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Analyzing the impact of strategic management practices on performance of Small to Medium Enterprises (SMEs).

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Abstract

Purpose *– Drawing on the Resource-based view of the firm (RBV), the study sought to analyze the impact of strategic management practices on the performance of SMEs. Strategic management practices included environmental scanning, strategy formulation, implementation, and strategy evaluation and control. On the other hand, firm performance was measured using the sales and profits of the business as viewed by the respondents.* ***Design/methodology/approach*** *–A survey design was used to collect data from a sample of 240 small business operators in Masvingo using a 5 point Likert Scale questionnaire and analyzed in IBM SPSS. Guided by the conceptual framework, a multiple linear regression model was developed to test the relationship among the variables.* ***Findings*** *– Environmental scanning, strategy formulation, implementation, evaluation and control had significant positive impact on firm performance. The study concluded that firms that scan the environment, formulate, implement, and evaluate and control their strategic management plans are more likely to succeed than those that do not.* ***Practical implications*** *– Highly volatile environments like Zimbabwe requires business operators to be sensitive to the dictates of both the internal and external environment using the available resources. Managers should devote their resources towards the achievement of both short term and long term plans as enshrined in the vision and mission statements. Corrective action should always be taken by management and staff to align the reality with the desired strategic plans.* ***Originality/value/contribution*** *– This study added to the existing knowledge through replication, why strategic management plans are important*.

Keywords: *RBV, strategic management practices, performance, and SMEs;*

Introduction

The 2008 Global Financial Crisis has impacted the economies of both developed and developing nations with firms, large or small being forced to implement strategic management practices capable of bringing better performance. As business competition becomes tighter and market conditions more dynamic, many Small and Medium Enterprises (SMEs) develop their efforts to understand how they can maintain and improve their marketing and financial performance. In order to compete, Omsa, Ridwan & Jayadi (2017), encouraged companies to implement strategic management practices. However, there is still unresolved debate over the effect of strategic management practices on corporate performance. The results of previous research indicate that the

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relationship between strategic management practices and corporate performance was inconsistent. Waweru & Omwenga (2015) argue that there is a strong relationship between the strategic management practices and firm performance, while others believe that the two variables do not have a strong relationship (Andersen, 2000; Falshaw, Glaister & Tatoglu, 2006). Theoretical and empirical evidence supports that strategic management practices affect the performance of an organization. Strategic management techniques improve the performance and relative standing of an organization that are with different societal and political issues (Lawal, Elizabeth, & Oludayo, 2012). There is little evidence from previous empirical studies that seek to evaluate strategic management in the domain of small business research (Omsa, Salim & Djumahir, 2015). Furthermore, Sum, Kow & Chen (2004) also agree that despite the wide recognition of the importance and significance of SMEs' contribution to employment, SMEs research still needs to be encouraged. Phillips (2000) advocates the need for more systematic research aimed at revealing the true nature of strategic management in SMEs and their relationship to the marketing and financial performance. Based on these assertions, it can be argued that research on strategic management and performance of SMEs in developing countries like Zimbabwe is still limited. While previous research in other parts of the world has ascertained the nature, and types of relationships among strategic management practices and firm performance, a gap still exists in the Zimbabwean SMEs' context. Exploring the relationship between strategic management practices and firm performance in Zimbabwe would contribute to the body of existing knowledge. Zimbabwe places SMEs at the centre of its economic growth and development agenda. Thus, the success of the SMEs does not only benefit the SMEs but the policy makers as well.

