively small structures and decentralized structures perform well in firms engaged in business services and manufacturing, in combination with complex coordination mechanisms hierarchically structured and departmentalized firms with formalized tasks and specialized employees perform well in terms of growth especially in manufacturing and financial services and finally, deviating from these findings of this study, the centralized structure with strong specialized employees occur frequently in SMEs and performs well in terms of growth.

#### **4.7.3 Influence of Human Resources on the SME Performance**

Objective 3: To determine whether attention to human resources influence the performance of manufacturing SME firms in Kenya

Results from the bivariate correlations in Table 4.5 indicates that there is a positive and significant influence exists between attention to human resources and performance of the SME firms in Kenya ( $r = .408^{**}$ ,  $P < .001$ ). This implies that performance of these firms improves significantly when the CEOs/owners pay a close attention to the human resource requirements during the strategy implementation process.

The findings on human resources was subjected to further analysis where a univariate linear regression model  $Y = \beta_0 + \beta_3 X_3 + \varepsilon$  was used. The model in Table 4.18 was found to be valid ( $F_{(1, 113)} = 22.559$ ,  $P < .001$ ) hence the conclusion that human resource ( $X_3$ ) is a good predictor of variations in performance of the manufacturing SME firms in Kenya.

**Table 4.18: Human Resources and Performance: Model Validity**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.419	1	4.419	22.559	.000 <sup>b</sup>
Residual	22.134	113	.196		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), Human Resources (X<sub>3</sub>)

The study results in Table 4.19 further revealed that attention to human resource requirements during strategy implementation explains 16.6% of the total variations in the performance of the SME firm ( $R^2 = .166$ ). These results indicates that firm's attention to human resources will always exist at a certain minimum as shown by the constant ( $\beta_0 = 3.753$ ,  $P < .001$ ). Human resource variable was found to positively and significantly related to the SME's performance ( $\beta_1 = .499$ ,  $P < .001$ ). The implication here is that, as the SME firm continuously pays attention to their human resource requirements during strategy implementation initiatives, their performance improves.

**Table 4.19: Human Resources and SME Performance: Regression Weights**

Model	Unstandardized Coefficients		Standardized Coefficients	R <sup>2</sup>	t	Sig.
	B	Std. Error	Beta			
Constant	3.753	.041			90.935	.000
Human Resource	.499	.105	.408	.166	4.750	.000

a. Dependent Variable: Performance

The univariate model in Table 4.19 is significant ( $P < 0.001$ ) and supports the study's objective 3 that attention to human resource requirements in the firm during strategy implementation is positively and significantly influences the performance in SMEs.

### iii) Test of Hypothesis Three:

**H<sub>03</sub>.** Attention to human resources has no significant influence on the performance of the manufacturing SME firms in Kenya

This hypothesis intended to test whether there is an influence of human resource on the performance of the SME firm or not. The hypothesis  $H_{03}: \beta_1 = 0$  versus  $H_3: \beta_1 \neq 0$  was tested. The findings from the bivariate correlations in Table 4.10 shows that there is a significant and positive relationship between human resources and SME performance ( $r = .408^{**}$ ,  $P < .001$ ). On the other hand, the univariate regression results in Table 4.19 shows that human resources has a positive and significant relationship with performance of the SME firm ( $\beta_1 = .499$ ,  $P < .001$ ). This leads to the rejection of the null hypothesis ( $H_{03}$ ) and acceptance of the alternative hypothesis ( $H_3$ ). This study, therefore, concludes that attention to human resources positively and significantly influences the performance of manufacturing SME firms in Kenya.

### 3. Discussion of Findings on Human Resources and SME Performance

According to Huselid (1995), Becker and Gerhart (1996), there is a significant relationship between human resources and organizational performance. The bivariate correlation ( $r = .408^{**}$ ,  $P < .001$ ) in Table 4.5 and univariate regression results ( $\beta_1 = .499$ ,  $P < .001$ ) in Table 4.19 indicate that the attention to human resource requirements in SME firm is significant and positively influences her performance. Okumu's (2003) observed that people are required to drive the process of strategy implementation to success. Although human resource is not a dynamic capability that give firms a direct advantage and uniqueness in the industry, the SMEs can gain competitiveness and

perform well in strategy implementation by building strong capacities and capabilities in people. This is done better when there is adequate skills development, strong policies and procedures, clear targets and motivation and when SME's leadership fosters confidence among their employees. Teece (2014) observed that a dynamic capability in people can be developed through injecting new knowledge and skills and continuous improvement in human resources through training and development initiatives.

The findings from this study concurred with the works of other several contemporary scholars who found a positive relationship between human resources and organization performance (Amin et al., 2014; Cho et al., 2006; Orlando & Johnson, 2001; Osman, & Galang, 2011; Wong et al., 2013; Wright et al., 2003).

Amin et al. (2014), in an interview of 300 employees from a public university, found out that human resource practices like recruitment, training, performance appraisal, career planning, employee participation, job definition and compensation have a significant relationship with university performance. His findings confirmed an earlier study by Beh and Loo (2013) who found out that best practices in human resources like performance appraisals, internal communications, career planning, training and development, recruitment and selection and strategic human resource alignment in the organization positively affect firm's performance. Katou (2008), in a study involving 178 organizations in Greece, confirmed that a relationship exists between practice of human resources and organization performance. This study concluded that the finding on the relationship between attentions to human resource requirements during strategy implementation is consistent with the works of earlier scholars who studied the same variable in an attempt to establish its effect with organizational performance.

#### 4.7.4 Influence of Technology on the SME Performance

Objective 4: To establish the relationship between technology and performance of SME firm in Kenya

The bivariate correlation analysis in Table 4.5 indicates that there is a positive and significant influence of technology on the performance of manufacturing SME firm in Kenya ( $r = .482^{**}$ ,  $P < .001$ ). This finding implies that the owners, CEOs or the SME leaders who adapts to technological changes in line with changes in the environment and provides the required technological support during strategy implementation help their organizations to achieve better results.

These finding were subjected to further analysis using univariate linear regression model  $Y = \beta_0 + \beta_4 X_4 + \varepsilon$  to determine whether attention to technological requirements by the SME leadership influences the performance of the SMEs. The model in Table 4.20 containing the explanatory variable technology ( $X_4$ ) was found to be valid ( $F_{(1, 113)} = 34.106$ ,  $P < .001$ ) meaning that technology is a good predictor of variations in performance in the manufacturing SME firms in Kenya.

**Table 4.20: Technology and SME Performance: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.156	1	6.156	34.106	.000 <sup>b</sup>
Residual	20.397	113	.181		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), Technology ( $X_4$ )

The study results in Table 4.21 further revealed that attention the technological requirements during strategy implementation explains 23.2% of the total variations in the firm's performance ( $R^2 = .232$ ). These results shows that technology in the will always exist at a certain minimum as shown by the constant ( $\beta_0 = 3.753, P < .001$ ). The technology variable was found to have a positive and significant relationship with the SME performance ( $\beta_1 = .417, P < .001$ ). This implies that, as the SME firms employ additional and better technology, her performance improves significantly.

**Table 4.21: Technology and Performance: Regression Weights**

Model	Unstandardized Coefficients		Standardized Coefficients	$R^2$	t	Sig.
	B	Std. Error	Beta			
Constant	3.753	.040			94.729	.000
Technology	.417	.071	.482	.232	5.840	.000

a. Dependent Variable: Performance

The univariate model in Table 4.21 was found to be significant ( $P < 0.001$ ) and therefore, supports the study's objective 4 that the relationship between attention to technological requirements by the firm during strategy implementation and performance is positive and significant.

**iv) Test of Hypothesis Four:**

- v) Attention to technological requirements has no significant influence on the performance of manufacturing SME firms in Kenya

This hypothesis intended to test whether attention to technological requirements positively and significantly influences the performance of the SME or not. The hypothesis  $H_{04}: \beta_1 = 0$  versus  $H_4: \beta_1 \neq 0$  was tested. Findings from the bivariate correlation in Table 4.10 revealed the existence of a positive and significant influence relationship between technology and the manufacturing SME firm's performance in Kenya ( $r = .482^{**}$ ,  $P < .001$ ). On the other hand, the univariate regression results in Table 4.21 indicates the existence of a positive and significant relationship between attention to technological requirements and the SME performance ( $\beta_1 = .417$ ,  $P < .001$ ). This leads to the rejection of the null hypothesis ( $H_{04}$ ) and acceptance of the alternative hypothesis ( $H_4$ ). This study, therefore, concludes that attention to technological requirements during strategy implementation positively and significantly influences the performance of SME firms in Kenya.

#### **4. Discussion of Findings on Technology and SME Performance**

Zollo and Winter (2002) views technology as a dynamic capability that is embedded in firm's practices and is essential in determining the competitiveness and performance of a firm in a dynamic environment. The bivariate correlation ( $r = .482^{**}$ ,  $P < 0.001$ ) in Table 4.5, the univariate regression results ( $\beta_1 = .417$ ,  $P < .001$ ) in Table 4.21 and multiple regression results ( $\beta_4 = 0.320$ ,  $P = .002$ ) in Table 4.26 indicate that the attention to technology requirements during strategy implementation in SME firms relates to her performance positively and significantly. Teece (2014) noted that those firms with strong dynamic capabilities tended to exhibit strong technological agility, are able to create new technologies, differentiate and maintain superior processes and modify their structures and business models in a way that ensures they stay ahead of the competition.

The findings in this study on technology are in line with earlier scholars who did studies aimed at linking technology to superior performance in organizations (Bell & Pavitt,

1995; Nohria & Gulati, 1996; Reichert et al., 2012; Trez et al., 2012). Becheikh et al. (2006) observed that technological innovation is a key factor in firm competitiveness and it is unavoidable for those firms that want to develop and maintain superior performance in the current or new markets. Manimala and Vijay (2012) maintained that technology adoption is crucial for growth of business in the private sector and Mubaraki and Aruna (2013) noted that technology adoption behaviour significantly improves organizational performance in terms of profit, growth and market share.

Lumiste et al. (2004) found that SMEs were engaged in developing their products together with processes. However, Becheikh et al. (2006) recommended that more research is required in both product and process innovations in SMEs because it is limited in literature. This study aimed at filling this gap and found that among all the predictor variables included, technology has the highest correlation coefficient with the firm's performance and also has a significant positive relationship her performance in Kenya.

#### **4.7.5 Influence of the Strategic Direction on SME Performance**

Objective 5: To determine whether the firm's emphasis on strategic direction influences the performance of manufacturing SME firms in Kenya

The bivariate correlation results in Table 4.5 indicates that there is an insignificant influence of the firm's strategic direction on the performance of the SME firms in Kenya ( $r = .137, P = .143$ ). These finding were subjected to further analysis where a univariate linear regression model  $Y = \beta_0 + \beta_5 X_5 + \varepsilon$  was used to determine whether emphasis on the strategic direction has any significant influence on the performance of the manufacturing SME firm.

The model in Table 4.22 containing the explanatory variable ( $X_5$ , strategic direction) was found to be invalid for further analysis ( $F_{(1, 113)} = 2.174, P = .143$ ) meaning that

emphasis on the strategic direction of the firm ( $X_5$ ) is not a good predictor of variations in performance of these SME firms in Kenya.

**Table 4.22: Strategic Direction and SME Performance: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.501	1	.501	2.174	.143 <sup>b</sup>
Residual	26.052	113	.231		
Total	26.553	114			

a. Dependent Variable: Performance

**Table 4.23: Strategic Direction and SME Performance: Regression Weights**

Model	Unstandardized		Standardized	$R^2$	t	Sig.
	Coefficients		Coefficients			
	B	Std. Error	Beta			
Constant	3.161	.0404			7.828	.000
Strategic Direction	.157	.106	.137	.019	1.474	.143

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategic Direction ( $X_5$ )

The univariate model in Table 4.23 revealed that emphasis on strategic direction only explains 1.9% of the total variations in performance of the firm ( $R^2 = .019$ ). The coefficients in the model show that strategic direction will always exist at a certain minimum as shown by the positive constant ( $\beta_0 = 3.161$ ,  $P < .001$ ). However, the

continued emphasis of the strategic direction during strategy implementation does not significantly yield better results among the Kenyan SME firms ( $\beta_1 = .157, P = .143$ )

**vi) Test of Hypothesis Five:**

**H<sub>05</sub>.** *Emphasis on strategic direction has no significant influence on the performance of manufacturing SME firms in Kenya*

This hypothesis tested whether emphasis on the strategic direction during strategy implementation significantly influence the performance of the SME firm or not. The hypothesis H<sub>05</sub>:  $\beta_1 = 0$  versus H<sub>5</sub>:  $\beta_1 \neq 0$  was tested. Both the correlation and regression results in Table 4.5 and Table 4.23 show that strategic direction has an insignificant relationship on the firm's performance. This study, therefore, failed to reject the null hypothesis (H<sub>05</sub>) and concludes that emphasis on strategic direction has no significant influence on the performance of manufacturing SMEs in Kenya.

**5. Discussion of Findings on Strategic Direction and SME Performance**

The strategic direction of an organization is often embedded in its strategic vision and mission statements. Madu (2013) observed that strategic vision is the first step in formulating and implementing strategy in organizations. A company's strategic vision provides the logical reason for future plans and directions of the company, and aims the organization in a particular direction, providing a strategic direction for the organization to follow in the aspirations of shareholders in the long run.

The bivariate correlation ( $r = .137, P = .143$ ) in Table 4.5, the univariate regression results ( $\beta_1 = .157, P = .143$ ) in Table 4.23 and multiple regression results ( $\beta_5 = -.175, P = .581$ ) in Table 4.26 show that strategic direction has an insignificant influence on the performance of manufacturing SME firms in Kenya. This is explained by the fact that

strategic direction of the SME firm in this study was considered as a guide on the activities and actions the firm takes and how resources are mobilized, deployed and re-deployed in a way that leads to the achievement of the firm's mission and vision.

The implication of this finding the role of strategic direction during strategy implementation usually is taken up by the other predictor variables (leadership styles, structural adaptations, human resources and technology). As shown in Table 4.5, there is a strong and significant correlations between strategic direction and leadership styles ( $r = .527^{**}$ ,  $P <.001$ ), structural adaptations ( $r = .225^*$ ,  $p =.016$ ), human resources ( $r = .447^{**}$ ,  $P <.001$ ) and technology ( $r = .358^{**}$ ,  $P <.001$ ).

This result confirms the findings by Lumpkin and Dess, (1996) who observed that the relationship between strategic orientation and organizational performance is influenced by many third-party variables, and the different effects of third variables may lead to different performance levels. The researcher recommended that studies on the complex relationship between strategic direction and other predictor variables should be conducted in specific context. As Liu and Fu (2011) noted, several studies on strategic direction has been conducted in large established companies (Jantunen et al., 2005), in the context of SMEs (Wiklund & Shephend, 2005), in industry cluster context (Dai & Li, 2006), in international background (Martin & Lumpkin, 2003) but their findings on the relationship with performance are not consistent. This study is therefore, consistent with the observations made by Liu and Fu (2011) in that it failed to establish any significant influence of the strategic direction on the performance of manufacturing SME's in Kenya.

#### **4.8 The Combined Effects of all Variables: (Multiple Regression)**

A multiple regression analysis was performed on the five drivers of strategy implementation to test their combined effects on the SMEs performance in Kenya.

The regression model in Table 4.24 containing all variables was found to be valid ( $F_{(5,108)} = 9.314, P < .001$ ) meaning the all the variables in this study are good predictors of the variations in performance of the manufacturing small and medium in Kenya.

**Table 4.24: The Multiple Regression: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.830	5	1.566	9.314	.000 <sup>b</sup>
Residual	18.160	108	.168		
Total	25.990	113			

a. Dependent Variable: Performance

b. Predictors: (Constant), X<sub>5</sub>, X<sub>4</sub>, X<sub>3</sub>, X<sub>2</sub>, X<sub>1</sub>

The multiple regression results in Table 4.25 indicated that all the drivers of the strategy implementation in this study explains 30.1% of the total variations in the performance of the manufacturing SME firm in Kenya ( $R^2 = 0.301$ ). The Durbin-Watson statistics ( $d = 2.429$ ). According to the Durbin and Watson (1950, 1951) statistics, the values of  $d$  always lie between 2.00 and 4.00. The value of  $d_{U, \alpha} = 2.00$  indicate the absence of autocorrelation among the study variables. The value of  $d$  below 2.00, ( $d < d_{U, \alpha}$ ) indicates the presence of autocorrelation while the value of  $d$  above 2.00, ( $d > d_{U, \alpha}$ ) indicate lack of statistical evidence that the error terms are positively auto correlated. The Durbin–Watson statistic ( $d$ ) in this study is 2.43 meaning that there is no statistical evidence of the presence of autocorrelation in the error term.

