ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MASTER OF BUSINESS ADMINISTRATION

STRATEGIC MANAGEMENT PRACTICE

ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

(THE CASE OF GULLELE SUB CITY, ADDIS ABABA)

By: Tegbew Addis

June, 2019

Addis Ababa, Ethiopia

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(THE CASE OF GULLELE SUB CITY, ADDIS ABABA)

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By: Tegbew Addis (GSR/7773/10)

Advisor

Yohannes Workaferahu. (PhD)

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Strategic Management Practice on Performance of Small and Medium Enterprises

(The Case of Gullele Sub City, Addis Ababa)

By: Tegbew Addis (GSR/7773/10)

Approved by Board of Examiners

Advisor Signature Date

Yohannes Workaferahu (PhD)_________, ______________________, _____________________

Internal Examiner Signature Date

______________________________________, _____________________, _____________________

External Examiner Signature Date

______________________________________, _____________________, _____________________

DECLARATION

I, Tegbew Addis declare that this study entitled "strategic management practice (strategy formulation, implementation and evaluation) on performance of small and medium enterprises: the case of Gullele sub city", is my original work and has not been submitted to Addis Ababa University or anywhere else for any academic or professional award.

Tegbew Addis Signature Date

________________________, ____________________

GSR/7773/10

Addis Ababa University

ENDORSEMENT

I, the advisor, declare that, to the best of my knowledge, this thesis is the research product of my advisee Tegbew Addis and conform to the regulations and academic requirement of Addis Ababa University of Graduate Studies and meets the accepted standards with respect to originality and quality.

Yohannes Workaferahu (PhD) Signature Date

__________________, ___________________

Addis Ababa University

DEDICATION

I dedicate this thesis paper to my dearest wife W/ro. Balemlay Shumetie, she provided me a truthful support and continuous encouragement throughout my study.

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First, I would like to thank my thesis advisor Dr. Yohannes Workaferahu from Department of Management at the Addis Ababa University, College of Business and Economics for his guidance, encouragement, professionalism and technical advice to ensure this study is conducted in a professional manner.

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ACRONYMS

BCG – Boston Consulting Group

CLRM – Classical Linear Regression Model

CSA – Central Statistics Agency

FeMSMEDA – Federal Micro, Small and Medium Enterprise Development Agency

IO – Industrial Organization

MoTI – Ministry of Trade and Investment

MSMEs – Micro, Small and Medium Enterprises

PEST – Political, Economical, Social and Technological

RBM – Resource Based Model

SMEs – Small and Medium Enterprises

SPSS - Statistical Package for the Social Sciences

SWOT – Strength, Weakness, Opportunity and Threats

Abstract

Strategic management practice or engaging in proper strategy planning, strategy implementation and strategy evaluation aids the organization to success. The aim of conducting this research was to determine the effect of strategy formulation, implementation and evaluation on performance. To carry out this research the researcher has adopted a descriptive and explanatory research design to determine the relationship and effect of strategic management (strategy formulation, implementation and evaluation) on performance. The study was targeted 152 SMEs and from these 50 SMEs were determined as a sample but out of which 4 respondents did not return the questionnaire. Stratified probability sampling method was applied and data were collected from 46 SME managers through structured questionnaire using 5-point likert scale. The primary data were generated from managers of the enterprise and secondary data from articles, full sized papers, meeting papers, books and internet, then primary data have been edited, classified, organized and coded to get descriptive and inferential statistics outputs using a professional software called SPSS version 23. Regression analysis was done to determine the effect of strategy formulation, implementation and evaluation on performance and correlation analysis was also used to determine the relationship between strategy formulation, implementation, evaluation and performance through inferential statistics. Finally, the finding shows that strategic management practice had a positive effect on performance. However, the only variable that had an effect on performance was strategy implementation. Based on the findings, the researcher has recommended that all enterprises should have a written vision and mission statement, should get training and as a result actively engaged in strategic management practice to increase their profit, output, market share, customer satisfaction and reduction of waste.

Key words*: strategic management, strategy formulation, strategy implementation, strategy evaluation and performance.*

CHAPTER ONE

INTRODUCTION

This chapter concentrated upon study background, statement of the problem, general and specific objectives including the research questions, importance of the research, scope and limitation of the study.

1.1. Backgrounds of the Study

Strategic management is a success way for all organizations regardless of the nature and types of the organization. The failure and success of the organization is depends up on the strategy being formulated and adopted. Hence, adoption of superior strategic management practices provides small firms with new tools for survival, growth and maintaining a sustainable competitive advantage (Njeru, 2015). SMEs use strategic planning as a tool to reduce them from the unstable business environments in order to ensure their survival and growth (Huang, 2006). Dansoh (2005) explained that strategic management practice enables SMEs to be forward looking and to anticipate the future very well. Small and medium enterprises, which engage in strategic planning, are more likely to be those that achieve higher sales growth, high returns on assets, higher margins on profit, higher employee development, increasing market share, and are less likely to fail (Wang, Walker and Redmond, 2007). Strategic planning provides an operational framework, which allows an organization to enjoy competitive advantages and improved business performance (Pillania, 2008). In order for SMEs to succeed and sustain their businesses, they need to adopt superior strategic management practices (Dansoh, 2005).

Njeru (2015) studied strategic management practice and performance of SMEs and concludes that adoption of strategic management practices influence organization performance. Superior strategies have positive relationship with organization performance. This means that adoption of superior strategies relating to situational analysis, strategy formulation, implementation and evaluation would lead to improved organization performance. Hence, adoption of superior strategic management practices provides small firms with new tools for survival, growth and maintaining a sustainable competitive advantage. The finding of this study is also similar to those of previous studies conducted in other countries like Heugens (2003) who found that implementation of strategy by firms significantly and positively influenced organizational outcome variables; Lawal et al. (2012) who found that adoption of strategic management techniques improved the performance and relative standing of organization and Otieno (2013) who found that strategic management practices are very important to the future success of organization and performance. As the researcher reviewed different articles and researches that deal with the practice of strategic management and its impact/effect on the performance of SMEs, there is no investigation made on SMEs in Ethiopia. In other countries like Kenya, USA, Nigeria, China and western Uganda, researchers have conducted on this particular topic to determine whether there was the effect of strategic management practice on the performance of small and medium enterprises. Addis Ababa university graduate students and others have also conducted a research entitled "the assessment of strategic management practice" on different cases, such as: A study by Fikadu (2018) the assessment of strategic management practice in the case of some private commercial banks in Ethiopia, a research by Amelework (2015), with the title of Assessment of Strategic Management Practices in Case of Ethiopian Insurance Corporation, and a study by Dinberu (2016) was the strategy planning, formulation and implementation and monitoring and evaluation practice of Nib International Bank. Hence, local studies did not show the relationship between the overall strategic management practice and performance of SMEs where as international studies/studies in other country reviewed were able to show the relationship between strategic management and performance.

Addis Ababa city administration of small & medium enterprises development bureau (Debela, n. d.) stated the importance of the SME sector due to its important contribution to satisfying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. SMEs constitute an effective way to expand the manufacturing and industrialization to the whole country. SMEs are the back bone of the economy by supplying inputs and raw materials for the largest ones. Njeru (2015) also explained SMEs actively engage in formulating vision and mission statements, environmental/situational analysis to determine the opportunities and weaknesses comes from the external environment and the strength and weaknesses found within the organization, establish long term objectives, formulate strategies, set annual objectives, policies or generally they should practice strategic management well to improve their performance.

In Ethiopia, SMEs play a significant role in the economy on creation of employment and production of goods and services. Even though Degefu (2007) studied performance impact of mission statements in Ethiopian big business enterprises and as he stated that the articulation and publication of mission statements does very little, he specifically concerned with mission statement not strategic management practice in general. And also focused on large business enterprises, he couldn't show the overall effect of strategic management practice on the performance of SMEs. There is also limited empirical evidence that can state the effect of strategic management practice on the performance of small and medium enterprises in Ethiopia and also whether strategic management practices among the SMEs can explain their performance differences.

As reasons stated in the above paragraphs the main concentration of this study was investigating the impact of strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs. As well as describing whether enterprises have been adopting /conducting environmental analysis to determine opportunities and threats from the external factors such as political, social, economical, cultural, technological and other factors that are external for the enterprises and also to know that whether enterprises analyze the internal environment such as employees skill, the existing strategy, standards, objectives and guiding principles. Not only on environmental analysis but also does the enterprises have vision and mission statements, objectives, strategies, devising policies, availability of enough budget, motivate employees, setting standards, measuring performance, comparing performance and taking necessary action when something is going wrong. Finally the researcher has determined the effect of strategy formulation, implementation and evaluation on performance of SMEs.

1.2. Problem Statement

The aim of conducting a research on this topic was to determine the effect of strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs found in Gullele sub city, Addis Ababa. Adoption of strategic management practices conceptually enables firms to understand their strategic position and identifying how to make strategic choices for the future and manage strategy in action. Employing strategic management is critical to firm's performance (Johnson et al., 2008). Strategic management demands efficient systems to counter unpredictable events that can sustain their operations and minimize the risks involved (Pearce and Robinson, 2007). Theoretical and empirical evidence supports the argument that adoption of superior strategies leads to improved organization performance. However, most studies have dealt with large firms and put diverse conditions for the benefits of strategic management to be felt (Lawal et al. 2012).

Muogbo (2013) studied the impact of strategic management on organisational growth and development (a study of selected manufacturing firms in Anambra state) and the results from the analysis indicated that strategic management was not common among the manufacturing firms in Anambra state particular and Nigeria in general. Nyariki (2013) investigated strategic management practices as a competitive tool in enhancing performance of small and medium enterprises in Kenya and concluded that strategic management has a positive relationship with competitive advantage of the organizations and SMEs adopted the strategies in order to achieve competitive advantage.

Otieno (2013) studied strategic issue management practices by small and medium enterprises in Mombasa County using descriptive survey design and data collected from primary sources using questionnaire. The study found that profitability was considered as the most important performance measure in SMEs, followed by market share, innovation and liquidity respectively. Further, majority of organizations perceived strategic issue management to the future success of organization as very important and essential confirming that SMEs in Mombasa County were aware of the importance of strategic issue management in the success of an organization. The study also found that environmental as well as managerial factors influenced strategic issue management practices by SMEs in Mombasa County.

Yunus (2010) studied strategic management practice and corporate performance of selected small business enterprises in Lagos metropolis. The study found that that strategic management practices enhanced both organizational profitability and company market share. Gure & Karugu (2018) studied Strategic management practices and performance of small and micro enterprises in Nairobi City County, Kenya and the study concluded that the Michael Porter’s generic strategies of competitive advantage used in the study which include low cost leadership strategy, differentiation strategy, focus strategy and combination strategy significantly influenced the organizational performance of SMEs in Nairobi City County, Kenya.

As stated in this portion/statement of the problem there are many studies conducted on strategic management practice and performance. All articles that the researcher has reviewed provide almost the same/similar findings. This implies practice of strategic management has a positive relationship with performance of SMEs. Strategy formulation, implementation and evaluation can significantly affect performance. This is for SMEs which are found in other countries not in Ethiopia. Therefore, the researcher wants to determine whether there is a significant effect of strategic management practice on performance of SMEs. And the reason why the researcher was going to conduct this research is due to the gap that there is no previous investigation made or research conducted on the topic entitled "strategic management practice on performance of SMEs" in Gullele sub city in particular and Ethiopia in general. This was done by identifying strategy formulation, implementation and evaluation as an independent variables and performance as a dependant variable. In this study the researcher used a subjective measure of performance, Lema et.al (2012) argue that by subjective measurement, firm managers or owners are willing to give their perceptions about business performance, including their perception in regards to the sensitive or confidential information needed by the firms to survive in a competitive and rapidly changing environment. Parnnel (2012) presents argument that the power of non- financial actions lies on their ability to provide insight into business processes, which in the long run is a better predictor of the future business performances. Chow and Van Derstede (2006) suggest that objective measurements are unreliable because they are too general and tend to look backward rather than forward. Objective measurements are also more emphasizing on short-term benefits rather than on long-term benefits. Therefore, by understanding the empirical evidence the researcher used subjective performance measurement for this study since it is difficult to get an objective performance measurement through financial statements. Accordingly, the subjective measures of performance are; profit in a subjective manner, market share, production of output, customer satisfaction and reduction of waste.

1.3. Research questions

The basic research questions are formulated based on the variables originated from strategic management practice. These are the following:

1. What is the effect of strategy formulation on performance?
2. What is the effect of strategy implementation on performance?
3. What is the effect of strategy evaluation on performance?

1.4. Research Objectives

1.4.1. General objective

The overall objective of the study was to determine the effect of strategic management practices (strategy formulation, implementation and evaluation) on performance of small and medium sized enterprises in Gullele sub city, Addis Ababa, Ethiopia.

1.4.2. Specific objectives

A specific objective of the study was to determine:

1. The effect of strategy formulation on performance.
2. The effect of strategy implementation on performance.
3. The effect of strategy evaluation on performance.

1.5. Significance of the study

I hope this study benefits the management, sector/SMEs, academician and other researchers.