The Resource-Based View (RBV) of the firm

The resource-based view of the firm magnifies the importance of internal resources within the firm and the use of these resources in formulating a strategy to achieve sustainable advantage within the firms' competitive markets (Waweru & Omwenga, 2015). If a firm effectively manages its unique, valuable and rare resources, this gives it the ability to outperform its rivals in the market. Performance of a firm whether short term or long term can be influenced by the exploitation of resources and capabilities that are deemed to be valuable and rare offering a greater advantage and provide leverage towards the attainment of the firm's strategic goals (Zimuto & Maritz, 2018; Waweru and Omwenga, 2015; Barney 1991). Therefore, to attain competitive advantage, the approaches within the RBV help define and exploit the resources within the firm that are both valuable and rare and these resources should be both incomparable and non-substitutable in order to sustain market advantage. Table 1 below illustrates the variables that were used for this research study in terms of their value, rarity, imitability and non-substitutability and items as inspired by previous studies.

Table 1: Dimensions of the RBV for the study

Variable	Items/Dimensions	Source
Environmental scanning	Socio-economic environment, Swot Analysis, Supplier and Customer Analysis, Competitors & Industry, Business Location	Phillips (2000), Hunger & Wheelen(2003:43), Wang, Walker, & Redmond (2007:5), Wanjiku (2009:120)

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Strategy formulation	Strategic plan, Mission, Vision, Objectives, Managers' responsibility in the formulation.	Hunger & Wheelen (2003: 74), Wanjiku (2009:120)
Strategy Implementation	Management and employee involvement, Internal resources availability, Short or long term priorities.	Barney & Clarc (2007: 229). Wanjiku (2009:120) Hunger & Wheelen (2003: 106),
Strategy Evaluation	Strategic plan review, Frequency of review process, Stakeholder involved in the review process, Corrective measures to be taken.	Andersen (2000:542) Wanjiku (2009:120) Hunger & Wheelen (2003: 125),

Source: Author's own compilation based on past studies.

The RBV was vital in this research study for a number of reasons. Firstly, SMEs compete with large firms for major customers who are the main drivers of firm performance. A firm which has a large customer base is more likely to perform better than one which has a limited clientele. Secondly, SMEs have limited resources to fully execute their strategic plans. However, those that can sacrifice both their tangible and intangible resources would be better placed to achieve firm performance as envisaged in employee satisfaction, sales growth and profitability. Thirdly, the components of the strategic plan are rare and difficult to imitate from one firm to another. As suggested by Barney and Clark (2007), valuable, rare, and costly to imitate resources should have a more positive impact on firm performance than other kinds of resources. Thus SMEs with superior strategic management practices possessing these attributes have a high probability of success.

Strategic management practices

Odame (2007) defines strategic management as a method of formulating and implementing long-term plans widely and flexibly to achieve organizational goals. The key aspects of strategic management include environmental analysis, corporate mission setting, strategy formulation, strategy execution, strategy evaluation and control. According to Carpenter & Sanders (2009), the strategic management process involves four distinct elements namely; environmental scanning, strategy formulation, strategy implementation and strategy evaluation. Essentially, the strategic management process is a continuous motion of anticipating, recognizing, evaluating, resolving, controlling, documenting and learning from previous experiences in order to sustain the overall viability of the project or venture (Waweru & Omwenga, 2015). In relation to strategic management practices, Hunger and Wheelen (2003) describe four stages of strategic management processes as environmental scanning, strategy formulation, strategy implementation; and evaluation and control.

Environmental scanning

Environmental scanning entails analysis of the company's internal and external environment (David,

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2009). The external environment includes the economic, social, cultural, demographic, political, governance, legal, and technological environments. These elements interact and management scans both the external environment for opportunities and threats and the internal environment for strengths and weaknesses (Hunger and Wheelen, 2003). The internal environment consists of structure, culture and resources. Cancellier, Junior, José, & Rossetto (2014) argue that, based on environmental scanning information, proper adjustments are made between the internal structure and the environment. Therefore, organizations need to keep attuned to what is happening in the environment so that managers may respond to the market changes.