**Table 4.30: The Multiple Regression: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Durbin-Watson
	.549 <sup>a</sup>	.301	.269	.41006	2.429

a. Predictors: (Constant), X<sub>5</sub>, X<sub>2</sub>, X<sub>4</sub>, X<sub>1</sub>, X<sub>3</sub>

b. Dependent Variable: Performance

Due to the presence of multi-collinearity among some of the study variables, all the variables were centered and the results thereafter showed collinearity statistics (VIF) value of less than ten in all variables indicating absence of multi-collinearity after centering all the variables (see Table 4.26).

The multiple regressions results in Table 4.26 indicates that only attention to technological requirements (X<sub>4</sub>) during strategy implementation ( $\beta_4 = 0.320, P = .002$ ) and the structural adaptations (X<sub>2</sub>) of the firm ( $\beta_2 = .200, P = .049$ ) are significant and positively relates to performance of the SME firms in Kenya. The constant ( $\beta_0$ ) is also positive and significant ( $\beta_0 = 3.756, P < .001$ ).

All the other variables, that is, leadership styles (X<sub>1</sub>), attention to human resources (X<sub>3</sub>) and awareness of the strategic direction (X<sub>5</sub>) have a p-value greater than 5% ( $P > 0.05$ ) meaning that, when all variables in this study are combined, leadership styles, human resources and strategic direction becomes insignificant in explaining variations in performance of the manufacturing SME firms in Kenya.

**Table 4.26: The Multiple Regression: Weights of Variables**

Model	Unstandardized		Standardized	t	Sig.	Collinearity	
	Coefficients		Coefficients			Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	3.756	.039		97.433	.000		
Leadership	.106	.109	.097	.974	.332	.654	1.530
Structure	.308	.155	.200	1.994	.049	.645	1.551
HR	.212	.133	.171	1.587	.115	.558	1.792
Technology	.279	.086	.320	3.239	.002	.663	1.508
Strategic	-.175	.121	-.152	-1.442	.152	.581	1.720
Direction							

a. Dependent Variable: Performance

## 6. Discussion of Findings on Overall Model and SME Performance

The multiple regression model in Table 4.26 established that only constant ( $\beta_0 = 3.756$ ,  $P < .001$ ), technology ( $\beta_4 = 0.320$ ,  $P = .002$ ) and structural adaptations are significant in influencing performance in a combined relationships. This means that the most important factors in predicting performance in SME firms are technology followed by structure. These findings are consistent with observations on techno-structure by Mintzberg (1980). This means that, for a strategy to be well implemented, the organization has to maintain a fair balance between technology and structure in a machine bureaucracy as advanced by Mintzberg (1980). Based on the findings of the multiple regressions, the study rejected the null hypotheses  $H_{02}$  and  $H_{04}$  in favour of  $H_2$  and  $H_4$  and concludes that the structural adaptations and the level of technology in the manufacturing small and medium firm have a significant positive influence on the manufacturing SME firm's performance. On the other hand this study failed to reject  $H_{01}$ ,  $H_{03}$  and  $H_{05}$  and concluded that, in a combined effect, there are no significant

influence among leadership styles, human resources and strategic direction on the performance of the manufacturing SME firms in Kenya.

**Table 4.27: Summary of Results of Hypotheses Tested**

No.	Variable	<i>P</i> -Value	Direction	Deduction
H <sub>01</sub>	Leadership styles & Performance	.005	Positive	Reject H <sub>01</sub>
H <sub>01a</sub>	Transformational leadership style	<.001	Positive	Reject H <sub>01a</sub>
H <sub>01b</sub>	Transactional leadership style	.054	Positive	Fail to reject H <sub>01b</sub>
H <sub>01c</sub>	Passive/avoidant behaviour	.071	Positive	Fail to reject H <sub>01c</sub>
H <sub>02</sub>	Structure & Performance	<.001	Positive	Reject H <sub>02</sub>
H <sub>02a</sub>	Formalization	<.001	Positive	Reject H <sub>02a</sub>
H <sub>02b</sub>	Centralization	.090	Negative	Fail to reject H <sub>02b</sub>
H <sub>02c</sub>	Specialization	<.001	Positive	Reject H <sub>02c</sub>
H <sub>03</sub>	Human Resource & Performance	<.001	Positive	Reject H <sub>03</sub>
H <sub>04</sub>	Technology & Performance	<.001	Positive	Reject H <sub>04</sub>
H <sub>05</sub>	Strategic Direction & Performance	.143	Positive	Fail to reject H <sub>05</sub>

#### **4.9. Moderating Effects of the Firm Level Characteristics on Strategy & Performance**

Objective 6: To establish whether the firm level characteristics (age and size) has a moderating effect on the relationship between strategy implementation and the performance SME manufacturing firms in Kenya.

This study intended to establish whether the firm's level characteristics such as age and size moderate the relationship between strategy implementation and the performance of the manufacturing SME in Kenya. To achieve this objective, this study was guided by

the moderated multiple regression model (MMR) showing the interactions between age and size of the firm with the dependent and independent variables in this study;

$$Y = \beta_0 + \beta_i X_i + \varepsilon, \text{ where } (i= 1, 2, 3, 4, 5) \dots\dots\dots (i)$$

$$Y = \beta_0 + \beta_i X_i + \beta_z Z_j + \varepsilon, \text{ where } (j = 1, 2) \dots\dots\dots (ii)$$

$$Y = \beta_0 + \beta_i X_i + \beta_z Z_j + \beta_{iz} X_i Z_j + \varepsilon \dots\dots\dots (iii)$$

The first model shows the relationship between the dependent variable and the independent variables of the study. The second model shows introduction of the moderating variable ( $Z_j$ : age/size) into the multiple regression model while the third model shows the introduction of the interaction terms ( $X_i * Z_j$ ) in the relationship between strategy implementation variables and the dependent variable. The relationship between strategy implementation and performance of the SME firm in this study was moderated by the firm-level characteristics (age and size). The age of the firm was broken down into two categories where those firms whose age fall below 5 years were classified as young while those which age was above 5 years were classified as old firms. The size of the firm was also classified into two categories based on the definitions of SMEs according to World Bank (IFC, 2012) where firms with less than 50 employees was classified as small while those with over 50 employees were classified as medium enterprises.

**a) Moderating Effect of Age on Leadership Styles and SME firm’s Performance.**

To test whether age of the firm moderates the relationship between leadership styles and performance of manufacturing small and medium firms during strategy implementation, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z_1 + \beta_3 X_1 Z_1 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1, \beta_2, \beta_3$  are slope coefficients

representing the relationship between independent variable and the dependent variable,  $X_1$  is leadership styles,  $Z_1$  represents age as a moderating variable while  $X_1Z_1$  is the interaction term which is the product of age and leadership styles (Age\*Leadership styles). The results are presented in Tables 4.28, 4.29 and 4.30.

**Table 4.28: Moderating Effect of Age on Leadership Styles and Performance: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.724	1	1.724	7.925	.006 <sup>b</sup>
	Residual	24.145	111	.218		
	Total	25.869	112			
2	Regression	2.737	2	1.368	6.507	.002 <sup>c</sup>
	Residual	23.132	110	.210		
	Total	25.869	112			
3	Regression	3.694	3	1.231	6.053	.001 <sup>d</sup>
	Residual	22.175	109	.203		
	Total	25.869	112			

a. Dependent Variable: Performance

b. Predictors: (Constant), Leadership Styles

c. Predictors: (Constant), Leadership Styles, Age

d. Predictors: (Constant), Leadership Styles, Age, Age\*Leadership

The results in Table 4.28 shows that the F statistics in model one,  $F_{(1,111)} = 7.925$ ,  $P = .006$  was valid and there is a significant influence between leadership styles and the performance of the manufacturing small and medium firms. When age was introduced as a moderating variable, the F statistics,  $F_{(2, 110)} = 6.507$ ,  $P = .002$  in model two remained valid and indicated that there is a significant influence among leadership styles, age of the firm on the performance of the manufacturing SME. When the interaction term (age\*leadership styles) was added in model two, the new model three was valid ( $F_{(3,109)}$

= 6.053,  $P = .001$ ) indicating that there is a significant influence among leadership styles, age of the firm, the interaction term (age\*leadership styles) on the performance of manufacturing small and medium firm in Kenya.

**Table 4.29: Moderating Effect of Age on Leadership Styles and Performance:  
Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F	df1	df2	Sig. F Change
1	.258 <sup>a</sup>	.067	.058	.46639	.067	7.925	1	111	.006
2	.325 <sup>b</sup>	.106	.090	.45858	.039	4.817	1	110	.030
3	.378 <sup>c</sup>	.143	.119	.45104	.037	4.705	1	109	.032

a. Predictors: (Constant), Leadership Styles

b. Predictors: (Constant), Leadership Styles, Age

c. Predictors: (Constant), Leadership Styles, Age, Age\*Leadership

The  $R^2$  in model one in Table 4.29 show that 6.7% of the total variations in performance of the manufacturing small and medium firms in Kenya can be explained by leadership styles. The adjusted  $R^2$  shows that when the constant is excluded from the study, leadership styles explain 5.8% of the total variation in performance. The value of ( $r = .258$ ,  $P = .006$ ) in the table indicate a significant positive influence of leadership styles on the performance of the manufacturing small and medium firms and the standard error of estimate (0.466) shows mean deviation of the predictor variable from the line of best fit.

The second model introduced age of the firm into the relationship between leadership styles and performance of manufacturing small and medium firms. The change in  $R^2$  from 6.7% to 10.6% implies that age of the firm significantly improved the relationship between leadership styles and SME performance by 3.9% ( $P = .030$ ). The third model shows the relationships among leadership styles, age of the firm, the interaction term (age\*leadership) and performance of the SME firm. The results indicated that with the introduction of the interacting term, the  $R^2$  significantly improved further by 3.7% ( $P = .032$ ) from 10.6% to 14.3% implying that age of the firm is a significant moderator of the relationship between leadership styles and the performance of manufacturing SME firms.

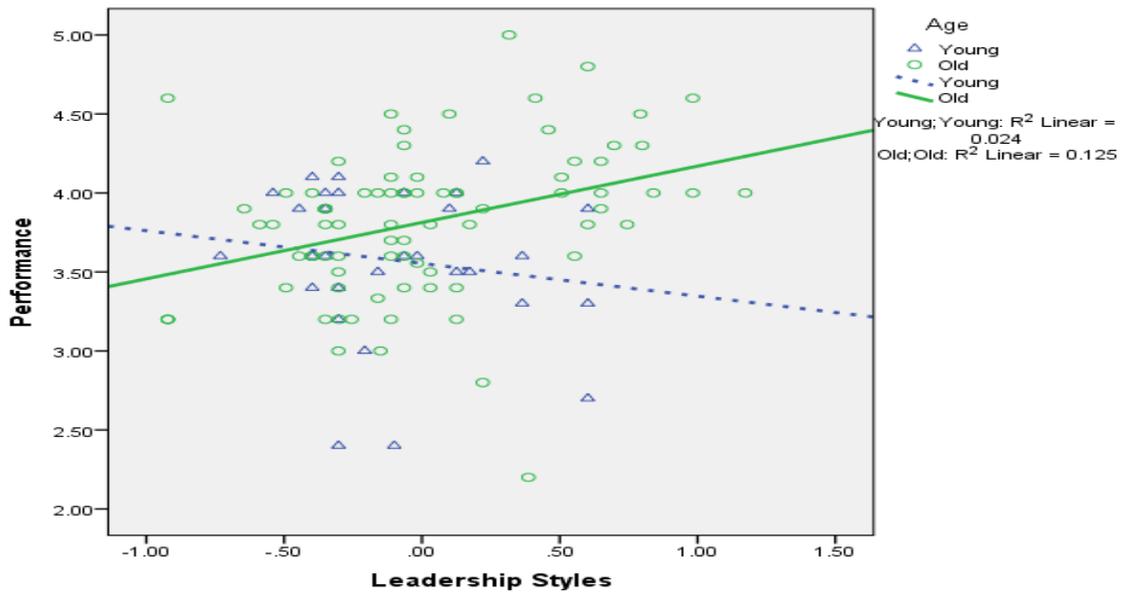
**Table 4.30: Moderating Effect of Age on Leadership Styles and Manufacturing SME Performance: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.757	.044		85.478	.000
	Leadership Styles	.282	.100	.258	2.815	.006
2	(Constant)	3.598	.084		42.711	.000
	Leadership Styles	.262	.099	.239	2.644	.009
	Age	.215	.098	.199	2.195	.030
3	(Constant)	3.554	.085		41.659	.000
	Leadership Styles	-.207	.237	-.189	-.874	.384
	Age	.259	.099	.239	2.631	.010
	Age*Leadership	.564	.260	.468	2.169	.032

a. Dependent Variable: Performance

Model one in Table 4.30 indicate that leadership styles is a significant predictor of SME firm's performance ( $\beta_1 = .282$ ,  $P = .006$ ), with the introduction of the moderating variable (age) in model two, both leadership styles ( $\beta_1 = .262$ ,  $P = .009$ ) and age ( $\beta_2 = .215$ ,  $P = .030$ ) become significant predictors of performance in manufacturing SME firm. When the interaction term (age\*leadership) was introduced as shown in model

three, leadership styles became insignificant predictor of performance in manufacturing SME firm ( $\beta_1 = -.207, P = .384$ ) and its role is significantly taken up by age of the firm ( $\beta_2 = .259, P = .010$ ) and the interaction term (age\*leadership) ( $\beta_3 = .564, P = .032$ ).



**Figure 4.17: Moderating Effect of Age on Leadership and SME Performance**

### 7. Discussion of Findings on Moderating Effect of Age on Leadership Styles and SME Performance

Figure 4.17 clearly shows the interaction between age of the firm as the moderating variable in the relationship between leadership styles and the performance of manufacturing small and medium firms in Kenya.

The findings on the moderation effect of age on leadership styles and performance indicated that the practice of superior leadership skills, as a dynamic capability, matures with time and enables the older manufacturing firms to perform better in a dynamic

environment. The implication here is that those firms that have existed in the industry for some time have been able to develop strong capacities and capabilities in leadership skills through practice, experience, training and recruitment from other high performing organizations.

On the other hand the young manufacturing firm enjoys high performance in the initial years after establishment due to its newness in the market, its small size and the ability to manage better. The performance of young manufacturing firms, however, declines gradually with time as the competition intensify and the opportunity cost of continuous focus on growth and performance at the expense developing better capacities and skills for future survival weighs on the firm. This creates inconsistencies in leadership styles as the firm attempts to understand the environmental dynamism and position itself better in the market. The implication of these findings is that, since the literature have documented that majority of SME firms do not live to celebrate their fifth birthday (Gakure, 2013), these firms need to start practicing strategic management in their second to fourth year of existence to avoid their collapse. The findings from the moderated regression analysis also showed that the age of the firm has a significant moderating effect on leadership styles and the performance of the SME firms in Kenya.

#### **b) Moderating Effect of Size on Leadership Styles and SME firm's Performance**

To test whether size of the firm influence the relationship between leadership styles and performance of manufacturing small and medium firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1X_1 + \beta_2Z_2 + \beta_3X_1Z_2 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the slope coefficients representing the relationship between the independent variable and dependent variable,  $X_1$  is leadership styles,  $Z_2$  represents size as a moderator while  $X_1Z_2$  is the interaction

term which is the product of size and leadership styles (Size\*Leadership styles). The results are presented in Tables 4.31, 4.32 and 4.33.

**Table 4.31: Moderating Effect of Size on Leadership Styles and Manufacturing SME Performance: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.729	1	1.729	7.854	.006 <sup>b</sup>
	Residual	24.216	110	.220		
	Total	25.945	111			
2	Regression	1.801	2	.901	4.066	.020 <sup>c</sup>
	Residual	24.144	109	.222		
	Total	25.945	111			
3	Regression	2.079	3	.693	3.136	.028 <sup>d</sup>
	Residual	23.866	108	.221		
	Total	25.945	111			

a. Dependent Variable: Performance

b. Predictors: (Constant), Leadership Styles

c. Predictors: (Constant), Leadership Styles, Size

d. Predictors: (Constant), Leadership Styles, Size, Size\*Leadership

The results in Table 4.31 shows that the F statistics in model one,  $F_{(1,110)} = 7.854$ ,  $P = .006$  is valid and there is a significant influence of leadership styles on the performance of the manufacturing SMEs. When size of the firm was introduced as a moderating variable in model two, the F statistics,  $F_{(2, 109)} = 4.066$ ,  $P = .02$  indicated that model remains valid and there is a significant influence among leadership styles, size of the firm and the performance of the SME. When the interaction term (Size\*leadership

styles) was added in model three, the F statistics,  $F_{(3,108)} = 3.136$ ,  $P = .028$  indicated that the results remained valid and there is a significant influence among leadership styles, size of the firm, the interaction term (size\*leadership styles) on the performance of manufacturing small and medium firm in Kenya.