1. **The management-** The discoveries of the research will be valuable and help the management of Gullele sub city SMEs and in general for the federal management of the sector in enabling and guaranteeing that whether enterprises are formulating, implementing and evaluating the strategy.
2. **SME sector-** It will help them to understand how strategy formulation, implementation and evaluation affect their performance as well as which issue is more influence performance and in which strategic issue should they focus on.
3. **Academicians and Researchers-** The study will also use as a reference material for future researchers on similar points and thus help various academicians who will conduct similar studies. This study also gives importance to other areas that have not been researched on.
4. **Potential investors in the sector-** Potential investors in the sector will learn the dynamics of the business before committing their capital. They will be in a position to carry out objective environmental analysis (strengths, weaknesses, opportunities and threats- SWOT analysis) and determine where they fit in the market.
5. **For the researcher-** a researcher can understand and know many concepts about strategic management. The result will motivate the researcher to conduct this particular topic in another sector in the future/particularly on the biggest organization. And also significant to complete the graduating class (MBA) program.

1.6. Scope of the study

The scope of this study covers strategic management practice and performance of SMEs particularly in Gullele sub city, Addis Ababa. The reason why the researcher was going to select only gullele sub city is: first the enterprises are operating under the same system of government, second they are also operating under the same city administration of SMEs (Addis Ababa city SMEs administration bureau) even though there is SMEs administration office in each sub city, third SMEs sectors (manufacturing, construction, agriculture, service and trade)which found in Gullele sub city also found in other sub cities, this means taking samples from each sub city or from one sub city will provide the same result . Therefore, the researcher has generated information from Gullele sub city SMEs to determine the effect of strategic management practice on performance using descriptive and explanatory research design in this year.

1.7. Limitation of the study

There is a strong concern and many empirical and theoretical literatures on strategic management. However, there is no an empirical literature that could state the effect of strategic management practices on organization performance in Ethiopia. Therefore, first this study was limited by inadequate literature in identification of strategic management factors that have a power to explain performance of SMEs. Second, the study also gathered data relating to strategic management practices and its effect on performance at one point in time and not over period of time this was due to unavailability of financial statements for some enterprises and others were not willing to provide their financial statements for the researcher. So this is a big challenge to ensure the accuracy of the information generated. Third, the enterprises are found in different Woreda in Gullele sub city, as a result it was very difficult to get information via questionnaire plus some of the respondents were reluctant to respond on time, this force the researcher to spend much money and time without any relevant issue.

1.8. Organization of the study

To carry out this research the researcher has classified in to five chapters. The first chapter talks about the study background, statement of the problem, general and specific objectives including the research questions, importance of the research, scope and limitation of the study. The second chapter focuses on the literature review both theoretical and empirical about strategic management, performance and SMEs in Ethiopia. The third chapter entirely focus on the methodology of the study and the fourth chapter talks about the data interpretation and analysis, and the fifth and last chapter is focused on the key findings, recommendations, and conclusions of the study as well as suggestions for future research.

1.9. Definition of terms

1. **Strategic management-** it is the process of examining the present and future environments, formulating the organizations vision and mission statement, setting objectives, formulating, implementing and evaluating/controlling strategies focused on achieving the predetermined objectives in the present and future environments (David, et al, 2017).
2. **Strategy formulation-** deals with developing a vision and mission statements, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue (David, et al, 2017).
3. **Strategy implementation-** in this process of strategic management, firms have to set up annual objectives, devise policies, inspire employees, and assign resources so that formulated strategies can be executed (David, et al, 2017).
4. **Strategy evaluation-** Managers wants to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. Therefore, strategy evaluation deals with reviewing external and internal factors that are the bases for current strategies since strategy is not formulated without any environmental investigation, measuring performance/ what is obtained, and taking corrective actions if things are going wrong (David, et al, 2017).
5. **Performance-** Organizational performance refers to how well an organization is doing to reach its vision, mission, and goals (Strategic management, n. d.). According to Phillips, Davies and Moutinho (2000) performance measurement methods can be divided into two types: objective and subjective measurement. Objective measurements include profit, sales volume, return on investment, breakeven point, and inventory turnover whose data are analyzed from financial statements. Whereas, subjective measurement includes sales volume, market share, customer satisfaction, west reduction, employee turnover and new product development

CHAPTER TWO

THEORETICAL LITERATURE REVIEW

Introduction

This chapter of the study deals with different theoretical concepts, theories and empirical evidences related with strategic management. Therefore, the chapter is classified in to two parts. The first part is about theoretical literature relating with strategic management and performance. The second is about empirical evidences obtained about strategic management practice on performance of SMEs.

2.1. Defining strategic management

Strategic management is the process of examining both present and future environments, formulating the organizations objectives, implementing and controlling decisions focused on achieving these objectives in the present and future environments. Strategic management is based on the belief that an organization should continually monitor internal and external events and trends so that timely changes can be made as needed (David, et al, 2017).

Strategic management deals with formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance and accounting, production and operations, research and development (R&D), and information systems to achieve organizational success (David, et al, 2017). Basically strategic management is used synonymously with the term strategic planning and strategic planning is more often used in the business world, whereas the former is often used in academia. The term strategic management consists of strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation. The main purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today. The term strategic planning originated in the 1950s and was popular between the mid 1960s and the mid 1970s (David, et al, 2017).

2.1.1. Process/ Stages of Strategic Management

According to (David, et al, 2017) the strategic management process consists of three main stages which are: strategy formulation, strategy implementation, and strategy evaluation. Strategy formulation deals with developing a vision and a mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy formulation issues include deciding what new businesses to enter, what businesses to abandon, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover. Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy formulation decisions perform an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and long term effects on an organization. Top managers have the best perspective to understand fully the ramification/effect of strategy formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategy implementation needs a firm to set up annual objectives, devise policies, inspire employees, and assign resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, and linking employee compensation to organizational performance. Strategy implementation often is called the "action stage" of strategic management. Implementing strategy means motivate employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation depends on managers' ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose rather it is an expense for the organization.

Human skills are especially critical for successful strategy implementation. Strategy implementation activities influence all employees and managers in an organization. Every division and department must decide on answers to questions such as "What must we do to implement our part of the organization's strategy?" and "How best can we get the job done?" The main challenge of implementation is to motivate managers and employees throughout an organization to work with pleasure and passion toward achieving the objectives set by the organization.

Strategy evaluation is the last but not the least stage in strategic management process. Managers very much needs to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors constantly change. Three fundamental strategy evaluation activities are:

1. Reviewing external and internal factors that are the bases for current strategies since strategy is not formulated without any environmental investigation.
2. Measuring performance/ what is obtained, and
3. Taking corrective actions if things are going wrong.

Strategy evaluation is important because success today is no guarantee of success tomorrow. Success always creates new and different problems; satisfied organizations experience termination. Formulation, implementation, and evaluation of strategy activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. *Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. However, managers and employees at these two levels should be actively involved in strategic management activities.*

2.1.2. Key terms in strategic management

Michael, Duane and Robert (2007) stated the key terminologies in strategic management. These are vision and mission, objectives, strategy, policy, and others.

1. **Vision and mission statement**

Vision is an image of what the firm wants to be and, in broad terms, what it wants to ultimately achieve in the future within the stated period. Thus, a vision statement articulates the ideal description of an organization and gives shape to its intended future. In other words, a vision statement points the firm in the direction of where it would eventually like to be in the years to come. Vision is big picture thinking with passion that helps people feel what they are supposed to be doing. People feel what they are to do when their firm's vision is simple, positive, and emotional. A vision stretches and challenges people and evokes emotions and dreams.

Mission statement is a reason or rationale for the establishment of the organization. A mission specifies the business or businesses in which the firm intends to compete and the customers it intends to serve. Today's customers tend to be quite demanding when it comes to their expectations for product variety and quality. The firm's mission is more concrete than its vision. However, like the vision, a mission should establish a firm's individuality and should be inspiring and relevant to all stakeholders. Together, vision and mission provide the foundation the firm needs to choose and implement one or more strategies.

2. **Competitive advantage**

Strategic management is all about building and sustaining a competitive advantage over rivals. This term can be defined as any activity a firm does especially well compared to activities done by rival firms, or any resource a firm possesses that rival firms desire. Normally, a firm can sustain a competitive advantage for only a certain period because of rival firms imitating and undermining that advantage. Thus, it is not adequate simply to obtain competitive advantage. A firm must strive to achieve sustained competitive advantage by:

(1) Continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and

(2) Effectively formulating, implementing, and evaluating strategies that capitalize on those factors.

3. **Long-Term Objectives**

No organization whether private/government owned established without objectives. So objectives are specific results that an organization seeks to achieve in pursuing its basic mission. Long term means more than one year. Objectives are essential for organizational success because they provide direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating, and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear. In a multidimensional firm, objectives are needed both for the overall company and each division.

4. **Strategies**

Strategy is a way that someone or an organization realizes objectives determined. Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies are potential actions that require top-management decisions and large amounts of the firm's resources. They affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies also have multifunctional and multidivisional consequences and require consideration of both the external and internal factors facing the firm.

5. **Annual Objectives**

Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives and are very crucial to implement the strategy formulated. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They must also be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, R&D, and MIS accomplishments. A set of annual objectives is needed for each long-term objective. These objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation and annual objectives provide the basis for allocating resources.

6. **Policies**

Policies are standing plans and fundamental statements that guide decision making behaviour. Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations. Usually, policies are stated in terms of management, marketing, finance/accounting, production/ operations, research and development, and management information system activities. They may be established at the corporate level and apply to an entire organization, at the divisional level and apply to a single division, or they may be established at the functional level and apply to particular operational activities or departments. Like annual objectives, policies are especially important in strategy implementation because they outline an organization's expectations of its employees and managers.

2.2. Strategy Management Models

2.2.1. The Resource based model and Industrial Organization model

According to Poudel (2016) a strategy is the combination of actions to exploit core competencies through which a company creates its own competitive edge. Every firm has or must make a strategy. A strategy is the only way that gives a clear cut path for a company or firm to excel. So according to Poudel (2016) now let's focus on two particular models/ theories to make strategies.

1. **the I/O Model**

The first model is called the Industrial organization model or I/O Model. This model describes that we should focus on investigating the external environment factors before we make our strategy. Industrial organization model explains that the industry in which a firm chooses to compete has a stronger influence on the firm's performance than do the choices managers make inside the organization. The Industrial organization model has four assumptions.

1. The first assumption is that the external environment creates pressures and constraints for a firm to make its strategy.
2. The second assumption is that the firms competing within a particular industry has similar resources under their control. Therefore the firms under these industries are more or less equal.
3. The third assumption is that the resources that are under their control are highly mobile.
4. The fourth assumption is that the organizational people are rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behaviours.

2. **The Resource Based Model**

The resource based model on the other hand gives us a different aspect than the I/O model. The resource based model assumes that each organization is a collection of unique resource and capabilities that provides the basis for its strategy and that is the primary source of their return. According to this model, differences in firms' performances across time are due primarily to their unique resources and capabilities rather than the industry's structural characteristics. So, this model focuses on unique resources and capabilities. If there are unique resources, then firms can simply develop the capabilities to gain competitive advantage.

The model is based on three assumptions:

1. Each firm is a collection of unique resources and capabilities that provides the basis for its strategy and is the primary source of firm returns (i.e. characteristics of the firm itself constrains or limits the scope of strategies that might be appropriate).
2. Over time, firms acquire different resources and develop different or unique capabilities. Firms therefore are likely to adopt and implement different strategies in their attempts to achieve strategic competitiveness.
3. Resources may not be highly mobile across firms. (Once example of an exception to this is people skills, e.g., computer industry).

2.2.2. The McKinsey 7-S Framework

The model was developed in the late 1970s by Tom Peters and Robert Waterman, former consultants at McKinsey & Company. They identified seven internal elements of an organization that need to align for it to be successful. These seven elements are very important to improve performance or manage change in the organization by ensuring that they all work in harmony (strategic management mind tools, n. d).

When to Use the McKinsey 7-S Model

We can use the 7-S model in a wide variety of situations where it's useful to examine how the various parts of organization work together. For example, it can help us to improve the performance of our organization, or to determine the best way to implement a proposed strategy. We can use it to identify which elements we need to realign to improve performance, or to maintain alignment and performance during other changes. These changes could include restructuring, new processes, an organizational merger, new systems, and change of leadership. The framework can be used to study the likely effects of future changes in the organization, or to align departments and processes during a merger or acquisition (strategic management mind tools, n. d).

The Seven Elements of the McKinsey 7-S Framework

The model categorizes the seven elements as either "hard" or "soft":

The three "hard" elements are strategy, structures (such as organization charts and reporting lines), and systems (such as formal processes and IT systems.) These are relatively easy to identify, and management can influence them directly.

The four "soft" elements, on the other hand, can be harder to describe, less tangible, and more influenced by your company culture. But they're just as important as the hard elements if the organization is going to be successful (strategic management mind tools, n. d).