Strategy formulation

Pearce II and Robinson Jr (2011) assert that strategy formulation helps executives define their business objectives and how to accomplish those strategic objectives. Van Gelderen, Frese & Thurik (2000) submit that strategy formulation process and strategic plan are both important for firms to achieve competitive advantage. Strategy formulation involves assessing the strategic objectives of the organization and deciding on the best or appropriate means to achieve the objectives (Wheelen & Hunger, 2008). Maroa and Muturi (2015) purported that strategy formulation includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. The process is achieved by reviewing key objectives and strategies of the organization, identifying available alternatives, evaluating the alternatives and deciding on the most appropriate alternative (Wheelen & Hunger, 2008). The process of strategy formulation is mainly carried out at three levels, which include the corporate level, business level and the functional level.

Strategy implementation

Strategy implementation is known as the action stage and is considered as the most difficult stage in the strategic management process. Strategy implementation refers to the execution of the plans and strategies, so as to accomplish the long-term goals of the organization (David, 2009). Strategy implementation can influence the whole texture of a company including its performance, (Zaidi, Zawawi, Nordin & Ahnuar, 2018). According to David (2003), both managers and employees should be involved in the implementation decision and adequate communication between all parties is important for successful implementation. Elements that require consideration during the implementation process include annual objectives, policies, resource allocation, management of conflict, organization structure, managing resistance to change, and organizational culture (David, 2003).

Strategy evaluation and control

Maroa and Muturi (2015) suggest that strategy evaluation involves setting control processes to continuously review, evaluate and provide feedback concerning the implemented strategies to determine if the desired results are being attained such that corrective measures may be taken if needed. Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes when deemed necessary and making the necessary adjustments (Pearce & Robinson, 2008). Wheelen and Hunger (2011) submit that results of strategy evaluation are essential for further action if the process is showing any problems that affect the functioning of the firm towards its goal. The strategic management process can be shown in the following diagram.

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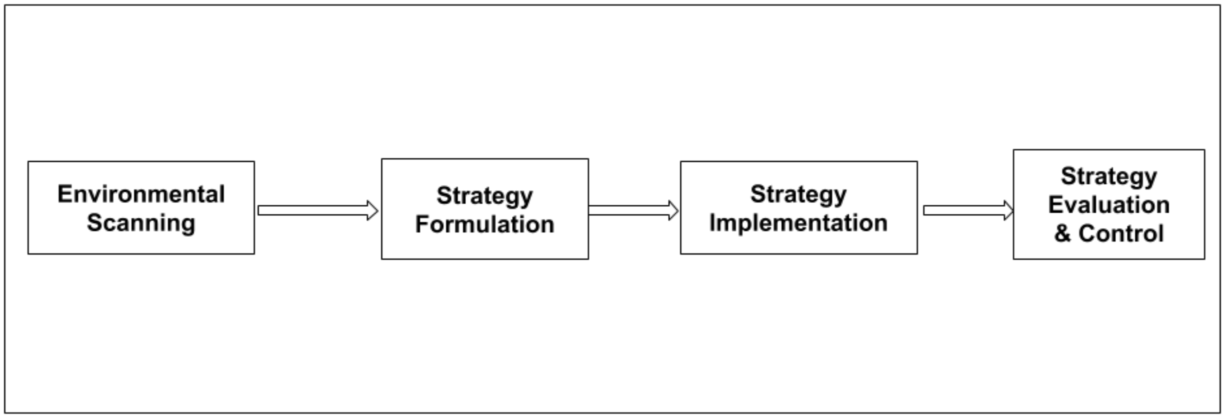
Figure 1: The strategic management process.



Source: Hunger and Wheelen (2003).

Strategic management consists of four basic elements: (1) environmental scanning, (2) strategy formulation, (3) strategy implementation, and (4) evaluation and control.