**Table 4.32: Moderating Effect of Size on Leadership Styles and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F	df1	df2	
1	.258 <sup>a</sup>	.067	.058	.46920	.067	7.854	1	110	.006
2	.263 <sup>b</sup>	.069	.052	.47064	.003	.326	1	109	.569
3	.283 <sup>c</sup>	.080	.055	.47008	.011	1.258	1	108	.265

a. Predictors: (Constant), Leadership Styles

b. Predictors: (Constant), Leadership Styles, Size

c. Predictors: (Constant), Leadership Styles, Size, Size\*Leadership

The coefficient of determination ( $R^2$ ) in model one in Table 4.32 show that 6.7% of the total variation in performance of the manufacturing small and medium firms in Kenya can be explained by leadership styles. The adjusted  $R^2$  shows that when the constant is excluded from the study, leadership styles explain 5.8% of the total variation in performance. The value of ( $r = .258$ ,  $P = .006$ ) in the table indicated a significant positive influence of leadership styles on the performance of the manufacturing SME firms and the standard error of estimate (0.469) shows mean deviation of the predictor variable from the line of best fit.

The second model introduced size of the firm into the relationship between leadership styles and performance of manufacturing small and medium firms. The change in  $R^2$  from 6.7% to 6.9% implied that size of the firm improves the relationship between leadership styles and SME performance by 0.3% but the improvement is not statistically significant ( $P = .569$ ). The third model show the influence among leadership styles, size of the firm, the interaction term (size\*leadership) and performance of the SME firm. The results indicated that the interacting term improves the  $R^2$  by 1.1% from 6.9% to 8.0% but the improvement is not statistically significant ( $P = .265$ ). This implies that the size of the firm does not significantly influence the relationship between leadership styles and the performance of small and medium manufacturing firms in Kenya.

**Table 4.33: Moderating Effect of Size on Leadership Styles and Manufacturing SME Performance: Regression Weights**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	3.754	.044		84.515	.000
	Leadership Styles	.283	.101	.258	2.803	.006
2	(Constant)	3.767	.050		74.971	.000
	Leadership Styles	.291	.102	.266	2.847	.005
	Size	-.064	.111	-.053	-.571	.569
3	(Constant)	3.762	.050		74.705	.000
	Leadership Styles	.211	.125	.193	1.692	.094
	Size	-.075	.112	-.063	-.669	.505
	Size*Leadership	.244	.217	.128	1.122	.265

a. Dependent Variable: Performance

The results in model one Table 4.33 indicates that leadership styles is a significant predictor of manufacturing SME firm's performance ( $\beta_1 = .283$ ,  $P = .006$ ), with the introduction of the moderating variable (size) in model two, leadership styles remained

significant ( $\beta_1 = .291, P = .005$ ) but size ( $\beta_2 = -.064, P = .569$ ) became insignificant. When the interaction term (size\*leadership) was introduced as shown in model three, all the three variables became insignificant predictors of performance in SME firm.

**c) Moderating Effect of Age on Structure and SME firm's Performance**

To test whether age of the firm influences the relationship between structural adaptations and performance of manufacturing SME firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_2 + \beta_2 Z_1 + \beta_3 X_2 Z_1 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1, \beta_2, \beta_3$  are slope coefficients representing the relationship between the independent variable and dependent variable,  $X_2$  is structural adaptations,  $Z_1$  is age as a moderating variable while  $X_2 Z_1$  is the interaction term which is the product of age and structure (Age\*Structure). The results are presented in Tables 4.34, 4.35 and 4.36.

**Table 4.34: Moderating Effect of Age on Structure and Manufacturing SME Performance: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.129	1	5.129	26.974	.000 <sup>b</sup>
	Residual	21.298	112	.190		
	Total	26.427	113			
2	Regression	5.611	2	2.805	14.958	.000 <sup>c</sup>
	Residual	20.817	111	.188		
	Total	26.427	113			
3	Regression	6.311	3	2.104	11.504	.000 <sup>d</sup>
	Residual	20.116	110	.183		
	Total	26.427	113			

a. Dependent Variable: Performance

b. Predictors: (Constant), Structural Adaptations

c. Predictors: (Constant), Structural Adaptations, Age

d. Predictors: (Constant), Structural Adaptations, Age, Age\*Structure

The results in Table 4.34 show that model one,  $F_{(1,112)} = 26.974$ ,  $P < .001$  is valid and that there is a significant influence of structural adaptations on the performance of the manufacturing small and medium firms. When age was introduced as a moderating variable in model two,  $F_{(2, 111)} = 14.958$ ,  $P < .001$ , the new model remained valid indicating that there is a significant influence among structural adaptations, age of the firm and the performance of the manufacturing SME firm. When the interaction term (age\*structure) was introduced in model three, the new model,  $F_{(3,110)} = 11.504$ ,  $P < .001$  remained valid indicating that there is a significant influence among the structural

adaptations of the firm, age, the interaction term (age\*structure) on the performance of manufacturing small and medium firm in Kenya.

**Table 4.35: Moderating Effect of Age on Structure and Performance of the Manufacturing SME: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.441 <sup>a</sup>	.194	.187	.43607	.194	26.974	1	112	.000
2	.461 <sup>b</sup>	.212	.198	.43306	.018	2.566	1	111	.112
3	.489 <sup>c</sup>	.239	.218	.42763	.027	3.832	1	110	.053

a. Predictors: (Constant), Structural Adaptations

b. Predictors: (Constant), Structural Adaptations, Age

c. Predictors: (Constant), Structural Adaptations, Age, Age\*Structure

The  $R^2$  in model one in Table 4.35 show that 19.4% of the total variation in performance of the manufacturing SME firms in Kenya can be explained by structural adaptations. The adjusted  $R^2$  show that when the constant is excluded from the study, structural adaptations explain 18.7% of the total variation in performance. The value of ( $r = .441$ ,  $P < .001$ ) in the table indicated a significant positive influence between structural adaptations and performance of the manufacturing SME firms and the standard error of estimate (0.436) shows mean deviation of the predictor variable from the line of best fit.

The second model introduced age of the firm into the relationship between structural adaptations and performance of manufacturing small and medium firms. The change in  $R^2$  from 19.4% to 21.2% implied that age of the firm improved the relationship between

structural adaptations and SME performance by 1.8% which is not significant ( $P = .112$ ). The third model shows the influence among structural adaptations, age of the firm, the interaction term (age\*structure) and performance of the SME firm. The results indicated that with the introduction of the interacting term, the  $R^2$  improved further by 2.7% from 21.2% to 23.9% but the change in  $R^2$  is not statistically significant ( $P = .053$ ). This implied that age of the firm is not a significant moderator of the relationship between structural adaptations and performance of manufacturing SME firms in Kenya.

**Table 4.36: Moderating Effect of Age on Structure and Manufacturing SME Performance: Regression Weights**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	3.755	.041		91.941	.000
	Structural Adaptations	.674	.130	.441	5.194	.000
2	(Constant)	3.644	.080		45.299	.000
	Structural Adaptations	.628	.132	.411	4.761	.000
	Age	.151	.094	.138	1.602	.112
3	(Constant)	3.585	.085		42.172	.000
	Structural Adaptations	.100	.299	.066	.335	.739
	Age	-2.329	1.270	-2.130	-1.833	.069
	Age*Structure	.651	.333	2.372	1.958	.053

a. Dependent Variable: Performance

The results in model one Table 4.36 indicate that structural adaptations is a significant predictor of manufacturing SME firm's performance ( $\beta_1 = .674$ ,  $P < .001$ ), with the introduction of the moderating variable (age) in model two, structural adaptations ( $\beta_1 = .628$ ,  $P < .001$ ) remained statistically significant while age ( $\beta_2 = .151$ ,  $P = .112$ ) became an insignificant predictor of performance in manufacturing SME firm. When the

interaction term (age\*structure) was introduced as shown in model three, all variables became an insignificant predictors of performance in the manufacturing SME firm.

**d) Moderating Effect of Size on Structure and Performance of the Manufacturing SME**

To test whether size of the firm influences the relationship between structural adaptations and performance of manufacturing small and medium firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1X_2 + \beta_2Z_2 + \beta_3X_2Z_2 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1, \beta_2, \beta_3$  are slope coefficients representing the influence of the independent variable on the dependent variable,  $X_2$  is structural adaptations,  $Z_2$  represents size as a moderator while  $X_2Z_2$  is the interaction term which is the product of size and structural adaptations (size\*structure). The results are presented in Tables 4.37, 4.38 and 4.39.

**Table 4.37: Moderating Effect of Size on Structure and Manufacturing SME Performance: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.277	1	5.277	27.589	.000 <sup>b</sup>
	Residual	21.231	111	.191		
	Total	26.508	112			
2	Regression	5.301	2	2.650	13.748	.000 <sup>c</sup>
	Residual	21.207	110	.193		
	Total	26.508	112			
3	Regression	5.316	3	1.772	9.114	.000 <sup>d</sup>
	Residual	21.192	109	.194		
	Total	26.508	112			

a. Dependent Variable: Performance

b. Predictors: (Constant), Structural Adaptations

c. Predictors: (Constant), Structural Adaptations, Size

d. Predictors: (Constant), Structural Adaptations, Size, Size\*Structure

The results in Table 4.37 show that model one,  $F_{(1,111)} = 27.589$ ,  $p < .001$  is valid and there is a significant influence between structure and the performance of the manufacturing small and medium firms. When size of the firm was introduced as a moderating variable, the F statistics,  $F_{(2, 110)} = 13.748$ ,  $P < .001$  indicated that the new model remained valid and there is a significant influence among structural adaptations of the firm, size on the performance of the manufacturing SME.

When the interaction term (size\*structure) was introduced in model three, the F statistics,  $F_{(3,109)} = 9.114$ ,  $P < .001$  indicated that the new model remained valid and there is a significant influence among structural adaptations, size of the firm, the interaction term (size\*structure) on the performance of manufacturing small and medium firm in Kenya.

**Table 4.38: Moderating Effect of Size on Structure and Performance of the Manufacturing SME: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F	df1	df2	Sig. F Change
1	.446 <sup>a</sup>	.199	.192	.43734	.199	27.589	1	111	.000
2	.447 <sup>b</sup>	.200	.185	.43908	.001	.124	1	110	.725
3	.448 <sup>c</sup>	.201	.179	.44093	.001	.078	1	109	.780

a. Predictors: (Constant), Structural Adaptations

b. Predictors: (Constant), Structural Adaptations, Size

c. Predictors: (Constant), Structural Adaptations, Size, Size\*Structure

The  $R^2$  in model one in Table 4.38 show that 19.9% of the total variations in

performance of the manufacturing SME firms in Kenya can be explained by structural adaptations. The adjusted  $R^2$  show that when the constant is excluded from the study, structural adaptations explain 19.2% of the total variation in performance. The value of ( $r = .446, P < .001$ ) in the table indicate a significant positive influence of structural adaptations on the performance of the manufacturing small and medium firms and the standard error of estimate (0.437) shows mean deviation of the predictor variable from the line of best fit.

The second model introduced size of the firm into the relationship between structural adaptations and performance of manufacturing small and medium firms. The change in  $R^2$  from 19.9% to 20% is not significant ( $P = .725$ ) implying that the introduction of size in the model made the relationship between structural adaptation and performance of SME manufacturing firms insignificant. The third model also shows that by introducing the interaction term (size\*structure) into the regression model, the relationship between structural adaptations and performance of SME manufacturing firms became insignificant.

**Table 4.39: Moderating Effect of Size on Structure and Manufacturing SME Performance: Regression Weights**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	3.754	.041		91.250	.000
	Structural Adaptations	.684	.130	.446	5.253	.000
2	(Constant)	3.747	.046		80.864	.000
	Structural Adaptations	.690	.132	.450	5.237	.000
	Size	.036	.103	.030	.352	.725
3	(Constant)	3.746	.047		80.457	.000
	Structural Adaptations	.719	.169	.469	4.252	.000
	Size	.328	1.050	.273	.313	.755
	Size*Structure	-.076	.271	-.243	-.279	.780

a. Dependent Variable: Performance

Table 4.39 show that structural adaptations of the SME firm in all the three models remains statistically significant with a  $P < .001$ . The introduction of size as a moderator in model two and the introduction of the interaction terms (size\*structure) in model three did not improve the situation as both cases remained insignificant. This study therefore concluded that the size of the firm is not a significant moderator of the influence of structural adaptations on the performance of the SME firms in Kenya.

**e) Moderating Effect of Age on Human Resource and Performance of the Manufacturing SME**

To test whether age of the firm influences the relationship between human resource requirements and performance of manufacturing SME firms during strategy

implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_3 + \beta_2 Z_1 + \beta_3 X_3 Z_1 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the slope coefficients representing influence between independent variable and the dependent variable,  $X_3$  is human resources,  $Z_1$  is age as a moderating variable while  $X_3 Z_1$  is the interaction term which is the product of age and human resources (Age\*Human Resources). The results are presented in Tables 4.40, 4.41 and 4.42.

**Table 4.40: Moderating Effect of Age on Human Resource and Manufacturing SME Performance: Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.363	1	4.363	22.146	.000 <sup>b</sup>
	Residual	22.064	112	.197		
	Total	26.427	113			
2	Regression	4.941	2	2.471	12.764	.000 <sup>c</sup>
	Residual	21.486	111	.194		
	Total	26.427	113			
3	Regression	5.156	3	1.719	8.889	.000 <sup>d</sup>
	Residual	21.271	110	.193		
	Total	26.427	113			

The results in Table 4.40 show that model one,  $F_{(1,112)} = 22.146$ ,  $P < .001$  is valid and there is a significant influence between human resource and the performance of the manufacturing small and medium firms. When age was introduced as a moderating variable, model two,  $F_{(2, 111)} = 12.764$ ,  $P < .001$  remained valid and indicated that there is a significant influence among human resources, age of the firm on the performance of the manufacturing SME.

When the interaction term (age\*human resources) was added in the regression model, the F statistics,  $F_{(3,110)} = 8.889$ ,  $P < .001$  indicated that model three remained valid and there is a significant influence among human resources, age of the firm, the interaction term on the performance of manufacturing SME firm.

**Table 4.41: Moderating Effect of Age on Human Resource and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F	df1	df2	
1	.406 <sup>a</sup>	.165	.158	.44385	.165	22.146	1	112	.000
2	.432 <sup>b</sup>	.187	.172	.43996	.022	2.988	1	111	.087
3	.442 <sup>c</sup>	.195	.173	.43974	.008	1.112	1	110	.294

The  $R^2$  in model one in Table 4.41 show that 16.5% of the total variation in performance of the SME firms in Kenya can be explained by human resources. The adjusted  $R^2$  show that when the constant is excluded from the study, human resources explain 15.8% of the total variation in performance. The value of ( $r = .406$ ,  $P < .001$ ) in the table indicate a significant positive influence of the attention to human resources on the performance of the manufacturing small and medium firms and the standard error of estimate (0.444) shows mean deviation of the predictor variable from the line of best fit.

The second model introduced age of the firm into the relationship between human resources and performance of manufacturing small and medium firms. The change in  $R^2$  from 16.5% to 18.7% is not significant ( $P = .087$ ) implying that the introduction of age in the model made the influence of human resource on performance of SME

manufacturing firms insignificant. The third model also showed that by introducing the interaction term (age\*human resource) into the regression model, the influence of human resources on performance of SME manufacturing firms became insignificant ( $P = .294$ ).

**Table 4.42: Moderating Effect of Age on Human Resource and Manufacturing SME Performance: Regression Weights**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	3.755	.042		90.334	.000
	Human Resource	.496	.105	.406	4.706	.000
2	(Constant)	3.634	.082		44.563	.000
	Human Resource	.459	.107	.376	4.302	.000
	Age	.165	.096	.151	1.729	.087
3	(Constant)	3.606	.086		42.072	.000
	Human Resource	.246	.228	.202	1.079	.283
	Age	.190	.098	.174	1.933	.056
	Age*Human Resource	.272	.258	.193	1.055	.217

Table 4.42 shows that attention to human resource requirements in the SME firm remained significant only in the first and second model. When age of the firm was introduced in the second model, it became insignificant ( $P = .987$ ). When the interaction term was introduced in model three all the variables became insignificant. This study therefore concluded that the age of the firm is not a significant moderator of the influence of human resource requirements on the performance of the SME manufacturing firms in Kenya.

**f) Moderating Effect of Size on Human Resources and SME firm's Performance**

To test whether size of the firm moderates the influence of human resources on the performance of manufacturing SME firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_3 + \beta_2 Z_2 + \beta_{12} X_3 Z_2 + \epsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the slope coefficients representing influence between independent variable and the dependent variable,  $X_3$  is human resources,  $Z_2$  is size as a moderating variable while  $X_3 Z_2$  is the interaction term which is the product of size and human resources (size\*human resources). The results are presented in Tables 4.43, 4.44 and 4.45.