Let us look at each of the elements separately:

1. **Strategy:** this is organization's plan for building and maintaining a competitive advantage over its competitors.
2. **Structure:** this deals with how the company is organized (that is, how departments and teams are structured, including who reports to whom).
3. **Systems:** the day to day activities and procedures that staff uses to get the job done.
4. **Shared values:** these are the core values of the organization, as shown in its corporate culture and general work ethic.
5. **Style:** the style of leadership adopted what type of leadership style do managers or leaders going to adopt.
6. **Staff:** the employees found in an organization and their general capabilities.
7. **Skills:** the different skills and competencies of the organization's employees (strategic management mind tools, n. d).

When we use a model of McKinsey placing **shared values** in the centre of the model emphasizes that these values are central to the development of all the other critical elements and the seven elements need to balanced and reinforce each other for an organization to perform well. We have to follow the following steps:

1. First, start with shared values: are they consistent with the structure, strategy, and systems? If not, what needs to change?

2. Second, look at the hard elements (strategy, structure and system). How well does each one support the others? Identify where changes need to be made.

3. Third, look at the soft elements. Do they support the desired hard elements? Do they support one another? If not, what needs to change?

4. As we adjust and align the elements, we will need to use an iterative process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. Then, the end result of better performance will be merit it.

2.3. Levels of Strategy

Pearce & Robinson (2007) identified the following levels of strategy

1. Corporate level strategy for the business as a whole
2. Business level strategy for a particular division or business unit
3. Functional level strategy for each department/ function

2.3.1. Corporate Strategy

Based on hierarchy, the first level of strategy in the business world is corporate strategy, which is more decided by the top level managements. Before you jump/dive into deeper, more specific strategy, you need to outline a general strategy that is going to oversee everything else that you do. At a most basic level, corporate strategy will outline exactly what businesses you are going to engage in, and how you plan to enter and win in those markets. The examples of such strategies include acquisition strategies, diversification, structural redesigning, merger, etc (Pearce & Robinson, 2007).

It is significantly vital that you have an overall corporate strategy in place, as that strategy is going to direct all of the smaller decisions that you make. For some companies, demarcation a corporate strategy will be a quick and easy process. For example, smaller businesses that are only going to enter one or two specific markets with their products or services are going to have an easy time identifying what it is that makes up the overall corporate strategy. However, for a larger business, things quickly become more complicated (Pearce & Robinson 2007).

Thus, grand strategies are the decisions or choices of long term plans from available alternatives. Grand strategies also called as master or corporate level strategy. It is based on the analysis of internal and external environment. This direct the organization towards achievement of overall long term objectives (strategic intent).They involve Expansion, Quality Improvement, Market Development, Innovation, Liquidation, etc. Usually they are selected by top level managers such as directors, executives etc (Pearce & Robinson 2007).

The classification of Grand/Corporate Strategy

According to (Singh, 2008) the following are grand strategies.

- Stability Strategy
- Growth Strategy
- Retrenchment Strategy
- Combination Strategy

1. **Stability Strategy**

Stability strategy is a strategy in which a firm attempts to maintain its status-quo with existing levels of efforts and it is satisfied with only incremental growth/improvement by marginally changing the business and concentrates its resources where it has or can develop rapidly meaningful competitive advantages in the narrowest possible product market scope.

There is no significant change i.e. continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's return-on investment (Singh, 2008) as it is.

Types of stability strategy

1. **Incremental strategy**

Incremental growth strategy is a strategy in which a firm sets its objectives/achievement levels based on past accomplishment adjusted for inflation. It may be average achievement level of industry or even low. It is followed when environmental factors are more or less stable.

- The organization assumes that they are doing very well currently/ at present
- Organizations believe that there is a less risk when we adopt this kind of strategies.
- The organization is change resistant and prefers change only in extraordinary times. It is easier to pursue as it does not disturb the organizational routines.

2. **Profit strategy / End game strategy / harvesting strategy**

   More characterized by convincing about the existence of profit when it is tends to decrease instead of telling the truth for the owners.

- It is one in which organization or its SBU aims at generating profit/cash, sometimes at the cost of market share also because the product is not prestigious, its market share & also contribution to total sales are very small.

- The product is in stable or declining market share, company wants to encase as much profit as possible before retrenchment.

3. **Sustainable strategy-** It is one in which a firm tries to maintain its existence in unfavourable critical conditions like constraints on finance resources, raw material resources etc., govt. policy, cheaper imports, competitor by big and capable competitors etc (Singh, 2008).

2. Growth Strategy

According to Singh (2008) an enterprise may be considered growing when there is a permanent increase in its:

- sales turnover,
- assets, and
- Volume of output.

- Many business firms started small and have become big through continuous growth**.** However, growth may be restricted by constraints of; Market demand, finance, technology and management skills, etc.
- Growth Strategies are means by which an organization plans to achieve the increased level of objective that is much higher than its past achievement level.
- Organizations may select a growth strategy to increase their profits, sales or market share and to reduce cost of production per unit.

Types of Growth Strategy

The main strategies for growth are as follows (Singh, 2008).:

- Expansion
- Diversification
- Merger
- Acquisition
- Joint venture

Expansion and diversification are forms of internal growth. Internal growth implies increase in scale of operations without joining hands with other firms. A firm expands its product - market scope.

Internal growth strategies

1. **Expansion Strategy**

It means investing the resources in one or more of a firm's business so as to expand its present businesswise. Doing more what we are already doing and where we are best at doing; when potential for growth, attractiveness and maturity factors are favourable in the industry of the firm.

-Expansion may take place in the following forms:

a) Market Penetration:

- It implies increasing the sale of existing products in the existing markets.

b) Market Development:

- It involves exploring new markets for existing products
- Some firms, for example, grow through exports.

c) Product Development:

- It implies developing new or modified products for sale in the existing markets (Singh, 2008).

2. Diversification

Diversification is a strategy in which starting the new businesses in terms of, either the market or the technology or both. It is a strategy for growth by adding new products or services to the existing ones to sale in the new market. It requires a company to acquire new skills, new techniques and new facilities (Singh, 2008).

Types of diversification

a) Horizontal integration
b) Vertical integration
c) Concentric and
d) Conglomerate diversification

a. **Horizontal Integration**

Horizontal Integration is diversification strategy in which a company expands its business into different products that are similar to current line. E.g. macaroni and pasta. More applicable for substitute products

b. **Vertical Integration**

New products or services are added which are complementary to the existing product or service line.

- Focuses on inputs and outputs/acquiring of supplier and buyer companies. Therefore, the integration can be **backward** and **forward** integration. Vertical integration exists when a company produces its own inputs (backward integration) or owns its own source of output distribution (forward integration).

- New products serve the firm's own needs by either supplying inputs or serve as a customer for its output**.**

c. **Concentric Diversification**

When a firm enters into some business, which is related with its present business in terms of technology, marketing or both

- ✓ In technology-related concentric diversification, new product or service is provided with the help of existing or similar technology.
- ✓ In marketing related concentric diversification, the new product or service is sold through the existing distribution system.

d. Conglomerate Diversification

Firm enters into business, which is unrelated to its existing business both in terms of technology and marketing.The new products/services are produced and delivered by different technology and marketing system.

External Growth Strategy

External growth occurs when two or more firms combine in to one firm (David, R et al 2017).

Advantages

Integrative growth strategy has the following advantages:

- ✓ Growth is very fast or quick- helps to bring synergistic effect
- ✓ The firm gets running business units
- ✓ The strategy offers **economies of scale** and control over the market.
- ✓ Wasteful competition can be eliminated.

Disadvantages

- ✓ Large amounts of financial resources are required to take over running units
- ✓ Drastic changes are required in the **organization structure** and management of the firm.
- ✓ Co-ordination and control of integrated units becomes very difficult.
- ✓ Frequent takeovers may create uncertainty and instability in the economy.

1. Joint Ventures

- o Created when two or more independent firms together establish a new enterprise.
- o Contribute to the total equity capital and participate in its business operations.

- It is a temporary partnership or association/consortium between two or more companies for a specified purpose.

2. **Merger**

Two firms agree to integrate their operations on a relatively co-equal basis. A merger involves the mutual decision of two companies to combine and become one entity; it can be seen as a decision made by two "equals". A takeover, or acquisition, on the other hand, is characterized by the purchase of a smaller company by a much larger one.

3. **Acquisition**

One firm buys a controlling, 100 percent interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. Acquisitions, also referred to as friendly takeovers, occur when the acquiring company has the permission of the target company's board of directors to purchase and take over the company.

4. **Takeover**

Acquisition strategy is a strategy in which the target firm did not solicit/ask the acquiring firm's bid/proposal. Takeovers that occur without permission are commonly called hostile takeovers**.**

3. **Retrenchment/reduction Strategy**

It is a defensive and self protective strategy in which a firm having declining performance decides to improve its performance through contraction in these activities i.e. reducing the scope of its business by total or partial withdrawal from present business. Focusing on functional improvement with special emphasis on cost reduction or reducing the number of functions it performs, by being a captive firm or reducing the no. of products, markets, customer functions etc.

Types of Retrenchment Strategy

a. Turnaround Strategy

Turnaround strategy deals with identifying the business, activity or function which cannot contribute and has over cost on the organization and it is also known as reduction/cutback strategy “hold the present business and cut the costs. Is one in which a company tries to recover from its declining state by improving internal efficiency. Turnaround actions may include: Change in the product mix, selling of assets which are not useful for long time or in future also to generate cash, closing down plants & divisions which are not rewarding, Replacement of obsolete machinery. Focus on specific products and customers and improved marketing, etc.

b. Divestment/sell-out Strategy

In divestment strategy the organization decides to get out of certain businesses and sells off units or divisions. Divestment is done through: - Outright sale of unit to another company for which the divested unit is a strategic fit.

c. Liquidation Strategy

Liquidation strategy is a strategy in which a firm closes down & sells its entire business at a fair price on the basis of tangible assets, management good will & also intangible assets and invests the realization somewhere else or distributes among debtors and members when Business can't be revived and its retaining value is less than its selling. Business is in peak form (value, but future is quite uncertain, having no direction, Business has accumulated losses and some other organization offers higher price to get tax benefits, Liquidation value is more than discounted present value of future flow of income etc.

4. Combination Strategy

This type of strategy is called an integrated strategy and combination strategy is not an independent classification but it is a combination of different strategies stability, growth, and retrenchment in various forms. Therefore, the possible combinations of strategies may be: Stability in some businesses and growth in other businesses, Stability in some businesses and retrenchment in other businesses, Growth in some businesses and retrenchment in other businesses or Stability, growth and retrenchment in different businesses.

2.3.2. Business level Strategy

Business level strategy is mainly formulated for each business unit of the corporation. It is best to think of this level of strategy as a 'step down' from the corporate strategy level. In other words, the strategies that you outline at this level are slightly more specific and they usually relate to the smaller businesses within the larger organization. At this level the strategies are diversification, cost leadership and integrated strategy (David, et al, 2017).

Michael Porter's Generic Strategies

Porters' generic competitive strategies (n. d.) stated that a firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

1. **Cost Leadership**

In this strategy, cost leadership firms set out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors.

If an enterprise is a low cost producer, it must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

2. **Differentiation**

In a differentiation strategy a firm has to provide products and services that can satisfy the need and wants of the customers over they expect and seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. It is rewarded for its uniqueness with a premium price.

*3. **Focus***

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailor/adapt its strategy to serving them to the exclusion of others.

The focus strategy has two types.

(a) Cost focus - a firm seeks a cost advantage in its target segment, while in

(b) Differentiation focus - a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. *Cost focus organizations exploits differences in cost behaviour in some segments, while differentiation focus organizations exploits the special needs of buyers in certain segments.*

4. **Integrated strategy**

Now day's customers have high expectations when purchasing a good or service. In a strategic context, this means that more and more, customers want to purchase low-priced, differentiated products. Because of these hope, a number of firms are trying to perform primary and support activities in ways that allow them to simultaneously pursue low cost and differentiation. Firms seeking to develop this type of activity map use the integrated cost leadership/differentiation strategy. The objective of using this strategy is to efficiently produce products with some differentiated attributes. Efficient production is the source of keeping costs low while some differentiation is the source of unique value**.**

2.3.3. Functional Strategy

Functional level strategy is formulated for departments in accordance with the corporate and business level strategies and this is the day to day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top level perspective, other businesses fail to plan at this bottom-level. *This level of strategy is perhaps/possibly the most important of all, as without a daily plan you are going to be stuck in neutral while your competition continues to drive forward.* As you work on putting together your functional strategies, remember to keep in mind your higher level goals so that everything is coordinated and working toward the same end (David, et al, 2017).

This bottom level of strategy is concerned with, you should start to think about the various departments within your business and how they will work together to reach goals. Your marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end (David, et al, 2017).

According to (David, et al, 2017) Functional strategies seek to improve implementation of business and corporate strategies. Functional strategies include marketing strategies and human resources strategies. Often they concern specifics such as resource allocation, operating expense efficiencies and product improvement.

Implementation of Functional Strategies

The functional level strategy is immediately concerned with fashioning and implementing strategies that improve function in specific departments.