Firm performance

One of the important questions in business has been why some organizations succeed and why others fail and this has influenced a study on the drivers of organizational performance (Olanipekun, Abioro, Akanni, Arulogun & Rabiu, 2015). Firm performance is the combination of financial performance, business performance, and organizational effectiveness (Terziovski & Samson, 2000). Carton (2004) states that successful performance of the organization can be compared with successful value creation for stockholders. Organizational performance is the achievement of an organization with respect to some criterion like quantified objectives or profitability (Otieno, 2017). According to Ngui (2015), organizational performance is measured by actual output against intended output. According to Phillips, Davies and Moutinho (1999), performance measurement methods can be divided into two types: objective and subjective measurement. Omsa, Ridwan and Jayadi (2017) say that objective measurements include profit, sales volume, return on investment, break-even point, and inventory turnover whose data are analyzed from financial statements, such as balance sheets and income statements. The subjective measurement relies on the perception of firm managers or owners with regards to the business performance achieved. To analyse the impact of strategic management practices on firm performance in Zimbabwe, sales and profit levels as viewed by the respondents were adopted as the proxy for firm performance. The study solicited the views of management, supervisors and other staff on the sales and profits of the business over the past 5 years. Thus, subjective measures of firm performance were adopted. The reason for using subjective measures was that sensitive questions about absolute profit figures could result in the respondents failing to provide information for reasons such as competition and disclosure agreements within organizations.

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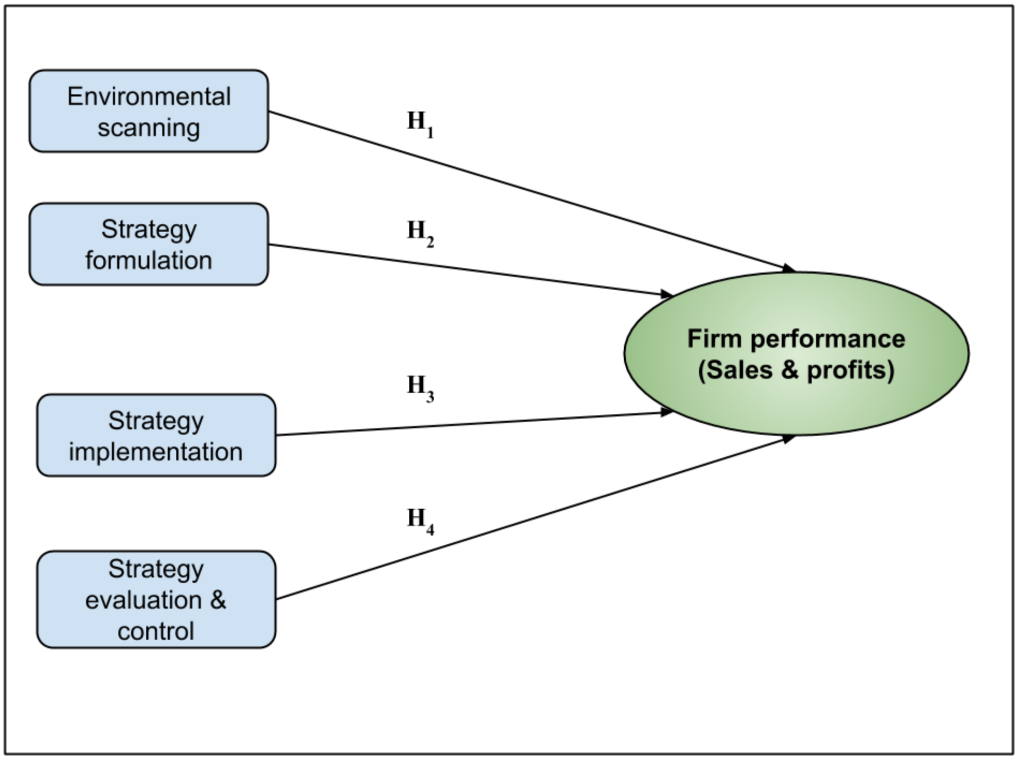
Figure 2: Conceptual framework



Source: Adapted from Maroa & Muturi (2015) and Zaid, et al (2018).

Statement of hypotheses

The study was guided by the following set of hypotheses:

H_1: Environmental scanning has a significant positive impact on firm performance.