**Table 4.43: Moderating Effect of Size on Human Resource and Manufacturing SME Performance: Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.379	1	4.379	21.963	.000 <sup>b</sup>
	Residual	22.129	111	.199		
	Total	26.508	112			
2	Regression	4.386	2	2.193	10.903	.000 <sup>c</sup>
	Residual	22.122	110	.201		
	Total	26.508	112			
3	Regression	4.391	3	1.464	7.213	.000 <sup>d</sup>
	Residual	22.117	109	.203		
	Total	26.508	112			

The results in Table 4.43 shows that model one,  $F_{(1,111)} = 21.963$ ,  $P < .001$  is valid and there is a significant influence of human resource on the performance of the manufacturing small and medium firms. When size was introduced as a moderating

variable, the F statistics,  $F_{(2, 110)} = 10.903$ ,  $P < .001$  in model two indicated that the model remained valid and there is a significant influence among human resources, size of the firm and the performance of the manufacturing SME. When the interaction term (size\*human resource) was added in the regression model, the F statistics,  $F_{(3,109)} = 7.213$ ,  $P < .001$  in model three indicated that the results remains valid and there is a significant influence among human resource, size of the firm, the interaction term (size\*structure) on the performance of manufacturing small and medium firm in Kenya.

**Table 4.44: Moderating Effect of Size on Human Resource and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F	df1	df2	Sig. F Change
1	.406 <sup>a</sup>	.165	.158	.44650	.165	21.963	1	111	.000
2	.407 <sup>b</sup>	.165	.150	.44846	.000	.034	1	110	.854
3	.407 <sup>c</sup>	.166	.143	.45046	.000	.025	1	109	.874

Table 4.44 indicate that human resources account for 16.5% of the total variations in the performance of the manufacturing SME firm ( $R^2 = .165$ ). When size as a moderator was introduced into the model the resultant  $R^2$  change in model two did not add any value to the model (  $\Delta R^2 = .000$ ,  $P = .854$ ) and is insignificant. Adding the interaction term (size\*human resource) in model three did not change  $R^2$  any further ( $\Delta R^2 = 0.00$ ,  $P = .874$ ) which is still insignificant. This led to the conclusion that  $Z_2$  (size of the firm) does not significantly moderate the influence between attention to human resource requirements and performance of the manufacturing small and medium firms in Kenya.

**Table 4.45: Moderating Effect of Size on Human Resource and Manufacturing SME Performance: Regression Weights**

	Model	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.754	.042		89.368	.000
	Human Resource	.499	.106	.406	4.687	.000
2	(Constant)	3.758	.047		79.492	.000
	Human Resource	.499	.107	.406	4.663	.000
	Size	-.019	.105	-.016	-.185	.854
3	(Constant)	3.758	.047		79.139	.000
	Human Resource	.510	.130	.416	3.936	.000
	Size	-.020	.105	-.016	-.187	.852
	Size*Human Resource	-.037	.232	-.017	-.159	.874

Table 4.45 shows that attention to human resource requirements in the SME firm remained significant ( $P < .001$ ) in all the three models. When size of the firm, as a moderator, was introduced in the second model, it became insignificant ( $P = .854$ ). When the interaction term (size\* Human Resource) was introduced in the third model, all the other variables, except human resource became insignificant. This study, therefore, concluded that the size of the firm is not a significant moderator of the influence between human resource requirements and performance of the SME manufacturing firms in Kenya.

**g) Moderating Effect of Age on Technology and SME firm's Performance**

To test whether age of the firm influences the relationship between technology and the performance of SME firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_4 + \beta_2 Z_1 + \beta_3 X_4 Z_1 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1, \beta_2, \beta_3$  are the slopes,  $X_3$  is technology,  $Z_1$  is age as a moderating variable while  $X_4 Z_1$  is the interaction term which is the product of age and technology (age\*technology). The results are presented in Tables 4.46, 4.47 and 4.48.

**Table 4.46: Moderating Effect of Age on Technology and Manufacturing SME Performance Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.036	1	6.036	33.151	.000 <sup>b</sup>
	Residual	20.392	112	.182		
	Total	26.427	113			
2	Regression	7.301	2	3.651	21.187	.000 <sup>c</sup>
	Residual	19.126	111	.172		
	Total	26.427	113			
3	Regression	7.970	3	2.657	15.832	.000 <sup>d</sup>
	Residual	18.458	110	.168		
	Total	26.427	113			

The results in Table 4.46 shows that model one,  $F_{(1,112)} = 33.151, P < .001$  is valid showing a significant influence of technology on the performance of the manufacturing small and medium firms. When age of the firm was introduced as a moderating variable, the F statistics,  $F_{(2,111)} = 21.187, P < .001$  indicated that model two remained valid and there is a significant influence among technology, age of the firm on the performance of the manufacturing SME. When the interaction term (age\*technology) was introduced in

the regression model, the new model,  $F_{(3,110)} = 15.382$ ,  $P < .001$  remained valid indicating a significant influence among technology, age of the firm, interaction term (age\*technology) on the performance of manufacturing SME firm in Kenya.

**Table 4.47: Moderating Effect of Age on Technology and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					of R Square Change	F	df1	df2	Sig. F Change
1	.478 <sup>a</sup>	.228	.221	.42669	.228	33.151	1	112	.000
2	.526 <sup>b</sup>	.276	.263	.41510	.048	7.346	1	111	.008
3	.549 <sup>c</sup>	.302	.283	.40963	.025	3.983	1	110	.048

Table 4.47 indicated that technology explains 22.8% of the total variations in the performance of the manufacturing SME firm ( $R^2 = 0.228$ ). When age of the firm as a moderator was introduced into the model, the resultant  $R^2$  change in model two improved and added value to the model ( $\Delta R^2 = .048$ ,  $P = .008$ ) and is significant. Adding the interaction term (age\*technology) in model three improved the  $R^2$  further by 2.5% ( $\Delta R^2 = 0.025$ ,  $P = .48$ ) which is significant. This led to the conclusion that  $Z_1$  (age of the firm) is a significant moderator of the influence between the level of technology and performance of the manufacturing small and medium firms in Kenya.

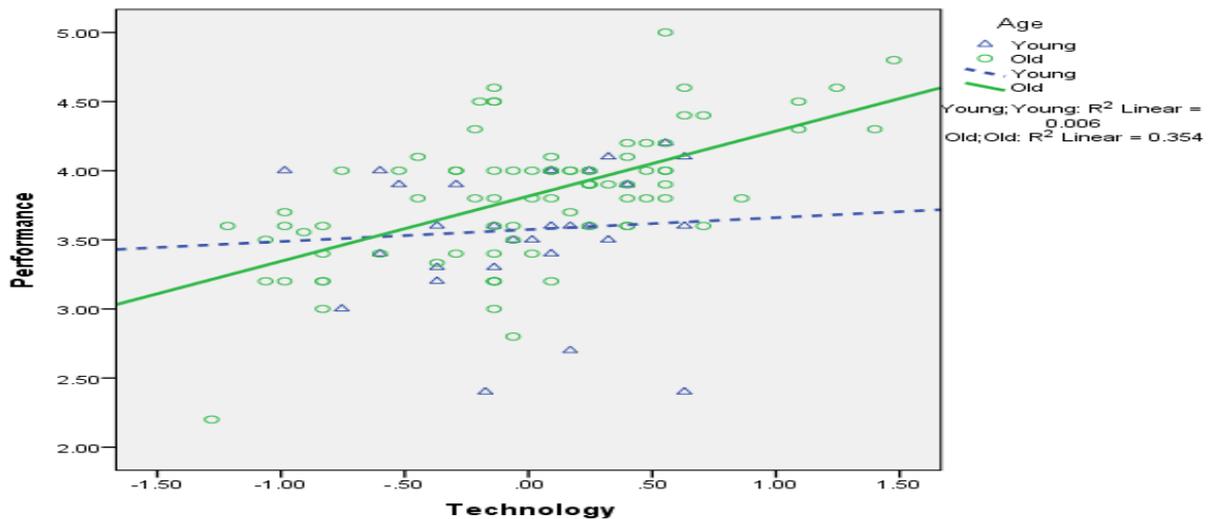
**Table 4.48: Moderating Effect of Age on Technology and Manufacturing SME Performance: Regression Weights**

The results in model one Table 4.48 indicated that technology is a significant predictor

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.754	.040		93.920	.000
	Technology	.415	.072	.478	5.758	.000
2	(Constant)	3.577	.076		47.200	.000
	Technology	.412	.070	.474	5.873	.000
	Age	.239	.088	.219	2.710	.008
3	(Constant)	3.574	.075		47.779	.000
	Technology	.086	.177	.099	.487	.627
	Age	.242	.087	.221	2.774	.007
	Age*Technology	.384	.193	.407	1.996	.048

of manufacturing SME firm's performance ( $\beta_1 = .415$ ,  $P < .001$ ). With the introduction of the moderating variable (age) in model two, both technology ( $\beta_1 = .412$ ,  $P < .001$ ) and age ( $\beta_2 = .239$ ,  $P = .008$ ) became significant predictors of performance in manufacturing SME firm. When the interaction term (age\*technology) was introduced as shown in model three, technology became an insignificant predictor of performance in manufacturing SME firm ( $\beta_1 = .086$ ,  $P = .627$ ) and its role was significantly taken up by the interaction term (age\*technology) ( $\beta_3 = .384$ ,  $P = .048$ ).

To further investigate the moderation effect of age in the relationship between the technology and performance of the manufacturing SME firm, a scatter diagram was plotted and the results are presented in Figure 4.18.



**Figure 4.18: Moderating Effect of Age on Technology and SME Performance**

**a. Discussion of Findings on the Moderating Effect of Age on the Relationship between Technology and SME Performance**

Technology is a dynamic capability that is embedded in the organization resources, processes and configurations. Figure 4.18 showed that performance of SME manufacturing firms in Kenya improves with the acquisition of additional technology or with the improvements in technology. The moderated multiple regression results in Table 4.48 had shown that age is a significant moderator of the relationship between technology and SME performance.

The implications of these findings are that older firms are more advanced in technology compared to young firms. This can be explained by the fact that older firms have been in the market for some time and have learnt how to cope with technological changes as a result of changes in the environment. They have also learnt the techniques of sensing (Teece, 2014), innovating and configuring their technology in a way that ensures they stay ahead of competition. Younger firms, on the other hand, learn these tricks with time. Therefore, the age of the firm moderates the relationship between technology and performance of SME firm.

#### **h) Moderating Effect of Size on Technology and SME firm's Performance**

To test whether size of the firm moderates the influence between technology and the performance of manufacturing SME firms during strategy implementation process, a moderated multiple regression model was used:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z_2 + \beta_3 X_1 Z_2 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1, \beta_2, \beta_3$  are the slope coefficients representing influence of independent variable on dependent variable,  $X_1$  is technology,  $Z_2$  is size as a moderating variable while  $X_1 Z_2$  is the interaction term which is the product of size and technology (size\*technology). The results are presented in Tables 4.49, 4.50 and 4.51.

**Table 4.49: Moderating Effect of Size on Technology and Manufacturing SME Performance: Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.121	1	6.121	33.325	.000 <sup>b</sup>
	Residual	20.387	111	.184		
	Total	26.508	112			
2	Regression	6.342	2	3.171	17.298	.000 <sup>c</sup>
	Residual	20.165	110	.183		
	Total	26.508	112			
3	Regression	6.674	3	2.225	12.226	.000 <sup>d</sup>
	Residual	19.834	109	.182		
	Total	26.508	112			

a. Dependent Variable: Performance

b. Predictors: (Constant), Technology

c. Predictors: (Constant), Technology, Size

d. Predictors: (Constant), Technology, Size, Size\*Technology

The results in Table 4.49 shows that model one,  $F_{(1,111)} = 33.325$ ,  $P < .001$  is valid showing a significant influence of technology on the performance of the manufacturing small and medium firms. When size of the firm was introduced as a moderating variable, the F statistics,  $F_{(2, 110)} = 17.298$ ,  $P < .001$  in model two remained valid indicating a significant influence among technology, size of the firm on the performance of the manufacturing SME. When the interaction term (size\*technology) was introduced in model three, the F statistics,  $F_{(3,109)} = 12.226$ ,  $P < .001$  indicated that the new model remained valid implying that there is a significant influence among technology, size of the firm, interaction term (size\*technology) on the performance of the SME manufacturing firm.

**Table 4.50: Moderating Effect of Size on Technology and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.481 <sup>a</sup>	.231	.224	.42857	.231	33.325	1	111	.000
2	.489 <sup>b</sup>	.239	.225	.42816	.008	1.209	1	110	.274
3	.502 <sup>c</sup>	.252	.231	.42657	.013	1.822	1	109	.180

a. Predictors: (Constant), Technology

b. Predictors: (Constant), Technology, Size

c. Predictors: (Constant), Technology, Size, Size\*Technology

Table 4.50 indicated that technology explains 23.1% of the total variations in the performance of the manufacturing SME firm ( $R^2 = 0.231$ ). When size of the firm as a moderator was introduced into the model the resultant  $R^2$  change in model two added little value to the model ( $\Delta R^2 = .008$ ,  $P = .274$ ) which was insignificant. Adding the interaction term (size\*technology) in model three slightly improved the  $R^2$  further by 1.3% ( $\Delta R^2 = .013$ ,  $P = .180$ ) which was still insignificant. This led to the conclusion that  $Z_2$  (size of the firm) is not a significant moderator of the influence between the level of technology and performance of the manufacturing SME firms in Kenya.

**Table 4.51: Moderating Effect of Size on Technology and Manufacturing SME Performance: Regression Weights**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	3.754	.040		93.113	.000
	Technology	.417	.072	.481	5.773	.000
2	(Constant)	3.777	.045		83.482	.000
	Technology	.428	.073	.494	5.876	.000
	Size	-.111	.101	-.092	-1.100	.274
3	(Constant)	3.774	.045		83.646	.000
	Technology	.363	.087	.419	4.172	.000
	Size	-.131	.102	-.109	-1.290	.200
	Size*Technology	.213	.158	.137	1.350	.180

a. Dependent Variable: Performance

Table 4.51 shows that the level of technological requirements in the SME firm remained significant ( $P < .001$ ) in all the three models. When size of the firm, as a moderator, was introduced in the second model, it became insignificant ( $P = .274$ ). When the interaction term (size\*technology) was introduced in the third model, all the other variables, except technology became insignificant. This study therefore concluded that the size of the firm is not a significant moderator of the influence between technological requirements and performance of the SME manufacturing firms in Kenya.

**i) Moderating Effect of Age on Strategic Direction and SME firm's Performance**

A moderated multiple regression model was used to test whether age of the firm moderates the influence between strategic direction and the performance of manufacturing SME firms during strategy implementation process:  $Y = \beta_0 + \beta_1 X_5 + \beta_2 Z_1 + \beta_3 X_5 Z_1 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the slope coefficients representing the influence of independent variable on the dependent variable,  $X_5$  is strategic direction,  $Z_1$  is age as a moderating variable while  $X_5 Z_1$  is the interaction term which is the product of age and strategic direction (age\*strategic direction). The results are presented in Tables 4.52, 4.53 and 4.54.

**Table 4.52: Moderating Effect of Age on Strategic Direction and Manufacturing SME Performance: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.469	1	.469	2.023	.158 <sup>b</sup>
	Residual	25.958	112	.232		
	Total	26.427	113			
2	Regression	1.736	2	.868	3.902	.023 <sup>c</sup>
	Residual	24.691	111	.222		
	Total	26.427	113			
3	Regression	2.401	3	.800	3.664	.015 <sup>d</sup>
	Residual	24.026	110	.218		
	Total	26.427	113			

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategic Direction

c. Predictors: (Constant), Strategic Direction, Age

d. Predictors: (Constant), Strategic Direction, Age, Age\*Strategic Direction

The results in Table 4.52 show that model one,  $F_{(1,112)} = 2.023$ ,  $P = .158$  is not valid for further analysis. When age of the firm was introduced as a moderating variable, the F statistics,  $F_{(2, 111)} = 3.902$ ,  $P = .023$  in model two indicated that the new model became valid showing a significant influence among strategic direction, age of the firm on the performance of the SME. When the interaction term (age\*strategic direction) was introduced in model three,  $F_{(3,110)} = 3.664$ ,  $P = .015$ , the new model remained valid showing significant influence among strategic direction, age of the firm, the interaction term (age\*strategic direction) on the performance of SME manufacturing firm.

**Table 4.53: Moderating Effect of Age on Strategic Direction and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.133 <sup>a</sup>	.018	.009	.48143	.018	2.023	1	112	.158
2	.256 <sup>b</sup>	.066	.049	.47164	.048	5.697	1	111	.019
3	.301 <sup>c</sup>	.091	.066	.46735	.025	3.045	1	110	.084

a. Predictors: (Constant), Strategic Direction

b. Predictors: (Constant), Strategic Direction, Age

c. Predictors: (Constant), Strategic Direction, Age, Age\*Strategic Direction

Table 4.53 indicate that strategic direction explains 1.8% of the total variations in the performance of the manufacturing SME firm ( $R^2 = 0.018$ ). When age of the firm as a moderator was introduced into the model the resultant  $R^2$  change in model improved and added value to the model ( $\Delta R^2 = .048$ ,  $P = .019$ ) which was significant. Adding the interaction term (age\*strategic direction) in model three slightly improved the  $R^2$  further

by 2.5% ( $\Delta R^2 = 0.025$ ,  $P = .084$ ) which was still insignificant. This led to the conclusion that  $Z_1$  (age of the firm) is not a significant moderator of the influence between strategic direction and the performance of the manufacturing small and medium firms in Kenya.