- **Functional purchasing and materials management strategies** include improving quality of purchases at lower cost, negotiation practices with vendors, and analyzing the performance of purchasing staff.
- **Functional production and operations strategies** include marketing concepts, refining produce mix, and managing product life cycles
- **Other functional strategies** concern development of new products and services, distribution strategies, product positioning, packaging and advertising.

How Can We Do Better?

The fundamental reason of all functional strategies is to answer the question "How Can We Do Better?" It's at this level that businesses correct emerging or continuing problems and develop new ways of moving specific aspects of the business forward.

2.4. Strategic analysis /environmental analysis

David (2005) classifies the environment as external and internal environment.

External environment-External environment is consists of all the outside factors or influences that impact the operation of business or the environment which is outside for the organizations. The business must act or react to keep up its flow of operations. The external environment can be classified into two types: the macro/general environment and the micro/task environment.

Environmental analysis is a very important strategic tool. It is a method of identifying all the external and internal factors, which significantly affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. This investigation of the environment is crucial in decision making process. The study helps to align strategies with the firm's environment since businesses are greatly influenced by their environment. All the situational factors which determine day to day circumstances impact firms. So, businesses must constantly analyze the trade environment and the market (David, 2005).

The external environment analysis is used to determine the opportunities and threats of the organization. Opportunities such as: possible new market, strong economy, weak market rivals, emerging new technology and growth of existing market. A threat comprises the following new competitors, shortage of resource, changing market tests, new regulation and substitute products (David, 2005). .

Components of External Environmental Analysis

(1) Analysis of general environment

(2) Analysis of industry environment

(3) Analysis of competitor environment

Internal environment- internal environment analysis is very important to determine the key factors to success. So for a strategy to succeed, it should be based on a realistic assessment of the firm's internal resources and capabilities. An internal analysis provides the means to identify the strengths to build on and the weaknesses to overcome when formulating strategies. The internal analysis process considers the firm's resources, objectives, policies, and plans. All organizations regardless of their size, nature, and scope of business perform the functions of finance, production, marketing, and human resource development. For efficient strategic management, careful planning, execution, and coordination of various functions such as marketing, production and operations, finance and accounting, research and development, and human resource management is highly essential(David, 2005).

2.4.1. Strategic analysis tools

Strategic analysis tools (n. d.) explained in the website address as strategic Analysis is the process of conducting research on the business environment within which an organisation operates and on the organisation itself, in order to formulate strategy.'

A theoretically informed understanding of the environment in which an organisation is operating, together with an understanding of the organisation's interaction with its environment in order to improve organisational efficiency and effectiveness by increasing the organisation's capacity to deploy and redeploy its resources intelligently.

Definitions of strategic analysis often differ, but the following attributes are commonly associated with it:

1. Identification and evaluation of data relevant to strategy formulation.
2. Definition of the external and internal environment to be analysed.
3. A range of analytical methods that can be employed in the analysis (Strategic analysis tools, n. d.).

Examples of analytical methods used in strategic analysis include:

- SWOT analysis
- PEST analysis
- Porter's five forces analysis

- value chain analysis
- BCG matrix analysis

A. SWOT analysis

A SWOT analysis is a simple but widely used tool that helps in understanding the strengths, weaknesses, opportunities and threats involved in a project or business activity. It starts by defining the objective of the project or business activity and identifies the internal and external factors that are important to achieving that objective. Strengths and weaknesses are usually internal to the organization, while opportunities and threats are usually external.

B. PEST analysis

PEST analysis is an investigation/scan of the external macro environment in which an organization exists. It is an important tool for understanding the political, economic, socio-cultural and technological environment that an organization operates in. It can be used for evaluating market growth or decline, and as such the position, potential and direction for a business (Strategic analysis tools, n. d.). .

Political factors- These include government regulations such as employment laws, environmental regulations and tax policy. Other political factors are trade restrictions and political stability.

Economic factors- These affect the cost of capital and purchasing power of an organization. Economic factors include economic growth, interest rates, inflation and currency exchange rates.

Social factors- These impact on the consumer's need and the potential market size for an organization's goods and services. Social factors include population growth, age demographics and attitudes towards health.

Technological factors- These influence barriers to entry, make or buy decisions and investment in innovation, such as automation, investment incentives and the rate of technological change.

PEST factors can be classified as opportunities or threats in a SWOT analysis. It is often useful to complete a PEST analysis before completing a SWOT analysis.

C. Porter's five forces analysis

Five force analyses is important to determine by whom does power is retained and Porter's five force of competitive position analysis was developed in 1979 by Michael E. Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organization. This theory is based on the concept that there are five forces which determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is important both in accepting the strength of an organization's current competitive position, and the strength of a position that an organization may look to move (Strategic analysis tools, n. d.).

Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

The five forces are:

1. Supplier power. An assessment of how easy it is for suppliers to drive up prices. This is driven by:

• The number of suppliers of each essential input

• The uniqueness of their product or service

• The relative size and strength of the supplier

• The cost of switching from one supplier to another.

2. Buyer power. An assessment of how easy it is for buyers to drive prices down. This is driven by:

• The number of buyers in the market

• The importance of each individual buyer to the organization

• The cost to the buyer of switching from one supplier to another.

3. Competitive rivalry. The key driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.

4. Threat of substitution. Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.

5. Threat of new entry. Profitable markets attract new entrants, which erode profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate(Strategic analysis tools, n. d.).

D. BCG matrix

Strategic management insight (2013) defined that BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

Relative market share- One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Market growth rate- High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

There are four quadrants into which firms brands are classified:

Dogs- Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defence to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.
Strategic choices: Retrenchment, divestiture, liquidation

Cash cows- Cash cows are the most profitable brands and should be “milked” to provide as much cash as possible. The cash gained from “cows” should be invested into stars to support their further growth. According to growth-share matrix, corporations should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.
Strategic choices: Product development, diversification, divestiture, retrenchment

Stars- Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog. *Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development*

Question marks- Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not. *Strategic choices: Market penetration, market development, product development, divestiture*

E. Value Chain Analysis (VCA)

According to Porter (1985) VCA is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation.

Value chain represents the internal activities a firm engages in when transforming inputs into outputs.

Value chain analysis is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are. The firm that competes through differentiation advantage will try to perform its activities better than competitors would do. If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits. Value chain represents all the internal activities a firm engages in to produce goods and services. VC is formed of primary activities that add value to the final product directly and support activities that add value indirectly.

Porter (1979) suggested that the activities of a business can be grouped under two headings.

1. **Primary activities:** those that are directly involved with the physical creation and delivery of the product or service.
2. **The support activities:** it feed both into primary activities and into each other. Support activities are not directly involved in production, but have the potential to increase effectiveness and efficiency.

Primary Activities

1. Inbound logistics

This activity focuses on preparations for operations, including production and operation planning; acquiring and ordering inputs and materials, receiving and storing and supplying to operations.

2. Operations

Involve the actual conversion process or the process of converting inputs to outputs.

3. Outbound logistics

   Concerns the packaging and warehousing of the processed materials and physical distribution to customers

4. Marketing and Sale

   This activity focuses on the satisfaction of customer needs and wants and creating demand and revenue to the company's product.

5. After Sales service

   Creating enduring relationship by monitoring and guarantying customers the best use of the product they have bought.

Support Activities

1. Organizational infrastructure: which is concerned with a wide range of support systems and functions, such as planning, external relations, finance, planning, quality control and coordinating ability.
2. Human resource management, dealing with those activities concerned with recruiting, developing, motivating, and rewarding the workforce of the organization and employee relations.

3. Technology development, managing information, R&D, meeting deadlines, innovation and protection of "knowledge" in the organization.
4. Procurement, which deals with how resources are acquired for the organization (e.g., sourcing and negotiating with).

2.5. Business Performance

Although the concept of organizational performance is very common in literature, its definition is difficult because of its many meanings. For this reason, there isn’t a universally accepted definition of this concept. Strategic management (n. d.) defined that Organizational performance refers to how well an organization is doing to reach its vision, mission, and goals. Assessing organizational performance is a vital aspect of strategic management. Executives must know how well their organizations are performing to figure out what strategic changes, if any, to make. Performance is a very complex concept, however, and a lot of attention needs to be paid to how it is assessed.

Two important considerations are (1) performance measures and (2) performance referents. A performance measure is a metric along which organizations can be gauged. Most executives examine measures such as profits, stock price, and sales in an attempt to better understand how well their organizations are competing in the market. But these measures provide just a sight of organizational performance. Performance referents are also needed to assess whether an organization is doing well. A performance referent is a benchmark used to make sense of an organization’s standing along a performance measure (Strategic management, n. d.).

The methods of business performance measurement still remain the subject of debate for both business practitioners and academic communities (Punn & White, 2005). According to Phillips, Davies and Moutinho (2000) performance measurement methods can be divided into two types: objective and subjective measurement. Objective measurements include profit, sales volume, return on investment, breakeven point, and inventory turnover whose data are analyzed from financial statements, such as balance sheet and income statement. While the subjective measurement rely on the perception of firm managers or owners in regards to the business performance achieved. The criticism on the objective measurement business performance is that its performance reports are difficult to access, confidential, incomplete, and often inaccurate Chong (2008). In addition, in the objective approach, the amount of profit is often manipulated, and is difficult to compare among different business sectors. Furthermore, Chow and Van Der Stede (2006) suggest that objective measurements are unreliable because they are too general and tend to look backward rather than forward. Objective measurements are also more emphasizing on short- term benefits rather than on long-term benefits. Consequently, managers or owners are difficult to understand the root causes of performance problems to make cross- functional decisions in order to survive in uncertain business environments. A study by Tang & Zhang (2005) reveals that objective performance data is influenced by certain industry factors and therefore inappropriate to make cross-industry comparisons. As a consequence of these inaccuracies, Tang & Zhang (2005) argue that previous researchers relied more on subjective company performance tracking due to difficulties in obtaining objective performance data, particularly in small and medium enterprises (SME).

With regard to subjective performance measurement, performance information is provided in non- monetary terms, such as sales volume, market share, customer satisfaction, west reduction, employee turnover and new product development, relevant to survive in a competitive environment (Verbeen & Boons, 2009). Lema et.al (2012) argue that by subjective measurement, firm managers or owners are willing to give their perceptions about business performance, including their perception in regards to the sensitive or confidential information needed by the firms to survive in a competitive and rapidly changing environment. Parnnel (2012) presents argument that the power of non- financial actions lies on their ability to provide insight into business processes, which in the long run is a better predictor of the future business performances. By understanding the empirical evidence the researcher used subjective performance measurement for this study since it is difficult to get an objective performance measurement through financial statements. Accordingly, the subjective measure of performance are; profit in a subjective manner, market share, sales volume in terms output, customer satisfaction and reduction of waste.

More specifically the following terms are used as a business performance indicator.

1. **Profit**

According to Amadeo (2019) Profit is the revenue remaining after all costs are paid. These costs include labour, materials, interest on debt, and taxes. Profit is usually used when describing business activity. But everyone with an income has profit. It's what's left over after paying the bills/costs. Profit is the reward to business owners for investing. In small companies, it's paid directly as income. In corporations, it's often paid in the form of dividends to shareholders. When expenses are higher than revenue it leads to a loss. If a company suffers losses for too long, it goes bankrupt.

2. **Customer satisfaction**

Wikipedia (n. d) it is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as a measurement that determines how happy customers are with a company's products, services, and capabilities. Customer satisfaction information, including surveys and ratings, can help a company determine how to best improve or changes its products and services.

An organization's main focus must be to satisfy its customers. This applies to industrial firms, retail and wholesale businesses, government bodies, service companies, non profit organizations, and every subgroup within an organization.

There are two important questions to ask when establishing customer satisfaction:

1. Who are the customers?
2. What does it take to satisfy them?

3. **Product Output**

Market business news (n. d) defined output is the total quantity of goods and services that an individual, company, industry, city, region or country, or even the whole world produces in a given period.

4. **Waste reduction/ minimization**

Waste minimisation is a set of processes and practices intended to reduce the amount of waste produced. By reducing or eliminating the generation of harmful and persistent wastes, waste minimisation supports efforts to promote a more sustainable society. Waste minimisation involves redesigning products and processes and/or changing societal patterns of consumption and production (Wikipedia, n. d)

5. **Market share**

Market share is the percentage of the total market that is being serviced by your company measured either in the revenue terms or unit volume terms. The higher your market share, the higher proportion of the market you control.

2.6. Theoretical definition and some empirical evidence of SMEs in Ethiopia

There is no universally accepted definition of SMEs because in each economic system every country has its own classification according to their industrial regulation. The categorization of SMEs depends on qualitative judgment such as number of employees hired and amount of capital employed.

As Abaw (2017) studied there is no consistently placed definition for the sub sector by different bodies. In 1997, Ethiopia has defined Micro Enterprises as an enterprise with a total asset of less than 20,000 Birr ($1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 ($30,000) or less MOTI,1997). Abaw (2017) suggest that to align the definition with at least some countries and international organizations and this researcher explained that the country has revised the definition of Micro and Small Enterprises in 2011. In the new definition, some of the attributes used by other countries and international organizations are addressed. Abaw (2017) cited Berihu, Abebaw and Biruk (2014) the definition has separate sectors as service and industry. However, there is still confusion among different governmental organizations (e.g. MoTI, CSA, & FeMSEDA) in defining MSEs. Since it only focus on Micro and Small Enterprises, the new definition does not put any demarcation between Small and Medium; and Medium and large Enterprises.