H_2: Strategy formulation has a significant positive impact on firm performance.

H_3: Strategy implementation has a significant positive impact on firm performance.

H_4: Strategy evaluation and control has a significant positive impact on firm performance.

Methodology

According to Creswell & Creswell (2017), the first methodological choice is whether one follows a quantitative, qualitative or mixed methods research design. To analyse the impact of strategic management practices on firm performance, this study used the survey research design. To draw the sample for the study, stratified random sampling was used. Anderson, Sweeney, & Williams (2011) noted that in stratified random sampling, the elements in the population are first divided into groups called strata, such that each element in the population belongs to one and only one stratum. Stratified random sampling was used in this study as follows: Firstly, the respondents were put into 5 distinct groups based on industry of operation, that is SMEs in the mining, manufacturing, agriculture, retail and transport and construction sectors were selected; Secondly, from these groups, simple random sampling was applied to pick the respondents occupying managerial positions. The process yielded a representative sample of 240 respondents. After the sample was established, the questionnaire was administered.

According to Oppenheim (2000), the design of a questionnaire differs according to how it is delivered, returned or collected and the amount of contact you have with the respondents. A five point Likert-Scale questionnaire was designed to solicit for responses on the impact of strategic management practices on firm

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performance. The suggestions by Saunders, Lewis, & Thornhill (2012) on how electronic questionnaires can be distributed were used for this research study. With this in mind, the questionnaire was distributed using Google Forms. In Google Forms, the researcher coded the questions and generated a link which was sent out to the respondents to complete. Before the final distribution of the questionnaire, it was pilot tested to 15 respondents who were part of the sample and some questions were corrected to avoid ambiguity. Upon submission of responses, all the data were stored in Google Sheets and later imported into IBM SPSS v23 for analysis. This study was undertaken during the COVID 19 induced lockdown and care was taken to avoid direct contact with participants.

Multiple linear regression model building

As part of the quantitative data analysis, a standard multiple linear regression model was developed to ascertain the impact of strategic management practices on firm performance. The model is as follows:

$$fp = b_0 + b_1 es + b_2 sf + b_3 si + b_4 sec \ldots\ldots\ldots..(1)$$

Where

fp is firm performance; es is environmental scanning; sf is strategy formulation; si is strategy implementation; sec is strategy evaluation and control;, b_0 to b_4 are the respective regression coefficients for the independent variables.

Analysis

The analysis section is divided into two parts. The first part presents the results of the demographic variables. The second part focuses on the results for the major variables on strategic management and firm performance. Approximately 59.2% of the respondents were females while 40.8% were males. In terms of numbers, females dominated males. Since the study targeted individuals in managerial and supervisory positions, one can argue that more females occupied such positions than males. The retail and transport and construction sectors had the higher percentages of respondents accounting for 29.17% and 33.33% respectively. On the other hand, the manufacturing, agriculture and mining sector had 10%, 11.7% and 15.8% respectively. Based on these results, it can be argued that major industrial activities have collapsed in Masvingo hence there is a need for the authorities to relook into policies which capacitate SMEs in the agriculture, mining and manufacturing sectors. With regards to position in the organization, 61.7% were managers, 15.8% were supervisors and 22.5% were support staff. Involvement of a greater percentage for managers meant that most of the individuals who participated were the custodians of the strategic management processes within the firms. In addition, 31.67% of the respondents had a bachelor's degree and above while 30%, 17.5% and 20.8% of the respondents were ordinary level, advanced level and diploma holders. These results suggest that there are high literacy levels in Masvingo and this could be attributed to the educational policies implemented by the Zimbabwean government since Independence in 1980. Therefore, it can be argued that all the respondents included in this study could read and write. If senior management is literate, it means there are high chances that they can implement strategic management practices within their organizations. About 18.3% of the respondents had less than 5 years of working experience with the rest having more than 5 years of experience in the various industries. These findings suggest that the individuals working in various SMEs had enough experience and business knowledge which is important when it comes to strategic management and firm performance. Therefore, this also adds to the validity and reliability of the information given by the respondents.