**Table 4.54: Moderating Effect of Age on Strategic Direction and Manufacturing SME Performance: Regression Weights**

	Model	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.756	.045		83.290	.000
	Strategic Direction	.152	.107	.133	1.422	.158
2	(Constant)	3.579	.086		41.511	.000
	Strategic Direction	.137	.105	.120	1.302	.196
	Age	.240	.101	.219	2.387	.019
3	(Constant)	3.567	.086		41.635	.000
	Strategic Direction	-.145	.192	-.127	-.755	.452
	Age*Strategic Direction	.399	.229	.293	1.745	.084

a. Dependent Variable: Performance

Table 4.54 shows that the emphasis on strategic direction in the SME firm remained insignificant in all the three models. When age of the firm, as a moderator, was introduced in the second model, it became significant ( $P = .019$ ). When the interaction term (age\*strategic direction) was introduced in the third model, the model became insignificant ( $P = .084$ ). This study, therefore, concluded that the age of the firm is not a

significant moderator of the influence of strategic direction on the performance of the SME manufacturing firms in Kenya.

**j) Moderating Effect of Size on Strategic Direction and SME firm's Performance**

A moderated multiple regression model was used to test whether size of the firm moderates the influence between strategic direction and the performance of manufacturing SME firms during strategy implementation process:  $Y = \beta_0 + \beta_1 X_5 + \beta_2 Z_2 + \beta_3 X_5 Z_2 + \varepsilon$ , where Y is the performance,  $\beta_0$  is the constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the slope coefficients representing influence of the independent variables on the dependent variable,  $X_5$  is strategic direction,  $Z_2$  is size as a moderating variable while  $X_5 Z_2$  is the interaction term which is the product of size and strategic direction (size\*strategic direction). The results are presented in Tables 4.55, 4.56 and 4.57.

**Table 4.60: Moderating Effect of Size on Strategic Direction and Manufacturing SME Performance: Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.466	1	.466	1.985	.162 <sup>b</sup>
	Residual	25.958	111	.235		
	Total	26.508	112			
2	Regression	.514	2	.257	1.088	.341 <sup>c</sup>
	Residual	25.994	110	.236		
	Total	26.508	112			
3	Regression	2.969	3	.990	4.583	.005 <sup>d</sup>
	Residual	23.539	109	.216		
	Total	26.508	112			

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategic Direction

c. Predictors: (Constant), Strategic Direction, Size

d. Predictors: (Constant), Strategic Direction, Size, Size\*Strategic Direction

The results in Table 4.55 show that model one,  $F_{(1,111)} = 1.985$ ,  $P = .162$  is not valid for further analysis. When size of the firm was introduced as a moderating variable in model two, the F statistics,  $F_{(2, 110)} = 1.088$ ,  $P = .341$  indicated that the new model is invalid. When the interaction term (size\*strategic direction) was introduced in model three,  $F_{(3,109)} = 4.583$ ,  $P = .005$  the new model became valid indicating significant influence among strategic direction of the firm, size, the interaction term (size\*strategic direction) on the performance of manufacturing SME in Kenya.

**Table 4.56: Moderating Effect of Size on Strategic Direction and Manufacturing SME Performance: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.133 <sup>a</sup>	.018	.009	.48437	.018	1.985	1	111	.162
2	.139 <sup>b</sup>	.019	.002	.48611	.002	.204	1	110	.652
3	.335 <sup>c</sup>	.112	.088	.46471	.093	11.367	1	109	.001

a. Predictors: (Constant), Strategic Direction

b. Predictors: (Constant), Strategic Direction, Size

c. Predictors: (Constant), Strategic Direction, Size, Size\*Strategic Direction

Table 4.56 indicate that strategic direction explains 1.8% of the total variations in the performance of the manufacturing SME firm ( $R^2 = 0.018$ ). When size of the firm as a moderator was introduced into the model the  $R^2$  improved by 0.2% meaning that size of the firm as a moderator slightly improves the model ( $\Delta R^2 = .002, P = .652$ ) which is in significant. Adding the interaction term (size\*strategic direction) in model three greatly improved the  $R^2$  further by 9.3% ( $\Delta R^2 = .093, P = .001$ ) and made it highly significant. This led to the conclusion that  $Z_2$  (size of the firm) is a significant moderator of the influence between the strategic direction and performance of the SME firms in Kenya.

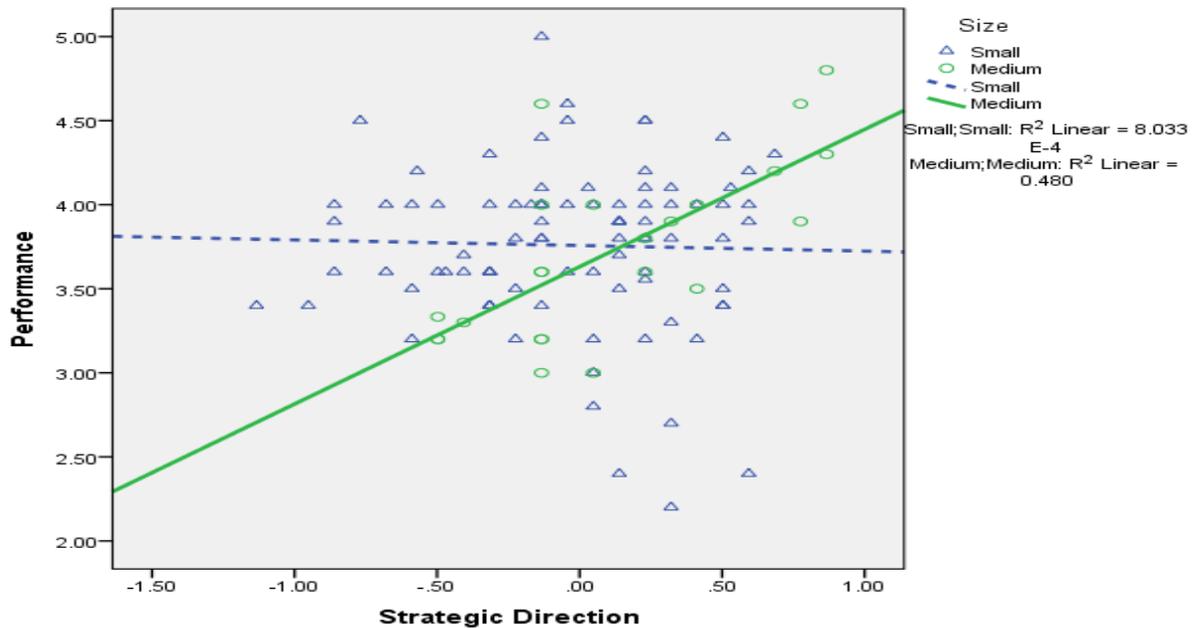
**Table 4.57: Moderating Effect of Size on Strategic Direction and Manufacturing SME Performance: Regression Weights**

	Model	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.753	.046		82.372	.000
	Strategic Direction	.154	.109	.133	1.409	.162
2	(Constant)	3.764	.051		73.252	.000
	Strategic Direction	.161	.111	.139	1.456	.148
	Size	-.052	.115	-.043	-.452	.652
3	(Constant)	3.757	.049		76.427	.000
	Strategic Direction	-.033	.121	-.029	-.275	.784
	Size	-.126	.112	-.105	-1.124	.263
	Size*Strategic Direction	.850	.252	.357	3.371	.001

a. Dependent Variable: Performance

The results in model one Table 4.57 indicate that strategic directions is not a significant predictor of manufacturing SME firm's performance ( $\beta_1 = .154$ ,  $P = .162$ ), with the introduction of the moderating variable (size) in model two, both strategic direction ( $\beta_1 = .161$ ,  $P = .148$ ) and size ( $\beta_2 = -.052$ ,  $P = .652$ ) became insignificant predictors of performance in manufacturing SME firm. When the interaction term (size\*strategic direction) was introduced as shown in model three, the interaction term (size\* strategic direction) became a significant predictor of performance in manufacturing SME firm ( $\beta_3 = .850$ ,  $P = .001$ ) and takes the role of moderating the influence between strategic direction and performance of small and medium manufacturing firms in Kenya.

To further investigate the moderation effect of size on the relationship between strategic direction and the performance of the manufacturing SME firm, a scatter diagram was plotted and the results are presented in Figure 4.19.



**Figure 4.19: Moderating Effect of Size on Strategic Direction and Performance**

## 8. Discussion of Findings on the Moderating Effect of Size on the Relationship between Strategic Direction and SME Performance

Figure 4.19 shows the interactions between strategic direction and performance of the small and medium manufacturing SME firms. These interactions indicated that the size of the firm has a moderating effect on the relationship between strategic direction and performance of the manufacturing SME firm in Kenya.

The figure shows that the emphasis on strategic direction during strategy implementation steadily improves the performance of medium sized firms. This is due to the fact that these firms are well established and with time they have learnt the art of developing

clear visions, missions and goals that are in line with their strategies. On the other hand, the small firms do not have well elaborate visions, mission and goals that are well aligned in their work activities. A number of SME firms have strategic plans in place but rarely emphasize them when they are implementing strategies or the plans are ambitious or not well aligned with the work activities taking place in these firms.

As time goes by, the small manufacturing firms start to learn the art of strategy alignment and fitness. As observed from the scatter gram, the small firm's performance decline with time as competition in the market intensifies. These firms, as they grow in size, need to embrace strategic management practices in between the second and fourth year of existence. The adoption of an appropriate strategic direction in form formulation of a good vision, mission and goal/objectives is so crucial and critical for their future survival before their fifth year of existence. These firms also need to formalize their strategies as they grow in size for better management.

#### **4.9.1 Moderation Effect of Age: Overall Model**

A moderated multiple regression model (MMR) was used to test the moderation effect of age in the relationship between strategy implementation variables and the performance of small and medium manufacturing firms. The strategy implementation variables were tested in a combined relationship and the findings are presented in Tables 4.58, 4.59 and 4.60. The following MMR model was used;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_jZ_j + \beta_{ij}X_iZ_j + \varepsilon$$

Where: Y= firm's performance,  $\beta_0$  = constant,  $\beta_i$  = coefficient of independent variable  $X_i$  where  $i = (1, 2, 3, 4, 5)$ ,  $X_1 - X_5$  = independent variables (leadership, structure, human resources, technology and strategic direction),  $Z_j$  = moderating variable (age/size) of the firm,  $X_i Z_j$  = interaction terms,  $j = (1, 2)$   $\varepsilon$  = error term.

**Table 4.58: Moderation Effect of Age in all variables: Model Validity**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.724	5	1.545	9.110	.000 <sup>b</sup>
	Residual	18.145	107	.170		
	Total	25.869	112			
2	Regression	8.320	6	1.387	8.337	.000 <sup>c</sup>
	Residual	17.548	106	.166		
	Total	25.869	112			
3	Regression	9.569	11	.870	5.390	.000 <sup>d</sup>
	Residual	16.300	101	.161		
	Total	25.869	112			

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource

c. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Age

d. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Age, Age\*Strategic Direction, Age\*Human Resource, Age\*Leadership, Age\*Technology, Age\*Structure

The results in Table 4.58 show that model one,  $F_{(5,107)} = 9.110$ ,  $P < .001$  is valid for further analysis. When age of the firm was introduced as a moderating variable, the F statistics,  $F_{(6, 106)} = 8.337$ ,  $P < .001$  indicated that model two remained valid showing significant influence among all the strategy implementation predictor variables, age of the firm and performance of the manufacturing small and medium enterprises. When the interaction term ( $X_i*Z_j$ ) was introduced, the new model three,  $F_{(11,101)} = 5.390$ ,  $P < .001$  remained valid indicating significant influence among all strategic implementation predictor variables, age of the firm, interaction term ( $X_i*Z_j$ ) on the performance of SME manufacturing firm.

**Table 4.59: Moderation Effect of Age: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.546 <sup>a</sup>	.299	.266	.41180	.299	9.110	5	107	.000
2	.567 <sup>b</sup>	.322	.283	.40688	.023	3.603	1	106	.060
3	.608 <sup>c</sup>	.370	.301	.40173	.048	1.547	5	101	.182

a. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource

b. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Age

c. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Age, Age\*Strategic Direction, Age\*Human Resource, Age\*Leadership, Age\*Technology, Age\*Structure

Table 4.59 indicate that all strategy implementation predictor variables explains 29.9% of the total variations in the performance of the manufacturing SME firm ( $R^2 = .299$ ). When age of the firm, as a moderator, was introduced into the model the  $R^2$  improved by 2.3% meaning that age of the firm slightly improved the model ( $\Delta R^2 = 0.023$ ,  $P = .060$ ) but the model remained insignificant. Adding the interaction term ( $Z_1 * X_i$ ) in model three improved the  $R^2$  further by 4.8% ( $\Delta R^2 = .048$ ,  $P = .182$ ) which is still insignificant. This led to the conclusion that  $Z_1$  (age of the firm) is not a significant moderator of the influence between the strategy implementation and performance of the manufacturing small and medium firms in Kenya.

**Table 4.60: Moderation Effect of Age: Regression Weights**

	Model	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.758	.039		96.600	.000
	Leadership Styles	.107	.109	.098	.979	.330
	Structural Adaptations	.308	.155	.200	1.982	.050
	Human Resource	.213	.134	.172	1.589	.115
	Technology	.276	.087	.316	3.182	.002
	Strategic Direction	-.176	.122	-.154	-1.449	.150
2	(Constant)	3.631	.077		47.298	.000
	Leadership Styles	.103	.108	.094	.950	.344
	Structural Adaptations	.262	.155	.170	1.689	.094
	Human Resource	.176	.134	.143	1.319	.190
	Technology	.300	.087	.343	3.464	.001
	Strategic Direction	-.174	.120	-.151	-1.445	.151
3	Age	.171	.090	.158	1.898	.060
	(Constant)	3.587	.086		41.829	.000
	Leadership Styles	-.053	.272	-.049	-.196	.845
	Structural Adaptations	-.158	.386	-.103	-.410	.683
	Human Resource	.357	.235	.289	1.522	.131
	Technology	.219	.254	.250	.863	.390
	Strategic Direction	-.310	.250	-.270	-1.240	.218
	Age	-2.012	1.627	-1.857	-1.237	.219
	Age*Leadership	.152	.297	.126	.513	.609
	Age*Structure	.572	.423	2.098	1.351	.180
Age*Human Resource	-.355	.287	-.247	-1.235	.220	
Age*Technology	.131	.271	.138	.485	.629	
Age*Strategic Direction	.257	.289	.187	.892	.375	

a. Dependent Variable: Performance

## **9. Discussion of Findings on Moderation effect of Age in the Relationship between Strategy Implementation and SME Performance**

Model one in Table 4.60 show that only constant ( $\beta_0 = 3.758, P < .001$ ), technology ( $\beta_4 = .276, P = .002$ ) and structural adaptations ( $\beta_2 = .308, P = .050$ ) are significant in a combined MMR before moderation. When age of the firm ( $Z_1$ ) was introduced as a moderator in model two, only constant ( $\beta_0 = 3.631, P < .001$ ) and technology ( $\beta_4 = .300, P = .001$ ) remained significant. After introducing the interaction term ( $Z_1 * X_i$ ) in model three, only the constant ( $\beta_0 = 3.587, P < .001$ ) remained significant. This implies that age, as a moderating variable, does not significantly improve the influence between strategy implementation and performance of manufacturing SME firms in Kenya. However, the study found some significant relationships on the moderation effect of age among individual drivers of strategy implementation. For instance, the study established that age of the firm significantly moderates the influence between leadership styles and the performance of the manufacturing SME firms which is also true to technology.

Firm level characteristics related to size and age has been found in the past studies to have a moderating effect on organizations performance (Anic, Rajh & Teodorovic, 2009; Hui, Radzi, Jenetabadi, Kasim, & Radu, 2013). Several studies in the past examined the moderation effect of age on performance in organizations (Anic et al., 2009; Hui et al., 2013; Yasuda, 2005). Hui et al. 2013, in a study entitled the impact of age and size on the relationship among organizational innovation, learning and performance in Asian manufacturing companies, confirmed that a relationship exist between age of the firm with organizational learning, innovation and performance. The study found out that age enables firms to develop organizational routines to be able to perform their activities with more efficiency and better performance. Anic et al. (2009) carried out a study involving firm level characteristics, strategic factors and firm performance in Croatian manufacturing industry found out that high performing firms were small and younger companies. Past studies shows a relationship between the age of

the firm and firm's growth, failure and variability in growth decreases with age (Yasuda, 2005). Young firms are more flexible and dynamic and more volatile in their growth compared to older firms. As the firm ages they are likely to become more stable in growth, gain more knowledge and innovations, position itself better in the market, develop a better structure that increases efficiency and help lower costs and are more likely to have better investment plans. Most of these study shows that age is an important variable that impact of organization's performance but deviating from these findings, this study did not establish a significant relationship between age of the firm and performance. The study found out with proper structures and right technology small firms could outdo medium firms in terms of performance.