Central Statistics Agency (CSA) had grouped both large and Medium Enterprises together when these enterprises have employed more than 10 employees and used automated machinery. Federal Micro and Small Enterprises Development Agency (FeMSEDA), on the other hand, put definition of Micro and Small Scale Enterprises and categorize them from support provision perspective which contempt Medium Enterprises. Abaw (2017) suggested that, in defining and characterizing Micro, Small and Medium Enterprises in Ethiopia, adopting definition of MSMEs with slight modification is compulsory. Any ways based on the data obtained from Gullele MSMEs administration office, the following table shows the size of enterprise using number of employees and paid up capital.

Table 2.1 size of enterprises

Enterprise level	Sector	Hired labor	capital
Micro	Industry	≤5	≤100,000 Birr
	Service	≤5	≤50,000 Birr
Small	Industry	6-30	≤1,500,000 Birr
	Service	6-30	≤500,000 Birr
Medium	Industry	>20	>1,500,000 Birr
	Service	>20	>500,000 Birr

Source, Gullele sub city MSMEs admin. Office (2019)

In Ethiopia, there are five main sectors of MSMEs (Gullele sub city MSMEs administration Office (2019). These are the following:

1) Manufacturing sector: Metal & engineering, textile and garment, leather products, wood work products, agro processing and handicraft products.
2) Construction sector: contractor, building material production, cobble stone production traditional way of mining extraction
3) Urban agriculture: cattle fattening, honey production, forestry, poultry farm, animal food preparation.
4) Trade sector: domestic product wholesale and retail trade.
5) Service sector: solid waste collection and recycling and maintenance service.

Importance of these sectors

1. Equitable distribution of wealth and decentralization of economic power
   - ✓ Income dispersed more widely and its benefit is derived by the large segments of the society (this is due to wide spread ownership and decentralized location of small scale enterprises).
2. More Employment creation capacity
   - ✓ Small scale enterprises are labor intensive and thus create more employment with a given level of capital.
   - ✓ Require less capital but generate more employment.

3. Removing Regional Imbalance-
   - ✓ By inducing people to set up small firms in rural areas to avoid migration.
4. Export Promotion
   - ✓ Small-scale enterprises are opening up fresh opportunity in the export market in our world.
5. Ancillary Function
   - ✓ Supply function: supplying material inputs & accessories to bigger enterprises.
   - ✓ Distribution function: Serving as the distribution outlet for commodities made by large enterprises.

Government Supports and Selected Sectors

Since, our country has limited capital, government support to SMEs depending up on the importance of the sector in the economy. Accordingly, growth oriented sectors are selected for maximum government support and the rest non selected sectors will get minimum (debela, n.d).

The Growth oriented sectors selection criteria are the following:

- ➢ Local raw material utilization,
- ➢ Short period of return over investment
- ➢ Employment absorption capacity,
- ➢ Large market size for their product,
- ➢ High role for poverty reduction, and Opportunity to transformed to medium and large scale(Debela, n.d)

2.7. Empirical literature review

(Lawal et al. 2012) studied about the effect of strategic issue management on organisational performance. The finding drawn shows that strategic issue management activities provide enormous opportunities to firm such as increase in profit making, building and maintaining a good reputation, increase in sales return and achieving corporate goals.

Gure & Karugu (2018) studied strategic management practices and performance of small and micro enterprises in Nairobi City, Kenya. The study used a descriptive research design and the primary data was collected by use of self- administered semi-structured questionnaire and the study realized that the Michael Porter's generic strategies of competitive advantage used in the study which include low cost leadership strategy, differentiation strategy, focus strategy and combination strategy significantly influenced the organizational performance of SMEs in Nairobi City County, Kenya.

According to Yunus (2010) Strategic management practices and organization performance in small business enterprises goes together, but most Small business enterprises place less emphasis on making effective strategy for improved performance. Cross sectional survey research method was adopted for the study and 140 participants were randomly selected in Lagos metropolis, Nigeria. Using Pearson correlation coefficient the researcher concluded that there is a positive and significant relationship between strategic management practice and organizational profitability and market share.

Majama & Israel (2017) studied Strategic Planning in Small and Medium Enterprises (SMEs) a Case Study of Botswana SMEs. Using semi-structured interviews of 36 Small and Medium firms selected across several sectors, the study finds that strategic planning efforts do exist within SMEs but most of these firms engage in strategic planning activities to a limited extent. As these researchers identified there are several factors which contribute to lack of strategic planning. The first one was, most SME owner/managers have limited knowledge in the area of strategic planning. Second, owner/managers did not plan because of the size of the business. And the third one is that they still possess the traditional based thinking that most business decisions are based on intuition.

Omsa, Ridwan, & Jayadi (2017) studied the effect of strategic management practices on SME Performances in Makassar, Indonesia. Researchers measured how strong the effect of strategic management practices on the performance (sales turnover, breakeven point (BEP), and profit) of SMEs in Makassar, Indonesia. As a result strategic management practice had a significant impact the dependent variables (sales volume and profit). But strategy formulation did not affect profit and sales volume.

Nyariki (2013) investigated strategic management practices as a competitive tool in enhancing performance of small and medium enterprises in Kenya. The study adopted the descriptive cross sectional research design and stratified sampling was adopted by the researcher so as to give each item in the population an equal chance of being selected. After analysis of the data the study concludes that strategic management has a positive relationship with competitive advantage.

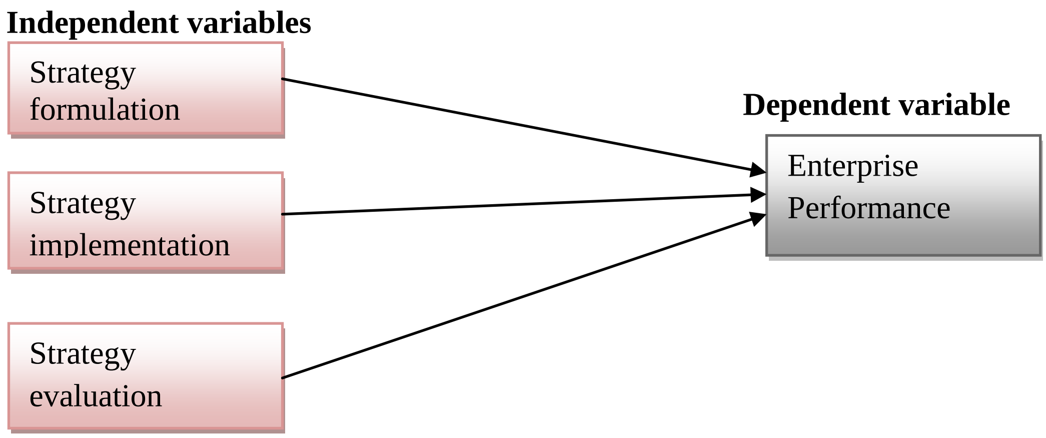
Njeru (2015) studied strategic management practices and performance of small and medium sized enterprises in Kenya. This study targeted top one hundred small and medium sized enterprises in Kenya. The study used descriptive research design and data was collected using primary and secondary data. The study found that that top one hundred SMEs had adopted strategic management practices relation to situational analysis, strategy formulation, implementation and evaluation. The study also found that adoption of strategic management practices influence organization performance (market share and return on asset).

Muogbo (2013) investigated the impact of strategic management on organizational growth and development of selected manufacturing firms in Anambra State. Results from the analysis indicated that strategic management is not common among the manufacturing firms in Anambra State; but the adoption of strategic management has significant effect on competitiveness, on employee's performance and that its adoption has significantly increased organizational productivity of manufacturing firms; also, it enhances structural development of manufacturing firms.

2.8. Conceptual framework

Conceptual framework is very important; it can simply tell us the independent and dependent variables which are determined by the researcher.

Figure 2.1 Conceptual framework



Source, Own Determination (2019)

The above framework shows the independent variables (strategy formulation, Strategy implementation and Strategy evaluation) in the left side that comprises different indicators/measurements and dependent variable (performance) in the right side of the figure.

To measure performance/dependent variable profit, market share, waste reduction, volume of output and customer satisfaction were used as an indicator.

2.9. Model Estimation

The objective of the study was to determine the effect of strategy formulation, implementation and evaluation on performance of SMEs in Gullele sub city, Addis Ababa. The dependent variable, performance is influenced by three explanatory variables presented on the theoretical framework. To show the relationship and effect of variables a multiple regression model is applied which is estimated by OLS (ordinal least square) where the dependent variable is the mean score of performance indicators, and the independent variables are the mean score of indicators under formulation, implementation and evaluation. Based on the similarities of findings by different researchers that strategic management is positively correlated with performance, the sign in the regression model/coefficient of all independent variables are expected to be positive.

Performance (P) = β_0+ β_1SF+ β_2SI + β_3SE+ e

Where: P= Performance

β_0 = Intercept

SF= Strategy Formulation

SI= Strategy Implementation

SE= Strategy Evaluation

e = error (Residual) and β_1- β_3 = Coefficients/Slope of the independent variables

2.10. Hypothesis formulation

Hypothesis is a tentative assumption in which the researchers are going to formulate based on the previous studies finding. Thus, for this study three hypotheses were formulated based on the evidence that strategic management practice (strategy formulation, implementation and evaluation) on performance SMEs. For example as Yunus (2010)studied even small enterprises give less attention on formulating effective strategy there is a positive and significant relationship between strategic management and performance. Omsa, Ridwan and Jayadi (2017) studied and found, strategic management has a positive and significant effect on performance (profit, sales volume and breakeven point) and also Nyarki (2013) investigated about the existence of positive relationship between strategic management and competitive advantage. Accordingly, the following were the hypothesis formulated by the researcher for this study.

H1: Strategy formulation has a positive and significant effect on performance of small and medium enterprises.

H2: Strategy implementation has a positive and significant effect on performance of small and medium enterprises.

H3: Strategy evaluation has a positive and significant effect on performance of small and medium enterprises.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter focuses on the general methodologies that have been applied in this research. The chapter consists of research design, population, sample size, data collection methods, data analysis, reliability and validity, measurements of variables, model specification and ethical considerations.

3.1. Research Design

Research design is a framework for the collection and analysis of data to answer research question and meet research objectives providing reasoned justification for choice of data sources, collection methods and analysis techniques (Kothari, 2004). This used as the blue print or guide for the collection and analysis of data. According Kothari (2004) descriptive research design used to state of nature or affairs an object, individual, group of individuals and organizations as it exists at present as well as its purpose is to describe a processes or relationship. In social science and business research we often use a descriptive research design. Therefore, the researcher used this design because the study aimed to describe the practice of strategic management by small and medium enterprises.

And according to Cooper and Schindler (2011) one of the objectives of descriptive study is the discovery of associations among different variables, meaning (relationship between the independent variable such as strategy formulation, implementation and evaluation and dependent variables, performance). Further, the researcher has used an explanatory research design to explain the effect of strategy formulation, implementation and evaluation on performance of SMEs. According to Mohammed (n. d) the main purpose of explanatory research is to increase understanding on a certain subject, to determine how and why things happen and used for an area which was not researched before in detail.

3.2. Population and Sampling Design

3.2.1. Population

A population is normally a collection of all the concerned units that researchers would like to study within a particular problem (Cooper and Schindler, 2011). The target population for this study were managers that are found in different sectors of the enterprise in each SME in Gullele sub city, Addis Ababa. According to the statistics given to the researcher by Gullele sub city SMEs administration office, there are 152 registered and licensed SMEs in Gullele sub city. From these 31 were small availed and 121 were medium enterprises.

The following table shows the distribution of the total population in five different sectors.

Table 3.1 Total population

Types of sector/unit of analysis	**No. Of SMEs**	**% Distribution**
Manufacturing	41	27
Construction	69	45
Service	18	12
Agriculture	15	10
Trade	9	6
Total	152	100%

Source, Gullele sub city SMEs administration office (2018/19).

3.2.2. Sampling Design

To carry out this study the researcher has adopted a probability sampling design since the total population list/ sampling frame could be obtained easily. According to Cooper and Schindler (2011), in probability sampling, the elements in the population have some known, nonzero chance or probability of being selected as sample subjects and as a result sampling bias can be minimized.

3.2.3. Sampling Frame

A sampling frame is the source material or device from which a sample is drawn. It represents a list of all those within a population who can be sampled, and may include individuals, households or institution (Kothari, 2004). And as a result the sampling frame was easily obtained from SMEs administration office and population of the study had comprised all managers in each SME.

3.2.4. Sampling Technique/Method

The sampling technique used was stratified random sampling method. This require first dividing the population into mutually exclusive groups/strata based on homogeneity or similar characteristics; in this case manufacturing, construction, service; agriculture and trade are the strata or groups based on the type of enterprise. Then random samples were drawn from each group after the researcher decided the number of samples would be taken from each stratum.