Reliability and validity test results for major variables

The Cronbach's alpha was used to evaluate instrument reliability and validity. The results of these tests are presented in Table 1 below. Cronbach’s alpha is typically used when one has several Likert-type items that are summed to make a composite score or

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summated scale (Leech, et al, 2008). In other words, the reliability of any given measurement refers to the extent to which it is a consistent measure of a concept, and Cronbach's alpha is one way of measuring the strength of that consistency.

Table 1: Cronbach's alpha results

Variable	**Number of Items**	**Cronbach's Alpha**
Environmental scanning (es)	5	0.864
Strategy formulation (sf)	5	0.734
Strategy implementation (si)	5	0.847
Strategy evaluation and control (sec)	5	0.779
Firm performance (fp)	5	0.938
All variables	25	0.933

Source: Calculations in IBM SPSS.

Correlation analysis results

According to Leech et al (2008), the spearman's rank order correlation coefficient is used when data does not meet some of the assumptions of the Pearson correlation coefficient. The correlation matrix presented below served two purposes. Firstly, it was used to determine the nature and strength of the relationship between the independent variables. Secondly, it was used as a measure of multicollinearity among the independent variables used in the final model.

Table 2: Spearman's rank-order correlation results

	Es	Sf	si	sec
es	1.00			
sf	.464**	1.00		
si	.378**	.602**	1.00	
sec	.378**	.614**	.412**	1.00

correlation significant at 0.05 level (2-tailed).**correlation significant at 0.01 level (2-tailed)

Source: Calculations in IBM SPSS.

Results presented above also show that these strategic management practices positively correlate among themselves. These relationships are statistically significant for any pair of strategic management practice variables chosen. It can be argued that the adoption of one strategic management practice might also lead to the adoption of the other, and these operate as a whole. SMEs that engage in environmental scanning are more likely to adopt strategy formulation, strategy implementation and strategy evaluation and control. All the explanatory variables did not show any sign of multicollinearity since the correlation coefficients were less than 0.8. Therefore, all the explanatory variables were included in the final model for analysis.

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The R-Square and the Adjusted R-Square were 79.2% and 78.8% respectively. These results suggest that approximately 78.8% of the variation in average firm performance could be explained by changes in strategic management practices implemented by an organization. On the other hand, 20.2% of the variation in firm performance for SMEs in Zimbabwe was due to other factors other than strategic management practices. Generally, a model within an R-Square above 60% is considered to be a better model. The high F-statistic of 223.393, with p-value < 0.05 was proof that the overall model was statistically significant and fitted the data well.

Multiple linear regression results

Table 3: Multiple linear regression coefficients

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-15.273	1.389		-10.996	0.000
	Es	0.155	0.058	0.086	2.662	0.008
	Sf	0.901	0.082	0.434	10.958	0.000
	Si	0.553	0.05	0.411	11.001	0.000
	Sec	0.317	0.065	0.172	4.878	0.000
a. Dependent Variable: fp						

Source: Calculations in IBM SPSS.

Table 3 shows the regression coefficients for each independent variable included in the study. The standardized coefficients, unstandardized coefficients, t-statistics and the significance levels are also given. Using unstandardized coefficients above on multiple linear regression analysis results, equation (1) presented was reduced to equation (2) presented below.

$$fp = -15.273 + 0.155es + 0.901sf + 0.553si + 0.317sec \ldots\ldots\ldots (2)$$

The implication of the relationships shown by the slope coefficients together with the significant levels are explained in the sections that follow. In each case, a statement about whether the hypothesis is rejected or cannot be rejected is given, followed by discussion based on literature from various scholars.