**vii) Test of Hypothesis Six (a):**

**H<sub>06a</sub>.** *The age of the firm has no significant influence on the relationship between strategy implementation and performance of the manufacturing SME firm*

This hypothesis intended to test whether the age of the firm significantly moderates the influence between strategy implementation and performance of small and medium manufacturing firms or not. The hypothesis H<sub>06a</sub>:  $\beta_1 = 0$  versus H<sub>6a</sub>:  $\beta_1 \neq 0$  was tested. The findings from the moderated multiple regression (MMR) in Table 4.60 show that when age, as a moderating variable, was introduced in the model, only constant ( $\beta_0 = 3.631, P < .001$ ) and technology ( $\beta_4 = .300, P = .001$ ) remained significant and when the interaction term, which is the product of age and the predictors of performance ( $Z_1 * X_i$ ), was introduced, all the strategy implementation variables became insignificant apart from constant ( $\beta_0 = 3.587, P < .001$ ). This study, therefore, failed to reject H<sub>06a</sub> and concluded that the age of the firm is an insignificant moderator of the influence between strategy implementation and the performance of manufacturing SME in Kenya.

#### 4.9.2 Moderation Effect of Size: Overall Model.

A moderated multiple regression model (MMR) was used to test the moderation effect of size on the influence between strategy implementation variables and the performance of small and medium manufacturing firms. The strategy implementation variables were tested in a combined relationship and the findings are presented in Tables 4.61, 4.62 and 4.63. The following MMR model was used;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_jZ_j + \beta_{ij}X_iZ_j + \varepsilon$$

Where: Y= firm's performance,  $\beta_0$  = constant,  $\beta_i$  = coefficient of independent variable  $X_i$  where  $i = (1, 2, 3, 4, 5)$ ,  $X_1 - X_5$  = independent variables (leadership, structure, human resources, technology and strategic direction),  $Z_j$  = moderating variable (age/size) of the firm,  $X_i Z_j$ = interaction terms,  $j = (1, 2)$   $\varepsilon$  = error term.

**Table 4.61: Moderation Effect of Size in all Variables: Model Validity**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.838	5	1.568	9.177	.000 <sup>b</sup>
	Residual	18.107	106	.171		
	Total	25.945	111			
2	Regression	7.868	6	1.311	7.617	.000 <sup>c</sup>
	Residual	18.077	105	.172		
	Total	25.945	111			
3	Regression	9.375	11	.852	5.144	.000 <sup>d</sup>
	Residual	16.570	100	.166		
	Total	25.945	111			

a. Dependent Variable: Performance

b. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource

c. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Size

d. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Size, Size\*Strategic Direction, Size\*Human Resource, Size\*Leadership, Size\*Technology, Size\*Structure

The results in Table 4.61 shows that model one,  $F_{(5,106)} = 9.177$ ,  $P < .001$  is valid for further analysis. When size of the firm was introduced as a moderating variable, the new model two,  $F_{(6, 105)} = 7.617$ ,  $P < .001$ , remained valid indicating significant influence among all strategy implementation predictor variables, size of the firm on the performance of the manufacturing small and medium enterprises. When the interaction term ( $X_i*Z_2$ ) was added, the new model three,  $F_{(11,100)} = 5.144$ ,  $P < .001$  remained valid indicating significant influence among all the strategic implementation predictor

variables, size of the firm, the interaction term ( $X_i*Z_2$ ) on the performance of manufacturing SME firm.

**Table 4.62: Moderation Effect of Size in all Variables: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					of R Square Change	F	df1	df2	Sig. F Change
1	.550 <sup>a</sup>	.302	.269	.41330	.302	9.177	5	106	.000
2	.551 <sup>b</sup>	.303	.263	.41492	.001	.173	1	105	.678
3	.601 <sup>c</sup>	.361	.291	.40706	.058	1.819	5	100	.116

a. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource

b. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Size

c. Predictors: (Constant), Strategic Direction, Structural Adaptations, Technology, Leadership Styles, Human Resource, Size, Size\*Strategic Direction, Size\*Human Resource, Size\*Leadership, Size\*Technology, Size\*Structure

Table 4.62 indicate that all the strategy implementation predictor variables explains 30.2% of the total variations in the performance of the manufacturing SME firm ( $R^2 = .302$ ). When size of the firm, as a moderator, was introduced into the model, the  $R^2$  improved by 0.1% meaning that the size of a firm slightly improved the model, ( $\Delta R^2 = .001$ ,  $P = .678$ ), but the results were insignificant. Adding the interaction term ( $X_i*Z_2$ ) in model three improved the  $R^2$  further by 5.8% ( $\Delta R^2 = .058$ ,  $P = .116$ ) but the model was still insignificant. This led to the conclusion that  $Z_2$  (size of the firm) is not a significant moderator of the influence between the strategy implementation and performance of the manufacturing small and medium firms in Kenya.

**Table 4.63: Moderation Effect of Size: Regression Weights**

Model	Unstandardized		Standardized	t	Sig.	
	Coefficients		Coefficients			
	B	Std. Error	Beta			
1	(Constant)	3.758	.039		95.881	.000
	Leadership Styles	.107	.110	.098	.977	.331
	Structural Adaptations	.319	.157	.206	2.031	.045
	Human Resource	.208	.135	.167	1.546	.125
	Technology	.278	.087	.318	3.200	.002
	Strategic Direction	-.182	.123	-.157	-1.479	.142
2	(Constant)	3.767	.045		84.313	.000
	Leadership Styles	.113	.111	.103	1.017	.312
	Structural Adaptations	.305	.161	.197	1.893	.061
	Human Resource	.204	.135	.164	1.509	.134
	Technology	.285	.089	.326	3.209	.002
	Strategic Direction	-.179	.124	-.153	-1.438	.153
3	Size	-.042	.102	-.036	-.416	.678
	(Constant)	3.759	.044		84.868	.000
	Leadership Styles	.122	.131	.111	.935	.352
	Structural Adaptations	.388	.190	.251	2.043	.044
	Human Resource	.362	.156	.291	2.327	.022
	Technology	.186	.101	.213	1.829	.070
	Strategic Direction	-.305	.132	-.262	-2.310	.023
	Size	.219	1.455	.184	.150	.881
	Size*Leadership	-.351	.272	-.184	-1.287	.201
	Size*Structure	-.085	.378	-.273	-.224	.823
Size*Human Resource	-.618	.334	-.285	-1.850	.067	
Size*Technology	.300	.273	.195	1.099	.274	
Size*Strategic Direction	.710	.380	.302	1.869	.065	

a. Dependent Variable: Performance

## **10. Discussion of Findings on Moderation Effect of Size in the Relationship between Strategy Implementation and SME Performance**

Model one in Table 4.63 show that only the constant, ( $\beta_0 = 3.758, P < .001$ ), structural adaptations ( $\beta_2 = .319, P = .045$ ) and technology, ( $\beta_4 = .278, P = .002$ ) are significant in a combined MMR before moderation is performed. When size of the firm ( $Z_2$ ) was introduced, as a moderator, in model two, only the constant ( $\beta_0 = 3.767, P < .001$ ) and technology ( $\beta_4 = .285, P = .002$ ) remained significant. After introducing the interaction term ( $X_i * Z_2$ ) in model three, the constant ( $\beta_0 = 3.759, P < .001$ ), human resources ( $\beta_3 = .362, P = .022$ ), strategic direction ( $\beta_5 = -.305, P = .023$ ) and structural adaptations ( $\beta_2 = .388, P = .044$ ) remained significant. The size of the firm ( $\beta_z = .219, P = .881$ ) and the interaction term ( $X_i * Z_2 = P > .05$ ) became insignificant. This implies that the size of the firm, as a moderator, does not significantly improve the influence between strategy implementation and performance of manufacturing SME's. However, the study found significant relationships on the moderation effect of size among individual drivers of strategy implementation. For instance, the study established that the size of the firm significantly moderates the influence between firm's emphasis on strategic direction and the performance of the manufacturing SME firms in Kenya.

Several studies in the past have examined the influence of size on organization performance (Anic, Rajh & Teodorovic, 2009; Hui, Radzi, Jenetabadi, Kasim, & Radu, 2013). Although firm size is a variable that is widely acknowledged to have an effect on firm's performance, the causal relationship between size and performance has yielded mixed results in a number of studies. The findings in this study did not establish a significant influence between size and performance of SME manufacturing firms in Kenya. These findings are consistent with a study conducted by Capon, Farley and Hoenig, (1990) which failed to establish a significant relationship between size in terms of number of employees and firm's performance. Other studies have found a positive relationship between size and organizational performance (Lee & Giorgis, 2004; Ural &

Acaravci, 2006). Bigger firms are presumed to be more efficient than smaller ones. The size helps in achieving economies of scale and therefore can afford to offer their products in the market at lower prices. Large firms also have power to access capital markets which give them more access to opportunities that are not available to small firms (Amato & Wilder, 1985). Zumitzavan and Udchachone (2014) found that the number of employees to be negatively related to performance of an organization meaning that organizations with smaller number of employees may perform better than those with large number of employees. While this study found no significant influence between size of firm, strategy implementation and performance, it is evident from the past findings that there are mixed results on the effects of size on performance of various organizations.

**viii) Test of Hypothesis Six (b):**

**H<sub>06b</sub>.** *The size of the firm has no significantly influence on the relationship between strategy implementation and performance of the manufacturing SME firm*

This hypothesis intended to test whether the size of the firm significantly moderates the influence between strategy implementation and performance of small and medium manufacturing firms or not. The hypothesis H<sub>06b</sub>:  $\beta_1 = 0$  versus H<sub>6b</sub>:  $\beta_1 \neq 0$  was tested. The findings from the moderated multiple regression (MMR) showed that when size, as a moderating variable, was introduced in the model, only constant ( $\beta_0 = 3.767$ ,  $P < .001$ ) and technology ( $\beta_4 = .285$ ,  $P = .002$ ) remained significant and when the interaction term, which is the product of size and the predictors of performance ( $Z_2 * X_i$ ), was introduced, size ( $\beta_z = .219$ ,  $P = .881$ ) and the interaction term ( $P > 0.05$ ) are insignificant. This study, therefore, failed to reject H<sub>06b</sub> and concludes that size of the firm is an insignificant moderator of the influence between strategy implementation and the performance of manufacturing SME firms in Kenya.

**Table 4.64: Summary of Moderation Effects: Hypotheses Tested**

No.	Moderating Variable (s)	F-Change	P-Value	Deduction
H <sub>06a</sub>	Age*All variables &Performance	1.547	.182	Fail to reject H <sub>06a</sub>
H <sub>06b</sub>	Size*All variables &Performance	1.819	.116	Fail to reject H <sub>06b</sub>
H <sub>06a1</sub>	Age*Leadership styles & Performance	4.705	.032	Reject H <sub>06a1</sub>
H <sub>06b1</sub>	Size*Leadership styles & Performance	1.258	.265	Fail to reject H <sub>06b1</sub>
H <sub>06a2</sub>	Age*Structure & Performance	3.832	.053	Fail to reject H <sub>06a2</sub>
H <sub>06b2</sub>	Size*Structure & Performance	.078	.780	Fail to reject H <sub>06b2</sub>
H <sub>06a3</sub>	Age*Human Resource & Performance	1.112	.294	Fail to reject H <sub>06a3</sub>
H <sub>06b3</sub>	Size*Human Resource & Performance	.025	.874	Fail to reject H <sub>06b3</sub>
H <sub>06a4</sub>	Age*Technology & Performance	3.983	.048	Reject H <sub>06a4</sub>
H <sub>06b4</sub>	Size*Technology & Performance	1.822	.180	Fail to reject H <sub>06b4</sub>
H <sub>06a5</sub>	Age*Strategic Direction & Performance	3.045	.084	Fail to reject H <sub>06a5</sub>
H <sub>06b5</sub>	Size, Strategic Direction & Performance	11.367	.001	Reject H <sub>06b5</sub>

### 4.9.3 Qualitative Data Analysis

For triangulation purposes, the open ended questions asking the respondent's their perception on various constructs were analyzed using the computer aided content analysis (Berelson, 1952). Content analysis is an objective technique that ensures systematic, quantitative description and communication of information. The technique detects the presence of certain words, concepts, themes, phrases, characters, or sentences within texts and quantifies them in an objective manner. The results were summarized in Tables 4.65, 4.6 and 4.67.

**Table 4.65: How to Improve Awareness of the Firm's Strategic Direction**

Statement	Responses		Percent of Cases
	N	Percent	
Involve them in the planning	33	26.2%	31.4%
Giving them the necessary information towards the strategic direction	31	24.6%	29.5%
Regular meetings with them	19	15.1%	18.1%
Frequently revising goals and objectives	11	8.7%	10.5%
Educating employees through in-house training	5	4.0%	4.8%
Give circulars reminding them about the targets of the organization	4	3.2%	3.8%

The study findings in Table 4.65 indicated that the respondents felt that in order to improve the employee's awareness of the strategic direction of the firm, the manufacturing SME firm need to involve employees in the planning and strategy formulation process (31.4%), give them necessary information in regard to the direction the organization is focused on (29.5%), the SME firm need to arrange regular meetings where all the employees participates in strategy formulation and implementation (18.1%). The respondents perceived the ability of the organization to frequently revise her goals and objectives as an important factor that creates the awareness of strategic direction of the firm (10.5%), the SME firm need to conduct in-house trainings in order to educate the employees on the need to be focused on the vision, mission and the goals of the organization (4.8%) and there is need for the organization to give more information in form of circulars to remind them of the targets they are supposed to achieve (3.8%).

These findings confirm the observations made in this study that strategic direction is an important factor that is embedded in other variables influencing strategy implementation efforts in manufacturing SME firms like leadership styles, structure, technology and human resources. When leaders and other stakeholders in a SME's are aware of the strategic direction of the firm, they are able to choose leadership styles that match their strategy requirements, secure both physical and human resources required to facilitate the organization move along her established mission, vision and goals. These findings concur with the observation made by Lumpkin and Dess (1996) that the relationship between strategic orientation and organizational performance is influenced by many third-party variables.

**Table 4.66: Areas in Human Resources the SMEs need to improve on**

Statement	Responses		Percent of Cases
	N	Percent	
Rewards and incentives should always be based on merit	41	23.4%	38.0%
Training employees to improve their skills	28	16.0%	25.9%
Ensure proper induction	18	10.3%	16.7%
Hire enough staff in the organization	15	8.6%	13.9%
Encourage employees to show their competence among their peer groups	14	8.0%	13.0%
Take care of employee's welfare	13	7.4%	12.0%
Staff motivation, mentally and financially	9	5.1%	8.3%
Promotion of staff	5	2.9%	4.6%

The respondents, as shown in Table 4.66, felt that the manufacturing SME firms need to motivate their employees both mentally and financially (8.3%), take care of their welfare (12.0%), promote them (4.6%) and base their rewards and incentives on merit and the performance of an individual employee (38%). A lot of emphasis also needs to be placed on training (25.9%) and induction of staff (16.7%) to ensure they have adequate knowledge and skills and are aware of what they are supposed to do. The organization should also ensure that there is adequate number of staff (13.9%) who should work in teams sharing their experiences and show casing their experiences and competences among their peer groups (13.0%).

These findings are consistent with the results in Tables 4.5 and 4.19 which indicate that the attention to human resources positively and significantly improves the performance of the SME firms. They also concur with the works of other contemporary scholars who found that attention to human resources has a positive and significant influence on organization's performance (Amin et al., 2014; Cho et al., 2006; Olrando & Johnson, 2001; Osman, & Galang, 2011; Wong et al., 2013; Wright et al., 2003).

**Table 4.67: Areas in Technology the SMEs need to improve on**

Statement	Responses		Percent of Cases
	N	Percent	
Improve the level of technology	51	37.5%	47.7%
Conduct research regularly	23	16.9%	21.5%
Allocate funds for research	8	5.9%	7.5%
Should have a technology audit committee	12	8.8%	11.2%
Use technology in communication	8	5.9%	7.5%
Improve ICT Systems	10	7.4%	9.3%
To increase the number of machines in the organization	9	6.6%	8.4%

Most of the respondents as shown in Table 4.67 felt that SME firms need to improve on their levels of technology (47.7%), allocate research funds (7.5%) and conduct researches on a regular basis (21.5%). The firms need to increase the number of machines in place (8.4%), improve their ICT systems (9.3%) and ensure that the firm uses technology in communicating to both employees and customers. Moreover, the respondents felt that there is a need for the SME organizations to have a technology audit committee (11.2%) that keep track on the current and future technology requirements. These findings are in line with the results in Table 4.20 which indicated that technology is an important factor that positively and significantly related to the performance of the SME manufacturing firms.

The findings on technology this study is in line with earlier scholars who attempted to link technology to superior performance in organizations (Bell & Pavitt, 1995; Nohria & Gulati, 1996; Reichert et al., 2012; Trez et al., 2012).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary of the study findings guided by the specific objectives in chapter one. Conclusions and recommendations are also given for future action and research direction.