3.2.5. Sample Size

From the target population of 152, the researcher took 50 SME managers as a respondent for this study. According to Carvalho (1984) the sample size has to be 50 enterprises when the population is found between the ranges of (151- 280) but the question is how the researcher is going to select samples from each stratum. Instead of taking haphazardly the researcher perceived that it is better to use proportion of the strata until the sample size fulfilled.

These 50 sample enterprises are calculated as follow:

- 27% of 50 manufacturing enterprises = 14 samples
- 45% of 50 construction enterprises = 22 samples
- 12% of 50 service enterprises = 6 samples
- 10% of 50 agriculture enterprises = 5 samples
- 6% of 50 trade enterprises = 3 samples

The percentages are proportions.

This means, sample size (n) = 0.27*50+0.45*50+0.12*50+0.1*50+0.06*50= 50 enterprises. But the researcher conducts this study using 46 enterprise managers as a sample (15 small and 31 medium) because four respondents did not return the questionnaire on time and the sample size is enough to represent the whole enterprises (152). This is also supported by:

-According to Mugenda and Mugenda (2003) 25% - 30% of the population is statistically significant to draw a conclusion for a given population under study. So the researcher took almost 33% of 152 enterprises. And due to time, financial limitations and difficulty of gathering data from a dispersed respondents, a sample determination method developed by Carvalho (1984), is applied for this study.

Sample Size Determination Table

This table shows how many samples a researcher uses when the target population is found between the following intervals.

Table 3.2 Sample size determination

Population size	**Small**	**Medium**	**Large**
51- 90	5	13	20
91- 150	8	20	32
151- 280	13	32	50
281-500	20	50	80
501-1 , 200	32	80	125
1 , 201-3 , 200	50	125	200
3 , 201-10 , 000	80	200	315
10 , 001-35 , 000	125	315	500
35 , 001-150 , 000	200	500	800

Source: Carvalho (1984)

Therefore, based on Carvalho (1984) sample size determination method, for this study to increase the accuracy of the data, a large sample size is preferred with a range of target population (151- 280) and sample size of 50. For this study the target population was 152 enterprises and the sample size became 50 managers of SMEs but 4 respondents did not return the questionnaire and the researcher made analysis using 46 mangers response .

3.3. Source of data

The data used for this study were collected from both primary and secondary sources.

- **Primary data sources were Managers.** The primary data were collected from managers of sample enterprises through structured questionnaire that has been filled by managers of those SMEs.

- **Secondary data sources**, the secondary data were generated from relevant documents such as profiles of the enterprises, previous articles, website addresses, meeting reports and thesis conducted on this particular topic.

3.4. Data Collection Methods

This study has used open and close-ended questionnaire to the respondents/managers as a primary data collection tool. The researcher has referred some questionnaires developed by other researchers and took some of the items. In addition to this the researcher has develop questions/items which are related with strategic management practice and performance. Questionnaire is effective in collecting large amounts of information from samples in a limited period of time and the method is also cost effective (Mugenda & Mugenda, 2003). The researcher has utilized a five-point Likert scale to ask respondents to express their opinion on a given statements, and managers had stated their opinion using a five point likert scale of extent/degree to practice strategic management and its effect on performance.

3.5. Validity and Reliability

3.5.1. Validity

As Opoku sited polit and Hungler (1993) the concept of validity deals with the ability of an instrument to measure what the researcher wants to measure. Validity explains the extent to which the score from the measurement can represent variables. So to make whether the measurement is valid or not the reliability (internal consistency result) has to be considered because according to psychological measurement (n. d) researchers should be more confident that the scores represent what they are supposed to measure. Psychological measurement (n. d) stated about face validity; evaluate in terms of readability, layout and style, and clarity of words. Accordingly, the researcher prepared the questionnaire in a structured way and with clear words of questions and statements that have a logical link with the study objectives. The other one which is more important is content validity, it deals with the extent that the instrument consists of studied factors and items.

Therefore, the instrument used for this study was valid because according to Psychological measurement (n. d) validity is a judgment based on different evidences, the first is reliability measurement and as a result it was reliable, the second one was face validity it was assured based on the feedback obtained from that pilot samples and the third deals with content validity. This also valid since the researcher had included the relevant factors about the independent variables under strategy formulation, implementation and evaluation and the dependent variable performance of SMEs by critically looking the questionnaire of other researchers and with consultation of this thesis advisor.

3.5.2. Reliability

Reliability is defined as the repeatability and similarity among items of the instrument. There has to be similar/repeatable response for items in a group by the respondents chosen. The most common reliability tests are: over time (test-retest reliability), across different researchers (inter-rater reliability) and the other one which was used to test the reliability of the instrument used for this study was consistency across items (internal consistency). Internal consistency is the extent that each items under the independent or dependent variables are correlated/similar (Lanyon & Goodstein, 1982).

Table 3.3 Reliability test results.

Constructs	Number of items	Cronbach alpha value	Level of reliability
Strategy formulation	6	0.83	Very good
Strategy implementation	6	0.89	Very good
Strategy evaluation	5	0.84	Very good
Performance	5	0.83	Very good

Source, survey 2019 SPSS output

The above table shows the reliability test result about strategy formulation, implementation, evaluation and performance with alpha cronbach values of 0.75, 0.89, 0.81 & 0.83 respectively. According to Galvan (2006) to measure internal consistency Cronbach alpha is the most and widely used tool in which it is used for similar items and has a value between 0 and 1. As Achour (2017) said when p value is less than 0.6 it is unacceptable, between 0.6 and 0.65 undesirable, 0.65-0.7 minimally acceptable, 0.7-0.8 acceptable and 0.8-0.9 very good. Hence as it can be observed from the tables of reliability test there had been an internal consistency between items in the measurement applied because the cronbach alpha value was greater than 0.8 for all dependent and independent variables.

3.6. Factor analysis

According to Field (2005) Factor analysis is used to identify latent variables or constructs. The main purpose of factor analysis is to minimize/reduce many individual items into a fewer number of dimensions. Factor analysis can be used to simplify data, such as reducing the number of variables in regression models. A principal component is the extraction method in SPSS for this study. It extracts uncorrelated linear combinations of the variables and gives the first factor maximum amount of explained variance. All following factors explain smaller and smaller portions of the variance and are all uncorrelated with each other. This method is appropriate when the goal is to reduce the data and applied for questions of this study. According to Field (2005) the following are the criteria's and decisions.

Criteria and Decision

1. If there are less than 30 variables and communalities after extraction are greater than 0.7 or
2. If the sample size is greater than 250 and the average communality after extraction is greater than 0.6, *retain all factors with eigen values above 1 (Kaisers criterion).*

For conduct factor analysis for items used to carry out this study the researcher used the first criteria since the independent variables item and dependent variable items are less than 30 and their communality values after extraction are greater than 0.7 but one item was excluded called developing a mission statement (see appendix two). This means if the vales are greater than 0.7 they are enough strong to measure what the researcher intends to measure. The same conclusion also obtained by using component matrix with extraction methods of principal component and rotation method of varimax.

3.7. Data Analysis Methods

Data analysis is the process of organizing, presenting, transforming, modelling and analyzing data collected in a research. And data is coded according to different variables of the study for ease of data entry and interpretation. Statistical Package for Social Sciences (SPSS) was used to present data in the form of descriptive and inferential statistics. Descriptive statistics analysis was applied to describe and analyze the practice of strategic management using frequency, percentage, mean value and standard deviation and inferential statistics was more used to determine the effect of strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs using correlation and regression analysis.

3.8. Measurement of Variables

To measure performance the researcher identified 3 key indicators which are strategy formulation, implementation and evaluation as an independent variable measured by 5-point Likert scale that indicates 5-very large extent, 4-large extent, 3-moderate extent, 2-small extent, and 1- not at all. The researcher slightly modified the questions taken from questionnaires of other researchers in another country. To ensure consistency and avoid ambiguity the researcher undertaken the appropriate validity test and applied a pilot test to ensure the modified questions explain the dependent variables and exists consistency in its construct.

Table 3.4 Summary of Measurement of variables

Independent variables	**Measurements**
Strategy formulation	5 point likert scale
Strategy implementation	5 point likert scale
Strategy evaluation	5 point likert scale
Dependent variable	
Performance	5 point likert scale

Source, own determination

3.9. Ethical Consideration

Mugenda and Mugenda (2003), underlines that participation in research should be in voluntary bases and the respondent is always at liberty to withdraw from the study as he/she need without any obligation from the researcher. No respondent was forced to take part in the study, thus the principle of voluntarism practiced all through the data collection process of the study. The researcher tried to clearly inform to the respondents, the purpose of the study is for academic purpose. In addition to this, they informed that their participation in the study was based on their consents. The researcher also not personalized any of the response of the respondents during data presentations, analysis, and interpretation.

Clearly, this study poses a number of ethical issues that need to be dealt with during the whole process of conducting this study.

- ✓ Consent of individual respondents: Ensuring that everyone who participates in the study has freely consented to participation without being coerced or unfairly pressurized.
- ✓ Privacy: The researcher ensures that the identity of the respondents participating in the research process in highly protected.
- ✓ The researcher informs Gullele sub city SMEs administration office about the purpose, methods and intended possible uses of this research.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Introduction

Under this chapter the researcher had to present, interpret and discuss the data which is obtained through structured questionnaire from managers of SMEs using distribution table having frequency for each category and percentage value/relative frequency as well as mean and standard deviation. Before this the researcher was distribute the questionnaire for 50 sample enterprises and data analysis was made based on 46 samples response with a response rate of 92%. According to Babbie (1990) suggests that response rate of 50% is adequate, 60% is good, and 70% or above is very good. Therefore, as per Babbie the response rate in this research was very good and then the data being generated were inserted to IBM SPSS version 23 professional software and required to produce frequency, relative frequency, mean, standard deviation, reliability test, correlation, regression, ANOVA and model summary outputs. This analysis part of the study has two parts which are descriptive and inferential statistics part of analysis. The descriptive analysis part deals with explaining the practice of strategic management by SMEs in Gullele sub city, clearly about environmental analysis, strategy formulation, implementation and evaluation as well as the types of strategy adopted by enterprises and strategic analysis tools. The second part of the analysis has been conducted using inferential statistics based on the data generated from samples; the researcher has concluded about the effect of strategic management practice on performance of SMEs.

4.1. Characteristics of the respondent

To carry out this study the respondents were managers of randomly selected enterprises. 50 enterprises were selected but four (4) enterprises did not return the questionnaire in which three were small and one was medium enterprise. The reasons the researcher did not include employees as a sample is; first some firms do not have permanent employees as a result it is difficult to get sample employees. Second, as the respondents told to the researcher more and most of the time the managers employed or owner managers are highly involved in strategy formulation, implementation and evaluation.

4.2. Descriptive statistics

Descriptive statistics consists of methods for organizing, displaying, and describing data by using tables, graphs, and summary measures (Kothari, 2004).

4.2.1. Background information

The following tables show the size and type of the enterprises as well as year of establishment and number of employees in which the firms hired**.**

Table 4.1 Size of the enterprise

Size		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Small	15	32.6	32.6	32.6
	Medium	31	67.4	67.4	100.0
	Total	46	100.0	100.0	

Source: survey (2019) SPSS output

As the above table revealed 15(32.6%) of the selected enterprises as a sample were small sized and 31(67.4%) were medium sized enterprises. These 15 small enterprises and 31 medium enterprises are randomly selected from 31 total small firms and 121 total medium enterprises respectively. Hence, from this we can understand that majority of the enterprises used as a sample were medium sized enterprises. Based on case summary analysis both small and medium enterprise use strategy formulation, implementation and evaluation almost in an equal basis.

Table 4.2 Type of the enterprises

Type of enterprise		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Manufacturing	14	30.4	30.4	30.4
	Construction	22	47.8	47.8	78.3
	Agriculture	3	6.5	6.5	84.8
	Trade	3	6.5	6.5	91.3
	Service	4	8.7	8.7	100.0
	Total	46	100.0	100.0	

Source: survey (2019) SPSS output

The above table shows the samples drawn according to their percentage contribution to the total population. Accordingly the 14(30.4%) of the enterprises are manufacturing, 22(47.8%) are construction, 3(6.5%) are agriculture, 3(6.5%) are trade and the remaining 4(8.7%) are service providing enterprises. From this the researcher can concluded that construction firms were the dominant one than others followed by manufacturing firms. According to Porter (1979) higher number of competing firms that do have similar size causes high rivalry in the industry and forced to take a strategic action and response. But in this study no different engagement in strategy management by construction firms because as far as the researcher understands some enterprises are working jointly to accomplish a particular task (construction of buildings).

Table 4.3 Year of establishment

Years of establishment		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5 years	15	32.6	32.6	32.6
	5-10 years	22	47.8	47.8	80.4
	above 10 years	9	19.6	19.6	100.0
	Total	46	100.0	100.0	

Source: survey (2019) SPSS output

As table 4.3.3 portray 15(32.6%) of the enterprises have been established below five years, 22(47.8%) of the enterprises established between 5-10 years, and 9(19.6%) of the enterprises became above 10 years. The researcher assumed that, the more existence in operation/business the greater pursuit of strategic management; such as understanding the factors arising from the environment, properly setting annual and long term objectives, able to know the competitors, customers, suppliers and many others. But practices of strategy formulation, implementation and evaluation have close mean value and year of establishment does not affect the practice of strategic management since majority of them are fall between the ranges of 5-10 years of establishment.