Discussion

Environmental scanning and firm performance

Environmental scanning had a regression coefficient of 0.162 with p-value < 0.05. Based on these results, the hypothesis that environmental scanning has a positive impact on firm performance could not be rejected. One could suggest that spending time on

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environmental scanning significantly influences the performance of the organization. This is because the business environment in Zimbabwe is viewed as highly volatile due to policy inconsistency on the part of the authorities. Companies which spend most of their time evaluating the environment and adjusting to the dictates of the markets are likely to be more profitable than those which do not. The knowledge of socio-economic environment, business location and competitors, significantly increase firm performance. What matters most is the ability of the organization to turn around its internal resources to achieve increased organizational performance. Therefore, higher performing firms engage in significantly higher levels of environmental scanning (West, 1990). This study supports suggestions by Karami (2008) and Tajuddin and Ahmad (2016) who observed a significant positive relationship between environmental scanning and organizational performance.

Strategy formulation and firm performance

Strategy formulation had a significant regression coefficient of 0.859 with p-value < 0.05. Drawing on these results, the hypothesis that strategy formulation has a positive impact on firm performance was accepted. These results suggest that strategy formulation positively affects the performance of the organization. Organizations with clear strategic plans, vision, mission, goals and objectives are more likely to succeed than those without. In Zimbabwe, SMEs that engage in strategy formulation are more likely to find their organizations performing better than those that do not. Operational objectives within the business are also important in driving firm performance. It can also be suggested that managers and employees should all take part in the strategy formulation process. Therefore, without clearly laid down strategies, SMEs fail. Thus, one can argue that effective strategy formulation mechanisms available at an organization could enhance performance. Katsvamutima and Jeevananda (2014), and Odongo, Anyango & Rotich, (2016) also found a significant positive impact of strategy formulation on firm performance.

Strategy implementation and firm performance

Strategy implementation had a significant positive regression coefficient of 0.584 with p-value < 0.05. The hypothesis that strategy implementation has a positive impact on firm performance was accepted. This research study argues that strategy implementation positively affects the performance of SMEs in Zimbabwe. SMEs which engage managers and employees in the strategy implementation process are likely to succeed. Setting aside financial and non-financial resources for strategy implementation is also important in driving the performance of the organization. Therefore, if strategy implementation is successful, there are high chances that the organization will be profitable. These findings confirm findings by Chaimankong and Prasertsakul (2012), Njagi and Kombo (2014), Zaidi, Zawawi, Nordin and Ahnuar (2018) who found a significant positive relationship between strategy implementation and performance of the firm.

Strategy evaluation and control and firm performance

Strategy evaluation and control had a significant positive regression coefficient of 0.352 with p-value < 0.05. Based on these results, the hypothesis that strategy evaluation and control has a positive impact on firm performance could not be rejected. Strategy evaluation and control is a long-term process which involves evaluation of the set goals against the actual outcome. It can be suggested that the strategic evaluation process should be clear and involve all stakeholders. Corrective action should always be taken to align the actual outcome with the benchmark. Therefore, it can be argued that strategy evaluation and control has a significant positive influence on firm performance and organizations which engage in

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strategy evaluation and control are likely to outperform those that do not (Maroa and Muturi 2015), (Nyariki, 2016) and (Hieu and Nwachukwu, 2019).

Practical implication

The study concludes that environmental scanning, strategy formulation; strategy implementation and strategy evaluation and control have significant positive influence on performance of SMEs.

With this in mind, the study recommends the following:

- ❑ SMEs are encouraged to have strategic plans with clearly laid down vision, mission, goals and objectives.
- ❑ Senior management and employees should be involved in the strategy implementation process. More organizational resources should be directed towards strategy implementation to operationalise the objectives.
- ❑ Corrective action should always be taken to align the situation on the ground with the overall long term plans of the firm.
- ❑ Policies on resource allocation should be inclined towards those activities that drive strategic management practices because strategic management practices have been found to have a significant positive impact on organizational performance.

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