#### **5.2 Summary**

The purpose of this study was to establish the influence of strategy implementation has on the performance of small and medium manufacturing firms in Kenya moderated by the firm level characteristics of age and size. In particular, the study was designed to determine how the attention to leadership styles, structural adaptations, attention to human resources, level of technology and emphasis on the strategic direction is related to the performance of the manufacturing SMEs firms in Kenya.

##### **5.2.1 To determine whether attention to leadership styles influences the performance of the SME firm in Kenya**

A leadership skill is one of the most important dynamic capabilities required by firms operating in a dynamic environment to drive superior performance (Teece, 2014). This study investigated the relationship between leadership styles and performance of manufacturing SME firms in Kenya. Three Leadership styles investigated included the transformational, transactional and passive/avoidant behaviour based on Avolio and Bass definitions (2004).

The transformational leadership style is the process in which leaders change their associates' awareness of what is important, and move them to see themselves and the opportunities/challenges of their environment in a new way. These leaders proactively seek to optimize organizational innovation and development at individual, group and organizational levels. Secondly, the transactional leadership style exhibits behaviors associated with constructive and corrective transactions. The constructive style is labeled Contingent Reward while the corrective style is labeled Management-by-Exception. Transactional leadership defines expectations and promotes performance to achieve these levels and thirdly, the passive/avoidant leadership style is more quiet and reactive in nature. It does not respond to situations and problems systematically and has a negative effect on desired outcomes expected by the leaders. It is similar to laissez-faire leadership.

The results from this study indicated that leadership style significantly and positively influences the performance of the manufacturing SME firms in Kenya. This implies that the performance of the firm improves significantly when the CEOs and the owners adopt better leadership styles. This finding concurs with observations and conclusions made by earlier scholars that organization's leadership is an important factor that leads to superior performance in a dynamic environment. Therefore, the role of organization's leadership in owning up, steering and driving forward strategy implementation efforts is such a crucial and critical factor to the success of a firm in a dynamic and turbulent environment .

The findings are also in agreement with the arguments in the DCV framework that firms with superior performance exhibit strong leadership skills among other dynamic capabilities. Leadership skills are tacit and dynamic in nature making it difficult for other firms to acquire or imitate. The evidence from this study, on the significance of leadership styles supports the Dynamic Capabilities View's argument that leadership is a strong dynamic capability that leads to superior performance.

Finally, this study also revealed that most of the owners and the CEOs of the manufacturing firms in Kenya exhibits transactional leadership style followed by transformational leadership and lastly passive/avoidant leadership behaviour. The study further indicated that the transformational leadership style is the best in Kenyan manufacturing SME set up and relates with performance positively and significantly. Transactional and passive/avoidant leadership styles are both statistically insignificant in a combined relationship.

### **5.2.2 To establish whether structural adaptations influences the performance of the SME firm in Kenya**

A firm's structure is an important dynamic capability that influences the strategy implementation efforts of the firm and leads to superior performance. The success of an organization does not only depends on how well and quickly a firm adapts a structure that fits the environmental changes but also how well a firm's business strategy is matched to its structure and the behavioral norms of its employees.

The three main dimensions along which organizations tend to follow in their structural adaptation efforts are formalization, centralization and specialization. The formalization refers to the degree in which the firm has official policies, rules, regulations, and procedures. A business firm may have a formal structure, but may choose to operate informally. Centralization is the degree to which decisions are made at the top of the organization while specialization is the degree to which jobs are narrowly defined to a particular unique expertise.

The findings in this study revealed that the structural adaptations of the manufacturing SME firm positively and significantly influences her performance. This implies that the owners, CEOs or other SME leaders who are able frequently revise and adjust their structural configurations in relation to the environmental changes or adapt structures that support strategy implementation efforts help their organizations to achieve better results.

These findings confirm the works of Alfred Chandler who contended that an organization structure must follow her strategy for better performance, Burns and Stalker who observed that firms will adopt a structure in relation to the environment they are operating in.

This study found out that structures adopted by the manufacturing SME firms in Kenya are highly specialized, formalized and centralized respectively. On the other hand, results indicated that formalized and specialized structures both relate positively and significantly to the firm's performance while the centralized structures in a combined relationship is insignificant.

### **5.2.3 To determine whether attention to human resources influences the performance of the SME firm in Kenya**

Organizations require people in every stage of the strategy implementation process since they will not be able to perform well without quality and resourceful people. The Resource Based View supports this view by recognizing that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage. Although human resource is not a dynamic capability that gives the firm a direct advantage and uniqueness in the industry, the SME organizations can gain competitiveness and perform well in strategy implementation by building strong capacities and capabilities in people. This is done better when there is adequate skills development, strong policies and procedures, clear targets, motivation and when leadership are able to foster confidence among their employees. Dynamic capabilities in people can be developed through injecting new knowledge and skills and continuous improvement in human resources through training and development initiatives.

This study provided statistical evidence that attention to human resource requirements during strategy implementation by the SME's firm's leadership is positively and

significantly influences the manufacturing SME's performance. This finding supports the works of a number of contemporary scholars cited in the literature who concluded that management of HR impacts positively on the performance of an organization.

#### **5.2.4 To establish whether attention to technological requirements influences the performance of SME firm in Kenya**

The Dynamic Capability framework views technology as a dynamic capability that is embedded in firm's practices and is essential in determining the competitiveness and performance of a firm in a dynamic and turbulent environment. A firm with strong dynamic capabilities exhibits technological agility creates new technologies, differentiate itself and maintain superior processes. A review of literature concluded that most scholars in strategic management have identified three major drivers that drive superior performance in organizations today. These drivers are leadership styles, structure and human resources. This study investigated whether in addition to the three, technology is a key driver.

This study found statistical evidence that attention to technological requirements by the manufacturing SME's leaders positively and significantly influences the performance of the manufacturing SME firm in Kenya. The bivariate correlation results among all variables in this study showed that technology had the highest correlation coefficient meaning that it scored better compared to other predictors of performance. Based on this evidence, this study finds technology as a major driver that relates positively with the performance of the manufacturing SME firm. This finding in line with prior studies on the role of technology in determining firm's performance. It also further strengthens the DCV's argument that technology is an important dynamic capability required by firms for superior performance and competitive advantage.

### **5.2.5 To determine whether firm's emphasis on the strategic direction influences the performance of SME firm in Kenya**

The strategic direction of the firm is often embedded in its strategic vision and mission statements. The strategic vision and mission of the firm is the first step in formulating and implementing strategies. The firm's strategic vision provides the logical reason for future plans and directions of the organization. It aims the organization in a particular direction while providing a long term strategic direction to follow in line with the aspirations of shareholders. The strategic direction of the firm in this study was considered as an important variable that guides the actions and activities in the entire strategic management processes.

Before a strategy is implemented, the firm's leadership works hard to create the awareness among all employees of the direction the organization is headed to and how the organization stakeholders are going to benefit from the implementation of a new strategy. The efforts are meant to create a shared vision among all stake holders about the benefits of the new strategy. This step is very crucial before and during the strategy implementation process.

The study results found that there is no direct influence of the emphasis of the strategic direction of the firm during strategy implementation on the performance of manufacturing SME's in Kenya. However, in the absence of a significant influence, the study further established that the role of strategic direction during strategy implementation stage is often taken up by other predictor variables that include leadership styles, structural adaptations, human resources and technology. This finding is not surprising since awareness of the strategic direction on its own without the presence of other variables and resources to implement the formulated strategy cannot achieve any results. Liu and Fu (2011) noted that several studies, in the past, that attempted to link strategic direction and performance yielded mixed results. This study

is, therefore, consistent with Liu and Fu (2011) and the observations made by other earlier scholars who did not establish any significant link between strategic directions and firm performance.

#### **5.2.6 To establish whether the firm level characteristics (age and size) moderates the influence between strategy implementation and performance SME manufacturing firms in Kenya**

Firm level characteristics related to size and age has been found, in the past studies, to have a moderating effect on organizations performance. The age of the firm was broken down into two categories where those firms whose age fall below 5 years were classified as young while those aged 5 years and above were classified as old firms. The size of the firm was also classified into two categories based on the definitions of SME's according to World Bank (IFC, 2012) where firms with less than 50 employees were classified as small and those with over 50 employees were classified as medium enterprises.

This study failed to establish any significant moderation effect of the firm level characteristics (age and size) on the influence between strategy implementation and performance of the manufacturing small and medium firms in Kenya. However, this study found significant influence on the moderation effect of age and size among the individual drivers. For instance, the study established that age of the firm significantly moderates the influence between leadership styles and the performance of the manufacturing SME which is also true with technology. On the other hand, the size of the firm significantly moderates the influence between emphasis on strategic direction and the manufacturing SME's performance. Therefore, the findings in this study on the moderation effect of age deviated from number of studies in the past while the results on the moderating effect of size was consistent with a number of studies which posted mixed results.

### **5.3 Conclusion**

This study found a positive and significant influence of leadership styles on the performance of the manufacturing SME firms in Kenya. It therefore, follows that the SME manufacturing firms' leadership needs to enhance, foster and vary their dynamic capabilities with respect to leadership skills to suit the ever changing demands in the society. These changes should be well aligned with the changes taking place in the competitive and dynamic environment these firms find themselves in today.

The SME leadership that endeavors to foster and improve their leadership skills and consequently apply these skills during strategy implementation helps their firms to achieve better results. Since majority of manufacturing SME firms in Kenya practices transactional leadership style, the study concludes that leaders in these firms should start by practicing transactional leadership style and progressively change to transformational style. Transformational leadership style posted better results in this study than transactional or passive/avoidant styles.

Secondly, the study also found that a positive and significant influence exists between structural adaptations of the manufacturing SME firm and its performance. It can be concluded that the structural adaptations of the firm is an important variable that explains, to a greater extent, the variations in firm's performance. This means that those SME firms that are able to adapt their structures in line with the changes in the environment or adapt structures that support their strategy are able to achieve superior performance. Therefore the SME firms should always endeavor to properly fit or match their structures to the requirements of the strategy.

Based on the findings of this study, it can be concluded that among the specific structural dimensions of the SME firm, formalization and specialization plays an important role in determining better performance. Centralization, on the other hand, is

not significant. In order to perform better, these firms need to move away from centralization and adopt more of the formalized and specialized structures.

Thirdly, this study revealed that a significant positive influence exists between attention to human resource requirements during strategy implementation and the performance of the manufacturing SME's in Kenya. From this finding, it can be concluded that those firms that give information and train staff on important issues of the strategy perform better. Leaders in these firms need to be in the forefront in demonstrating how to implement the new strategy and motivate employees through incentives upon achieving the set targets. Employees also need to be given an opportunity to make their individual contributions and suggest how strategy implementation efforts can be made better. On the other hand, leaders should match their strategy requirements with human resource needs, set targets and give timely feedback. Finally, make sure that performance appraisals are unbiased and promotion is given on merit basis based on objectives achieved.

Fourthly, the findings from this study revealed that there is a positive and significant influence of technology on the SME firm's performance. This implies that for the manufacturing SME firms to perform better they need to do the following; update their technology regularly, provide new and better knowledge to employee and give adequate tools, machine and equipments to their employees. These firms should also conduct researches regularly to update their production quality and be responsive to the changes in technology. They should be able to match their technological requirements to the changes in the environment or the needs of the strategy being implemented. From the evidence given by this study, it can also be concluded technology is a major driver influencing strategy implementation and performance of SME manufacturing firms.

Fifthly, this study established that there is no direct influence of strategic direction on the performance of manufacturing SME firm in Kenya. However, this study provided

statistical evidence from the bivariate correlations results that the role of strategic direction is played by other predictor variables during strategy implementation. Since the firm's strategic direction is embedded on other factors influencing performance, it can be concluded that the strategic direction of an organization, as documented in strategic plans, is an important variable to be considered during implementation. It guides actions and how activities are done.

The leadership in these firms must ensure that all employees are aware of the direction the firm. They also need to realize that knowledge of the strategic direction alone does not lead to superior performance and therefore, the need to provide requisite human and non-human resources as per the needs of the new strategy being implemented. They should also be at the forefront in driving the entire strategy implementation process forward.

Lastly, this study failed to establish any significant moderation effect of the Firmlevel characteristics (age and size) on the influence between strategy implementation and the performance of manufacturing SME firms. It can therefore be concluded that the age and size of a firm are not important when it comes to strategy implementation. All firms, whether young or old, small, medium or large in size, should engage and participate in strategy implementation. Also the study concluded that success in business initiatives cannot be pegged to age or size. Any firm can succeed in strategy implementation efforts and achieve superior performance whether young or old, large or small so long as proper attention is given to leadership, structure, human and non-human resources and technology.

#### **5.4 Recommendations**

This study recommends that the manufacturing SME firms should build more and stronger capacities in leadership skills. The owners, CEOs and other leaders need additional knowledge on various leadership styles that can be used to promote better

performance in their firms. The study found out that leadership skill, as a dynamic capability, guarantees superior performance. This is in line with the recommendations from the literature in management.

Secondly, the owners, CEOs and other leaders in the SME firms should adopt more of the transformational leadership qualities that endeavor to build trust, confidence and attracting following. The style raises expectations and beliefs concerning the mission/vision of the firm and challenges old assumptions and stimulates idea generation. It determines individual needs and raises them to highest levels.

Thirdly, the manufacturing SME firms should maintain flexible structures that are well matched to the structural needs of the strategy being implemented at any given time. Secondly, these firms need to move away from centralized structures and embrace more of a decentralized structure while maintaining specialized and formalized procedures.

Fourthly, the manufacturing SME firms need to maintain a proper balance between strategy and the human resource requirements. Leaders in these organizations should ensure that tasks are well defined, there are adequate personnel, staffs are properly motivated and incentives are given to encourage people to work harder. They should also maintain proper systems of recruitment, remuneration, appraisal and promotion of staff. The study revealed that proper attention to human resource requirements is significantly related with the performance of manufacturing SME firms. The SME firms also need to pay close attention to their technology levels during strategy implementation and maintain a proper balance between the strategy implementation and the technological needs. This study revealed that Technology is one of the most important drivers of strategy implementation and performance. The manufacturing SME leadership needs to ensure there are adequate tools, machines and equipments and continuously scan the environment for changes in technology and respond to these

changes quickly. Another area which needs to be considered is research and innovation, as it brings new ideas, methods and products which enable the firm to do better.

Finally, since the role of the strategic direction is played by other variables in strategy implementation, it implies that, the strategic plan is such an important document that houses the intended direction for the future and how the objectives are to be achieved. It is recommended that the manufacturing SME firms should play an active role and ensure they develop strategic plans in line with the available resources. Leaders should always show commitment and be in the forefront successfully driving the strategy implementation process forward in line with their strategic plans.

## **5.5 Areas for Further Research**

The findings of the study, as summarized in the previous section have several implications for theory, methodology and practice.

### **5.5.1 Theoretical Studies and Academic Implications**

The Dynamic Capability View of the firm (DCV) views dynamic capabilities as a unique source of superior performance and competitive advantage. The leadership styles, structure of the firm and technology in this study are dynamic capabilities which have been found to be significant in influencing manufacturing SME firm's performance in a developing country. Most of the studies in the application of DCV have been conducted in western world and the findings from this study provide useful insights on the applicability of the theory in a developing country.

The results from this study contribute to the existing stock of knowledge in the literature by providing experience of strategy implementation in SME in manufacturing sector in a developing country (Kenya). Many studies in strategic management have tended to

ignore strategy implementation stage in the strategic management process. Therefore, the findings from this study have contributed in filling this gap of knowledge.

The study has laid emphasis on three main drivers of strategy implementation often cited in literature that is; leadership styles, structure and human resources. As an addition to the existing body of knowledge, this study tested whether attention to technological requirements is an important driver in a manufacturing setup. The results indicated that technology is the most important driver among the rest three.

The study also tested the moderation effect of age and size on the relationship between strategy implementation and performance of manufacturing SMEs. Although age was found insignificant, it was found to moderate the individual predictors of performance such as leadership styles and technology. Similarly, size was found to be insignificant in overall moderation but it is significant in moderating the strategic direction of the manufacturing SME firm.

Future studies should replicate this study in other sectors of the economy to establish whether the study variables are applicable as well. More studies are needed to confirm whether age and size of the firm has any moderating role on the influence between strategy implementation and performance. Studies are needed to establish whether emphasis on strategic direction has a direct influence on the performance in other organizations.

### **5.5.2 Studies on Methods and Methodology Implications**

This study was cross-sectional utilizing descriptive and quantitative designs. The study relied on the information given based on the perceptions of the owners, CEOs and the key leaders on the performance of the manufacturing SME firm. Unavailability of the actual financial data is likely to have introduced some biasness in this study and hence to

increase the reliability of the findings, future studies should strive to obtain actual financial records of these firms.

This study has developed a strategy implementation model. Future studies should incorporate other drivers such as organization's culture and further expand this model. Since strategy implementation is a process which takes a long time, future studies should also consider using a longitudinal approach and incorporate the experimental design to capture the real "effect" "impact" or "influence". This study only captured the perceived influence but not real influence.