Table 4.4 Number of employees of SMEs

Number of employees		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5 employees	21	45.7	45.7	45.7
	5-10 employees	13	28.3	28.3	73.9
	11-15 employees	5	10.9	10.9	84.8
	no employees	7	15.2	15.2	100.0
	Total	46	100.0	100.0	

Source: survey (2019) SPSS output

The above table shows that 21(45.7%) of the enterprises do have below five employees, 13(28.3%) of the enterprises have between 5-10 employees, 5(10.9%) do have 11-15 employees, there was no enterprise that have above 15 employees and there were also 7 enterprises that do not have permanent employees. According to this information the enterprises still did not meet the requirement set by the government that is why the researcher was identified as small and medium on the questionnaire. Any ways the researcher can understand that majority of the enterprises had below five employees.

Clearly, the following descriptive statistics table shows about size and type of the enterprises, year of establishment and number of employees in which SMEs did hire.

Table 4.5 Statistics summary

Items	**N**	**Mean**	**Std. Deviation**
Size	46	1.6739	.47396
Type	46	2.1522	1.19196
Year of establishment	46	1.8696	.71829
Number of employees	46	2.1087	1.40203
Valid N (list wise)	46		

Source: survey (2019) SPSS output

As it is explained in the above table the mean for size of the enterprise is 1.67, mean for type of enterprise is 2.152, mean for year of establishment is 1.870 and mean value for number of employees is 2.109 with a standard deviation of 0.473, 1.191, 0.718 and 1.402 respectively. Therefore, the researcher concluded that majority of the enterprises are medium sized, many of the enterprises that were randomly selected are firms engaged in construction with a period of 5-10 years in operation. So the statistics table provides the same information and understanding as stated separately for each variable in the preceding tables.

4.3. Strategic management practice

4.3.1. External environment analysis

According to Hitt, Ireland and Hoskisson (2007) most firms face external environments that are highly complex and unstable. To overcome the complexity and difficulty as well as to increase their understanding about the general environment, firms engage in a process called external environment analysis. The external environment comprises many factors that fall in to two levels which are the general/macro environment and the task/industry/micro environment analysis.

The following table has contained the political, economical, socio cultural, technological factors which are included under the general environment. Analysis of customers, suppliers and competitors are under the task/micro environment analysis.

Table 4.6 External environmental analysis

Factors	N	Mean	Std. Deviation
Analysis of political factors	46	2.0870	1.26185
Economical	46	2.5870	.49782
Social	46	1.8478	1.01033
Technological	46	2.2826	.93483
Analysis of competitors	46	2.4783	.50505
Analysis of suppliers	46	2.7174	.45524
Analysis of customers	46	2.6522	.48154
Valid N (listwise)	46		

Source: survey (2019) SPSS output

The above descriptive statistics table shows the mean value and the corresponding standard deviation of each variable. So analysis of the political factors had a mean value of 2.09, economic factors 2.59, social factors 1.85, technological factors 2.28, analysis of competitors had a mean value of 2.48, suppliers 2.71, and customers 2.65. But there is a possibility that the mean value of each factor is far away from others mean value by the stated standard deviation. But the table tell us managers of SMEs have more focused on the analysis of micro environment factors. Analysis of suppliers of raw materials and inputs is the first one followed by analysis of customers and third on competitors with the above stated mean value. Simply, there is an analysis of the micro environmental factors to above a small extent but not exactly a moderate extent. As it is explained on different literatures macro external environment factors cannot be controlled by a single/one organization whereas micro environmental factors can be controlled, as per the result displayed in the table that is why the mean value of task/micro environment factors is greater than the mean value of the macro environment factors. The respondents (Owner mangers/managers employed) given a little attention on the analysis of the socio cultural segment but this also has to be given strong concern because as Ritson (2013) said social factors such as attitude, values, social structure(class and segmentation of the market), culture (attitude to work, saving, investment and ethics) significantly affect economic factors.

4.3.2. Internal environment analysis

As David et al. (2017) written in their book all organizations have strengths and weaknesses in the functional areas of the business. But no enterprise is equally strong or weak in all areas. Internal strength and weakness should couple with the external opportunities and threats and clear vision and mission statements provide a base for establishing objectives and strategies. Then the objectives and strategies have to be established with an intension of increasing internal strength and overcoming weakness. David et al. (2017) cited some researchers emphasized on the importance of internal audit/ internal environment analysis part of strategic management than the external environment analysis/audit. Therefore internal environment analysis concerned with identification of resources and core competencies to bring a competitive advantage. As supported by Grant (1995) in relation with resource there is a strategic management approach called Resource Based View (RBV), this theory assumes that internal resources are more important for a firm than external factors to achieve and sustain competitive advantage.

The following table is concerned with the internal environment issues/factors which are determining core competencies and resources in addition to identifying primary and support activities, analysis of past performance, analysis of existing strategy and analysis of employees' skill and knowledge.

Table 4.7 Analysis of internal environment

Factors	N	Mean	Std. Deviation
Identify core competencies	46	3.0652	.57357
Identify resources required	46	3.3043	.83983
Identify primary and support activities	46	2.9130	.72499
Analysis of past performance	46	3.2826	.77926
Analysis of existing strategy	46	2.9783	.71458
Analysis of employees skill	46	2.8696	1.06685
Valid N (list wise)	46		

Source: survey (2019) SPSS output

According to table 4.4.2 identify the resource required had first a mean value of 3.30 and next the enterprises more focused on analysis of past performance with a mean value of 3.28. The remaining had the mean value of 3.07, 2.91, 2.98 and 2.87 for identifying core competences, primary and support activities, analyzing existing strategy, and employees' skill and knowledge respectively and the standard deviation tells us the mean of each variable can vary accordingly. So this show, managers have identified resources to carry out what intend to carry out but analysis of employees skill and knowledge has a least mean value as compared with other internal environment factors. Ritson(2013) argued that internal organization can affect the cost and the feasibility of some strategies. There must be compatibility between a strategy and elements of the organization. If the strategy does not fit well, it might be expensive and impossible to make it work. So Ritson(2013) has suggested to understand that the success of an organization depends on human resources available since peoples can manipulate other organizational resources and the nature and source of core competencies. But overall there is an analysis of internal environment factors almost all to a moderate extent.

4.3.3. Strategic planning tools/strategic analysis tools

Strategic analysis is the process of getting information about the environment in which the organization operates and on the organization itself. Meaning, it deals with studying the internal and external environment factors that can influence the business. To run strategic analysis there are known methods/ tools which are SWOT, PEST, Porter five force, value chain and BCG matrix analysis. Hence, the following table presents these five strategic planning tools which are very important for future plan but they are not strategies by themselves.

Table 4.8 Strategic analysis tools

Analysis tools	N	Mean	Std. Deviation
SWOT analysis	46	3.4348	.83406
PEST analysis	46	2.8478	.75916
Five force analysis	46	3.2609	.80097
VC analysis	46	2.8696	1.025284
BCG matrix	46	2.43478	.77771
Valid N (list wise)	46		

Source: survey (2019) SPSS output

The descriptive statistics table 4.4.3 shows that conducting a SWOT analysis which is determining the strength and weakness arise from the internal environment and opportunities and threats comes from the external environment had the mean value of 3.43, PEST analysis concerned with identifying the political, economical, socio cultural and technological related factors had a mean value of 2.85. When organizations conduct PEST analysis they can identify the opportunities to be exploited and threats to be minimized as possible. The analysis of Porter five forces which are bargaining power of sellers, buyers, threat of substitute products, threat of new entrant and rivalry among the existing firms had a mean vale of 3.26, value chain analysis and BCG matrix had 2.87 and 2.43 respectively. But there is a possibility that the mean value may vary from others mean value by the stated standard deviation. Hence, from the table the researcher can concluded that on average managers of the enterprises have been determining their strength and weakness as well as the opportunities and threats comes from the external environment and analyzing their supplier, buyers and competitors in the industry next to SWOT analysis to a moderate extent. Both SWOT & PEST analyses are simple and easy to list but hard to implement fully. It takes time and research to completely analyze the situation. SWOT analysis might not be able to provide results for each factor plus for the analysis to be successful, it requires expertise which would analyze all possible threats and weaknesses and turn them into strength and opportunity. In addition to this, Porter (1989) has said about the industry analysis, which is getting information about competitors, suppliers and customers helps to respond or take an appropriate action for their rivals.

4.3.4. Vision and Mission statement

Many organizations today develop their vision and mission statement in which vision statement is used to answer the basic question "what do we want to become in the future?" in strategic planning developing a vision is the first step it precede even mission statements. Whereas, mission statements are enduring which differentiate one organization from other organizations in the same industry or in any other industry. The mission statement answers the basic question "what is our business?"And also describe the values and priorities of the organization (David et al, 2017).

Therefore, the following table shows that how many enterprises did formulate their own vision and mission statements as well as tell us whether the visison and mission statements are written or unwritten.

Table 4.9 Vision and mission statement

Items	N	Mean	Std. Deviation
Developing a vision statement	46	1.3261	.47396
Is vision written or unwritten	31	1.9677	.17961
Developing mission statement	46	2.0000	.00000
Is the mission written or unwritten	0		
Who formulate strategy	46	1.6087	1.45263

Source: survey (2019) SPSS output

Based on the presented data in the above developing a vision statement has a mean value of 1.326. This means many firms did have a vision statement but from the selected samples 31 enterprises with a mean value of 1.968 did have unwritten vision statement. As it can be observed from the table no enterprise had a mission statement whether it is written or unwritten, so developing a mission statement had 2.00 mean values. The last item is about by whom does your strategy was formulated; it had a mean value of 1.61. For the sake of understanding the following frequency distribution table shows 39(84%) of the respondent have said the strategy is formulated by owners and the remaining 7(15.2%) of the respondents said the strategy is formulated by outside experts.

Table 4.10 who formulate strategy

Items		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owners	39	84.8	84.8	84.8
	outside experts	7	15.2	15.2	100.0
	Total	46	100.0	100.0	

Source: survey (2019) SPSS output

As David et al (2017) suggested many of the managers and employees have to be involved in strategy formulation (identifying and evaluating alternative strategies plus selecting the best strategy). Especially, individuals who previously engaged in developing vision and mission statements, analysis of external and internal environment, representatives from different department and division should be included in strategy formulation. But from the data obtained owners are more involved in strategy formulation and next outside experts. This was just surprise for the researcher; the researcher was expecting managers and employees would engage in identifying, evaluating alternative strategies and selecting the best strategy.

4.3.5. Corporate and business level strategies

Most academics classify the levels of strategy in to two three; which are corporate level, business level and operational/functional levels of strategy. According to Hitt, Ireland and Hoskisson (2007) corporate level strategy specifies actions a firm takes to gain a competitive advantage by selecting a group of different businesses engaged in different product market. Corporate-level strategy is concerned with two key issues: in what product markets and businesses the firm should compete and how corporate headquarters should manage those businesses. For the diversified corporation, a business-level strategy) must be chosen for each of the businesses in which the firm has decided to compete. The corporate level strategies are expansion, diversification, merger and joint venture in which expansion and diversification are forms of internal growth strategies whereas merger and joint venture forms of external growth strategies. As Ritson (2013) discussed in his book entitled “strategic management “ there are two types of competitive strategies enable the firm to build competitive advantage at the business level which are low cost leadership and differentiation strategies. The strategies are called generic strategies since they are widely applicable for firms in all sizes and in all industries.

Table 4.11 Corporate and business level strategies

Type of strategies	N	Mean	Std. Deviation
Expansion	46	3.0652	.99782
Diversification	46	1.6957	1.24489
Merger	46	1.0000	.00000
Joint venture	46	1.7174	1.18627
Low cost leadership	46	3.3696	.95123
Differentiation	46	2.8261	.82474
Focus	46	2.3478	.92418
Integrated	46	2.6522	.76645

Source: survey (2019) SPSS output

The above table shows both the corporate and business level strategies adopted by SMEs. Expansion, diversification, merger and joint venture are corporate level strategies whereas low cost leadership, differentiation, focus and integrated are business level strategies. Accordingly expansion, diversification, merger and joint venture had a mean value of 3.07, 1.70, 1.00 and 1.72 respectively. And at the business level low cost leadership, differentiation, focus and integrated strategy had a mean value of 3.37, 2.83, 2.35 and 2.65 respectively. Therefore, from this the researcher concluded that the enterprises (agriculture, trade) have used the internal growth strategy known as expansion in which firms can produce a new product in order to sell in the existing market (product development), creating new market for existing products (market development), and selling the existing product in the existing market (market penetration) and no enterprise is used merger as a strategy. As the researcher conduct case summary even though construction and manufacturing firms used expansion as a strategy they focused more on joint venture and diversification strategy respectively. As different research results show, as per this study finding and the researcher perspective the corporate level strategies are more feasible for large and diversified organizations/firms even there is utilization of expansion strategy. In opposite of the corporate level strategy, there is a better adoption of business level strategies to a small and moderate extent. But David et.al (2017) stated most small businesses and some large businesses do not have divisions or strategic business units; they have the corporate and functional levels. Therefore, managers and employees at these two levels should be actively involved in strategic management activities. And this implies if there is no a business unit there is no a business level strategy. But the attention given to the corporate level strategies are very low except expansion.