### **5.5.3 Practice and Policy Implications**

The findings of this study indicate that manufacturing SMEs can improve their performance by implementing their strategies properly and effectively.

On practice, small and medium manufacturing firms need to pay close attention to and adopt better leadership styles, adapt their structures to the requirements of the new strategy, balance the needs of the strategy to human resource requirements and ensure to maintain a proper match between technology and the requirements of the strategy being implemented.

On policy, the vision 2030 lays a lot of emphasis on the role of manufacturing SMEs as engines of economic development in Kenya by the year 2030. To realize this dream, the finding of this study implies that the government of Kenya needs to assist the small and medium manufacturing firms by setting a strong policy framework that focuses on areas like technology improvements, market of the SME products and capacity building within this vital sector of the economy.

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## APPENDICES

### Appendix i: Introduction Letter

SERIAL NO \_\_\_\_\_

Dear Respondent,

I am a Ph.D candidate at Jomo Kenyatta University of Agriculture and Technology (JKUAT) undertaking a doctoral degree in Business Administration. I am working on my final thesis titled “**Influence of Strategy Implementation on the Performance of small and medium manufacturing firms in Kenya**”. I am collecting data from the field to enable me complete my thesis work and I humbly request you to fill the questionnaire provided below. Your responses will be used for the purposes of this study only and the information will be held with utmost confidentiality. The information obtained will also not be used to reveal the identity of person (s) or organization (s) that participated in this study. Place a tick (✓) or provide a brief response to the statements that require you to write down your opinion. I am greatly humbled by your acceptance to provide me with necessary information. I salute you.

Yours faithfully,

Peter M. Kihara,

Email: kiharamp41@msn.com

## Appendix ii: Questionnaire

### SECTION A: BIO-DATA

1. Name of the organization \_\_\_\_\_ (Optional)
2. Where is your organization located in Thika Sub-County \_\_\_\_\_
3. What is your core business? \_\_\_\_\_
4. How many years has your organization been operating? \_\_\_\_\_
5. What is your gender? a. Male {  } b. Female {  }
6. Your age in years? a. Below 20 {  } b. 21-25 {  } c. 26- 30 {  } d. 31-35 {  } e. 36-40 {  } f. 41-45 {  } g. 46-50 {  } h. Over 50 years {  }
7. You marital status? a. Single {  } b. Married {  } c. Other {  }
8. Your highest education qualification? a. Post graduate {  } b. Bachelor's degree {  } c. Higher Diploma {  } d. Diploma {  } e. Certificate {  } f. Other (Specify)
9. Your current position? \_\_\_\_\_
10. Number of years worked in your current position? \_\_\_\_\_
11. Number of full time employees in your organization \_\_\_\_\_
12. Do you have a documented strategic plan in your organization?  
a. Yes {  } b. No {  } c. No idea {  }
13. Which of the following strategies has your organization implemented in the last one year or is currently implementing? Please tick (√) all that applies.

a. New product development { } b. Market expansion { } c. Product modification { }  
d. Cost reduction { } e. diversification { } f. Growth { } g. Stability { } h. No  
strategy implemented { } i. Other strategies (specify) \_\_\_\_\_

### Appendix iii: Questionnaire-Leadership Styles

MLQ 6-S Statement	N	Mean	Std. Dev
I make employees feel good to be around me	115	2.835	1.059
I tell others in a few simple words what need to be done	115	3.844	1.204
I help others to think about old problems in new ways	115	3.400	.896
I help other employees to develop themselves	113	3.398	.797
I tell employees what to do if they want to be rewarded for their work	115	3.244	1.014
I am satisfied when employees meet the agreed targets	114	4.877	.356
I am contented to let others to continue working in the same ways always	115	2.145	1.258
Other people have complete faith in me	114	3.290	.938
I use tools, images, stories and models to help other people understand	115	3.044	.862
I provide employees with new ways of looking at complex or difficult issues	114	3.333	.984
I give employees feedback to let them know how they are doing	113	4.177	.804
I reward employees when they achieve their targets	113	3.336	1.040
As long as things are working, I do not try to change anything	112	2.286	1.352
I give employees freedom to do whatever they want	115	1.730	1.029
Other people are proud to be associated with me	115	3.574	3.978
I help the employees to find meaning in their work	113	3.814	.892
I help employees to rethink about issues that they had never thought of or questioned before	115	3.130	.822
I give personal attention to others when they are in need	114	3.254	1.037
I let employees to know what they are entitled to after achieving their targets	114	4.053	.967
I remind employees the standards they need to maintain while doing their work	114	3.649	1.137
I do not ask anything more from others than what is absolutely necessary	114	3.939	1.271
Valid N (listwise)	103		

#### Appendix iv: Questionnaire-Structures

Statement	N	Mean	Std. Dev
Our organization revises and creates appropriate structures to match the changes in strategy requirements	115	4.165	.561
Our organization gives adequate information before a new strategy is implemented	115	3.357	1.010
Our organization is governed by a clear system of with rules, regulations, policies and procedures	113	4.089	.600
We have a central command center that oversees strategy implementation	114	4.079	.597
Strategic work activities are well coordinated across sections, departments and divisions	114	4.061	.485
Our structure allows quick decisions and feedback	112	3.875	.773
Our organization has a well-designed reporting authority and employees know to whom they report to	113	4.115	.395
We have a centralized decision structure that allows quick decisions to be made	115	3.913	.615
Structures in our organization are flexible enough to allow changes to be effected quickly and timely	115	3.696	.880
Our organization makes sure that employees work have adequate knowledge, experience and skills	114	3.842	.837
Our organization encourages division of work and specialization	113	4.027	.604
There is adequate level of supervision in every section, department or divisions	113	4.009	.605
Our management encourages team work	115	3.504	1.071
Jobs in our organization are well structured with no overlaps, conflicts or ambiguity	115	3.887	.646
Our organization encourages employees to refer to the past experience when implementing a new strategy	115	3.774	.784
Valid N (listwise)	103		

Note: Reliability  $\alpha$  – Structural Adaptations = 0.705

### Appendix v: Questionnaire-Attention to Human Resources

Statement	N	Mean	Std. Dev
Employees are regularly trained	115	3.443	1.028
Jobs and responsibilities are well understood by most of the employees	114	4.044	.449
The organization always hire people with adequate skills and experience	115	3.739	.889
Our organization frequently gives incentives to motivate employees	115	3.435	.965
Most of our employees are highly committed to do their work well	114	3.965	.579
We have well-designed systems of rewards, remuneration and promotions of staff	115	3.687	.958
We have unbiased systems of recruitment and placement of staff	113	3.717	.773
Performance evaluations and appraisals are done on timely basis	115	3.496	.977
Promotions are always done on merit basis	113	3.894	.541
Jobs are well designed and employees are aware of what they are supposed to do	114	3.983	.564
Rewards and incentives are always based on merit	114	3.868	.659
There is no shortage of staff	114	3.156	1.044
Our clients are well served all the times	114	3.544	1.065
Employees individual needs are often well taken care of	115	3.200	1.045
We encourage employees to showcase their creativity and competencies among their peer groups	114	3.526	1.015
Valid N (listwise)	107		

Note: Reliability  $\alpha$  – Attention to Human Resources Requirements = 0.706

## Appendix vi: Questionnaire-Attention to Technology

Statement	N	Mean	Std. Dev
We use the current technology in the market to produce good/services	115	3.783	.935
The level of technology in place has greatly assisted us to implement strategies	115	4.017	.649
Adequate tools, machines and equipments enable employees to their jobs better and faster	113	3.982	.719
Our organization has a budget for research and development and money is always available	114	2.798	1.006
We conduct researches in order to develop our products	115	2.904	1.043
We have efficient Information Communication Technology	115	3.348	1.060
Our technology level is higher than that of our immediate competitors	115	3.461	.830
Employees are encouraged to make suggestions of the type and kind of technology required	114	3.649	.787
Our organization is keen to ensure that technology required is availed	113	3.699	.812
All departments are well equipped with appropriate technology	115	3.548	.920
Our organization is quick to respond to the changes in technology	115	3.513	.940
Our organization updates and improves our ICT systems to ensure they are efficient	115	3.261	1.069
We have a technology audit committee that reviews the technology	115	2.878	1.061
Valid N (listwise)	111		

Note: Reliability  $\alpha$  – Attention to Technology Requirements = 0.854

**Appendix vii: Questionnaire-Emphasis On Strategic Direction**

Statement	N	Mean	Std. Dev
Our organization has a clear vision and mission statements to all employees	115	4.226	.663
Our mission statement is in line with what we intend to achieve in future	115	4.191	.544
Our mission is well aligned to the work activities in the entire organization	114	4.044	.643
Deliberate efforts are made to align our vision and mission statements to the changes in the environment	113	3.974	.674
Our employees understand well how their work contributes to the achievement our mission and vision	112	3.786	.853
Employees are always involved in developing strategies	115	3.278	1.048
We regularly revise our goals and objectives to ensure they are in line with the market changes	114	3.597	.993
Most of our employees are aware of the plans which need to be implemented	115	3.348	1.052
Most of our employees work hard in trying to meet the goals and objectives	114	3.904	.704
Meetings are occasionally arranged to discuss successes, failures and challenges arising	115	3.530	.911
Employees are frequently reminded about the direction the organization is headed to	115	3.722	.894
Performance targets are frequently reviewed to ensure that they are in line with the organization's goals and objectives	115	3.852	.797
Valid N (listwise)	107		

Note: Reliability  $\alpha$  – Emphasis on Strategic Direction of the Firm = 0.707

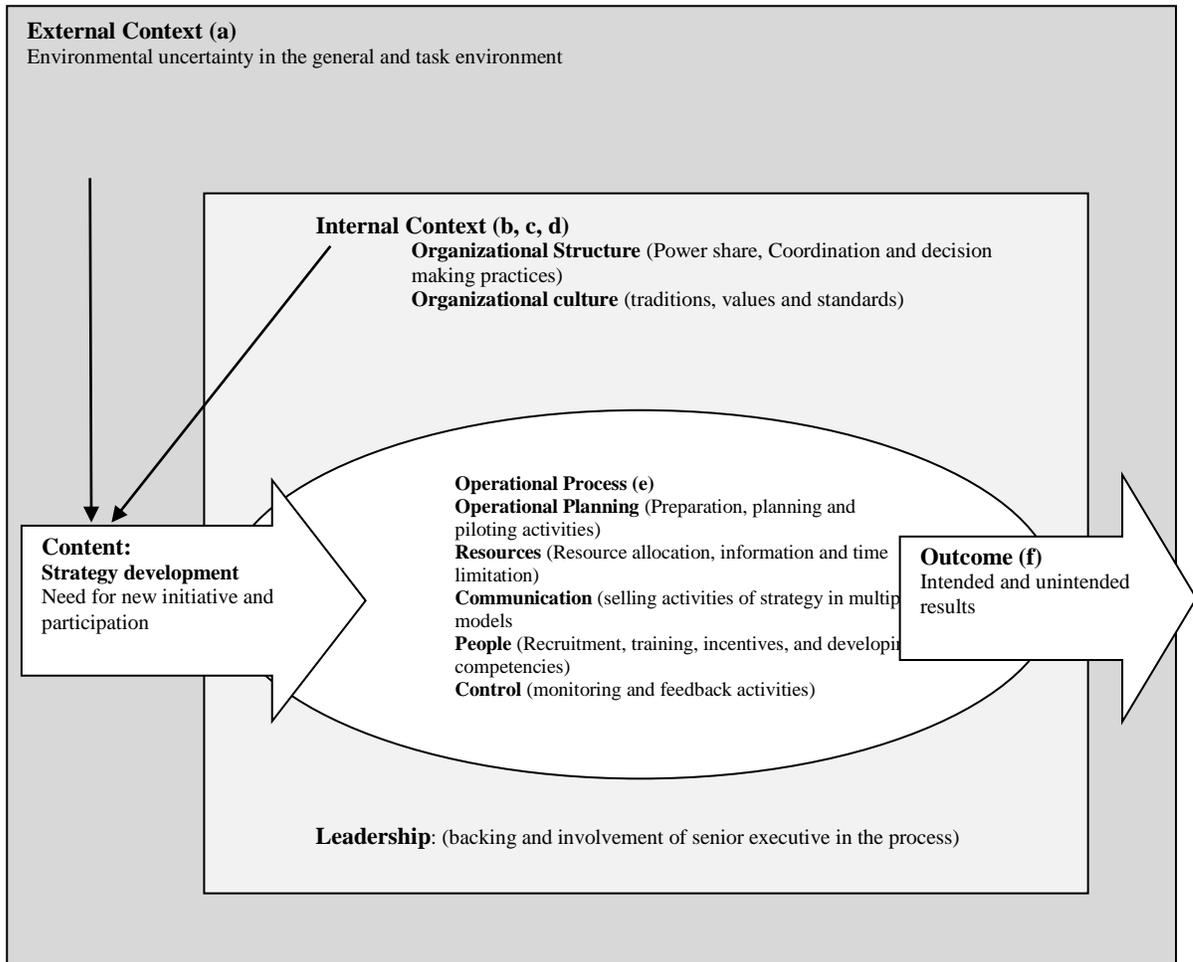
### Appendix viii: List of Firms

<b>Name of organization</b>	<b>Name of organization</b>
Highlands Coffee Company Ltd	Lewa Feeds Industry
Kenya Power and Lighting Co. Ltd	Mini Mart Bakers
Kamagambo Welding and Fabrication	Sheku Bakers Industry
Bidco Africa Ltd	Banga feed industry
Munene Industries	Omari millers Ltd
Privamnuts swissgourmet Kenya Ltd	Milele feeds Ltd
Scopers Beverage Ltd	Popular Industries
Bewa Feeds Industry	Peak feeds Ltd
Delmonte	Mach Electrical Ltd
Milky Millers Ltd	Huduma feeds Industry
Muwandu Timber	Cornmeal feeds Industry
Malisho Feeds Industry	Up next feeds Industry
Shubu Animal feeds	Prime Feeds Industry
Sawasawa feeds Ltd	New Galaxy Feeds Industry
Central food Industries	Golden Toast Industry
Wananchi Millers Ltd	Wakabura Furniture Mart Ltd
Scopers Beverage Ltd	Tiger Farm Ltd
Gram Ltd	Jowabu Ltd
Mily timber Ltd	Capwell
Country style Farm feeds Ltd	Jungle Nut
Friends bakers Industry	Ruhiu Furniture
Sweet cakes bakers	Weaverbird Ltd
Chwichwi feeds Industry	Punjab Ltd
Higrise millers Industry	Mukafura
Furaha bakers	China Mirror/glasses
New season feeds Industry	Trust feeds Industry
Prosper Feeds Ltd	Hika Feeds Industry

<b>Name of organization</b>	<b>Name of organization</b>
Pamwa Timber Ltd	Kerian Industry Ltd
Pamoja bakers	Joska furniture
Match Electronics	Joramu Tech Engineering
Kifaru Textiles	Fresh Milk Ltd
Komu Hardware	Bewa feeds sales
Wilmar Ltd	Silverest meat baker
Kendia Ltd	Anani bakers Industry
Thika cloth Mill	Mandu Timber
Joy Fruit Industry	Ngoigwa Welding
Kahora Furniture	Gaoco Company
Booth Extrusions Ltd	Landless bakers
Kenya Vehicle manufacturing	Kelvian Juice Factory
Kandara Leather products	Broadways
Blue Nile Industry	Wamwangi dairy products
Murang'a Motors	Josper Ltd
Silmart Wood Works	Chania Feeds
Everest Industry Ltd	Francis furniture workshop
Skyblue Farmlands Ltd	Thika Power
Sawalu Bakers	Wamiru Auto Tech Garage
Africana Smart Furniture	Romy Auto works
Elgon Furniture Ltd	Landless Welding
Boss Millers Ltd	Kel Chemicals
Rijo Industry	Ngoigwa Welding
Furaha Metal Box dealers	Josper Ltd
Gunners Jikos Makers	Gatitu Timber & workshop
Mwireri Furniture Ltd	Karani Motors
Marmic Feeds Ltd	Super Grip Ltd
Polysack Ltd	Kenblest Kenya Ltd
Leather Factory	Mwireri Faniture
Kel Chemicals	Thika Cloth Mills

**Source: County Government-Kiambu (2014).**

## Appendix IX: Okumu's Strategy Implementation Framework



### Key

- a Changes in external environment influence the strategic context and force organizations to adopt new initiatives.
- b Problems and inconsistencies in the internal context require new initiatives.
- c The strategy is implemented in the internal context, and the characteristics of organizational structure, culture and leadership influences the process factors.
- d Having an organizational context that is receptive to change is essential for the successful implementation of a strategy.
- e The process factors are primarily used on a continuous basis to implement the strategy and manipulate the internal context.
- f The characteristics of the context and process factors and how they are used directly influence the outcomes.

**Figure 2.1: Okumu's Strategy Implementation Framework: Fezzy Okumu (2003),**