From the business level strategies enterprises used more a low cost leadership strategy with the above stated mean value. There were also firms that are engaged in providing of product/service with a better performance and quality, this means firms base differentiation as a strategy to bring a competitive advantage over their competitors.

Table 4.12 Descriptive Statistics for independent and dependent variables

Variables	**Mean**	**Std. Deviation**	**N**
Performance	2.4522	.39874	46
Formulation	2.5435	.45329	46
Implementation	2.5507	.41256	46
Evaluation	2.4174	.42127	46

Source, survey (2019) SPSS output

The above table shows the overall mean and standard deviation of the constructs of the dependent and independent variables. Accordingly the dependent variable/ performance had a mean value of 2.45 with a standard deviation of 0.40. This means strategic management practice had an effect on performance of SMEs to a small extent with a stated mean value but there is a possibility that performance would become between a range of 2.05 to a small extent and 2.85 almost to a moderate extent. The independent variables which are strategy formulation, implementation and evaluation had a mean of 2.54, 2.55 and 2.42 with standard deviation of 0.45, 0.41 and 0.42 respectively. Strategy implementation had a greater mean value than others but almost similar with strategy formulation. So there was a practice of strategy implementation above to a small extent but not fully to a moderate extent and there is a possibility that strategy implementation could be practiced between a range of 2.14 and 2.96 which is to a small and moderate extent. Enterprises did practice strategy formulation to above a small extent but below average and there is a possibility that the practice of strategy formulation is found between a range of 2.09 to a small extent and 2.99 to a moderate extent. Evaluation also practiced to a small extent but there is variability from other mean values by 0.42 and as a result the variability can fall between the range of 2.00 and 2.83 or between small and near to moderate extents. But overall there was a practice of strategy formulation, implementation and evaluation below average and affect performance of SMEs to a small extent; no strategic issue had practiced above an average extent.

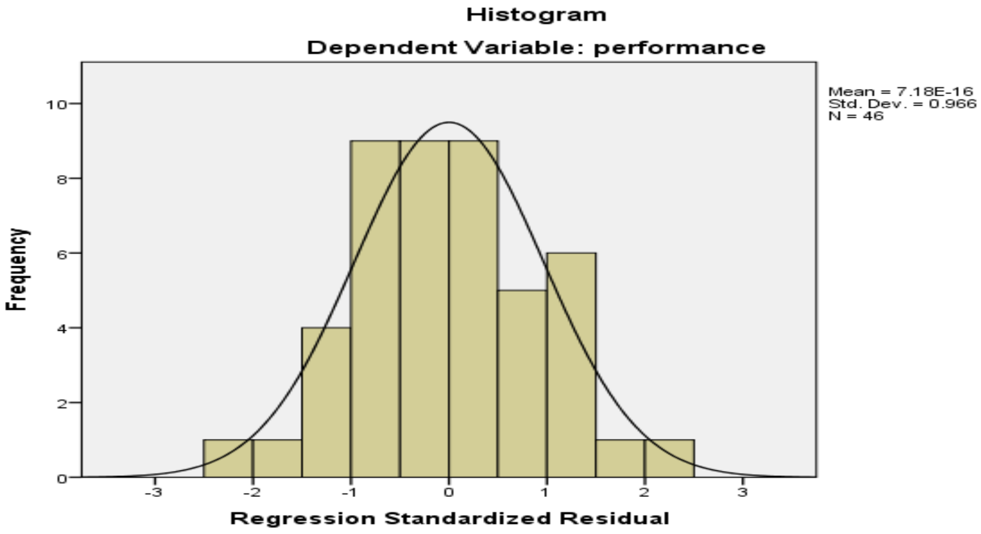
4.4. Diagnostic Tests of Classical Linear Regression Model Assumptions

According to Gujrati (2007) the five assumption tests of CLRM focus on the error terms. These are normality, multicollinearity, autocorrelation, zero mean residual and homoscedasticity. The assumption were separately conducted and discussed below with analysis results of each assumption.

4.4.1. Normality Test

Normality test assumes that the residual has zero mean and constant variance. This test of normal distribution could be checked by graphical (histogram) method of tests. Thus, the result on the following figure indicates the mean of the residual is close to zero and its variance is 0.97 close to one which implies that the distribution of the error term is normally distributed. Therefore, the assumption was not violated.

Figure 4.1 Normality Test



Source, survey (2019) SPSS output

4.4.2. Multi collinearity Test

Multicollinearity refers to the situation where explanatory variables are highly inter-correlated, meaning that one can be linearly predicted from the others. Multicollinearity problem can be detected through variance inflation factor (VIF). If VIF is greater than 10 percent and tolerance is less than 0.1, there is a possibility of multicollinearity problem.

CLRM assumes that independent variables are not linearly associated. Thus, the researcher applied VIF (variance inflation factor). Based on the assumption VIF is less than 10% and this indicates that there is no multicollinearity problem. For clear understanding table 4.5.1 indicates no multicollinearity problem detected.

Table 4.13 Multi collinearity Test

Model	Collinearity Statistics	
	Tolerance	**VIF**
Formulation	.935	1.070
Implementation	.889s	1.125
Evaluation	.859	1.164

Source, survey (2019) SPSS output

4.4.3. Autocorrelation Test

Autocorrelation states the existence of relationship between error terms/disturbance terms whether it is positive or negative correlation. But CLRM assumes that, there is no serial correlation among error terms. Durbin Watson (DW) test is the common techniques of detecting autocorrelation. The residuals are not correlated if the Durbin-Watson statistic is approximately 2, and found between acceptable ranges of 1.50 - 2.50. As the table indicates, the DW test is approaching to 2 therefore, there is no autocorrelation problem.

Table 4.14 Autocorrelation test

Model	Durbin-Watson
1	1.910[a]
a. Predictors: (Constant), evaluation, formulation, implementation	
b. Dependent Variable: performance	

Source, survey (2019) SPSS output

4.4.4. The mean of the residual has to be zero(0)

This assumption required that the average value of the errors is zero. In fact, if a constant term is included in the regression equation, this assumption will never be violated. But if there is no an intercept included in the model the assumption will be violated and the average value of the errors was non- zero. So this assumption was not violated since the mean of the residual is zero and there is a constant term value included in the model.

Table 4.15 Mean of residual

	Minimum	Maximum	Mean
Predicted Value	2.0611	2.8159	2.4522
Residual	-.71556	.83858	.00000
Std. Predicted Value	-1.712	1.593	.000
Std. Residual	-2.115	2.479	.000
a. Dependent Variable: performance			

Source, survey (2019) SPSS output

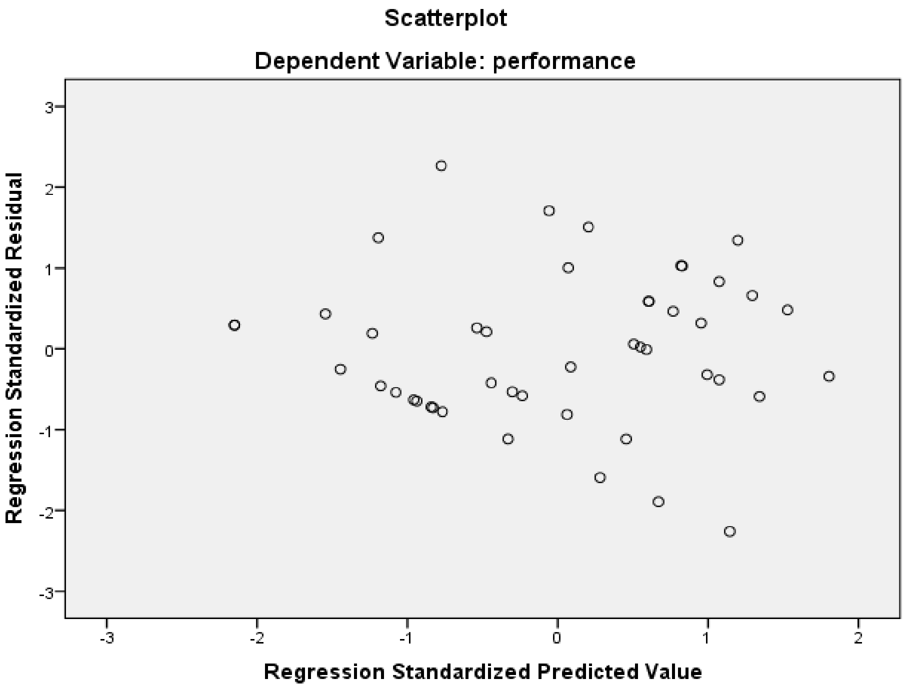
4.4.5. Homoscedasticity test

This assumption assumed that the variance of the errors is the same/constant. The researcher applied a scatter plot diagram technique standardized residuals (ZRESID) against the standardized predicted values (ZPRED) in SPSS.

As per this assumption if the predicted values increase, the variation in the residuals should be roughly similar /same. If the dots do have a pattern like funnel or curve shape there is a possibility of hetroscedasticity problem but in this case the graph looks like a random array of dots. So, the model is homoscedasticit.

As the figure indicated below there is no pattern or shape of the residual, thus, this assumption is not violated.

Figure 4.2 Homoscedasticity test



Source, survey (2019) SPSS output

4.5. Inferential statistics

Inferential statistics consists of procedures used to make inferences about population characteristics from information contained in a sample drawn from the population. Inferential statistics includes methods like hypothesis testing which is based on probability value. The main objective of inferential statistics is to make inferences (that is, draw conclusions, make predictions, make decisions) about the characteristics of a population from information contained in a sample (Kothari, 2004).

Correlation and regression analysis

Under this heading first the researcher has explained about the correlation/relationship and its strength between the dependent and independent variables as well as the correlation between the independent variables (strategy formulation, implementation and evaluation). Second the effect of independent variables on a dependent variable. Meaning, the effect of strategic management practices on performance.

4.5.1. Correlation analysis

According to Brooks (2008) the correlation between two variables measures the degree or extent of linear association between those two variables. In correlation there is no an independent and dependent variable identified rather it states that whether the two variables move in the same direction or not. Thus it is not implied that change in the independent variable causes change in the dependant variable. The correlation coefficient is used to determine the strength/relationship between variables. According to Ratner (n. d) classification of the strength of relationship is based on the following table.

Table 4.16 Classification of the Strength of Relationship

Correlation strength	**Positive values**	**Negative values**
weak	r=0.10 to 0.29	r = -10 to -.29
Medium	r=.30 to .69	r= .30 to -.69
strong	R >= 0.7	r >= -0.7

Source: Ratner (n. d)

The following correlation table result shows that the linear association/relationship between independent variables and with also the dependent variable. The result tells us the linear relationship between strategy formulation and performance is weak with a correlation coefficient of 0.25 but the relationship is significant at 5%. The relationship between strategy implementation and performance is medium with a correlation coefficient of 0.52; this is significant at 1%. Evaluation and performance have also a moderate relationship with a correlation coefficient of 0.35 and significant at 1%. Therefore, the correlation matrix/table tells us there is a positive relationship between strategic management practice (strategy formulation, implementation and evaluation) and performance of SMEs. Strategy formulation, implementation and evaluation with performance are moving positively in the same direction or the relationship is positive.

Table 4.17 Correlation analysis

		Performance
Performance	Pearson Correlation	1
	Sig. (1-tailed)	
	N	46
Formulation	Pearson Correlation	.249*
	Sig. (1-tailed)	.047
	N	46
Implementation	Pearson Correlation	.524**
	Sig. (1-tailed)	.000
	N	46
Evaluation	Pearson Correlation	.349**
	Sig. (1-tailed)	.009
*correlation is significant at the 0.05 level (1- tailed) **correlation is significant at the 0.01 level (1- tailed)		

Source, survey (2019) SPSS output

4.5.2. Regression analysis

Regression analysis concerned with describing and evaluating the effect of one or more independent variables on a single dependent variable. In regression there has to be clear difference between independent and dependent variables. The sign, magnitude and coefficients are very important in regression to evaluate the effect of independent variables on dependent variables (Brooks, 2008). For this study the researcher used a multiple regression analysis model that can present the independent variables and the dependent variable

4.5.3. Model summary

In the model summary the point like R tells us the sign/direction and magnitude/strength of the relationship between strategic management practice and performance of SMEs. R is used and noted as a correlation coefficient that can state the overall relationship between independent and dependent variables. R square shows that by how much does the dependent variable explained by the independent variables or the variability of the dependent variable when the value of the independent variables change whereas the adjusted R-squared gives the percentage of variation explained by only those independent variables that in reality affect the dependent variable. When we add an independent variable to a regression model, the value of R-squared increases, even if the independent variable is insignificant, it never declines. But the value of adjusted R-squared increases only when predictor/independent variable is significant and can affects the dependent variable (Gugrati, 2007).

Table 4.18 Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Change Statistics**				
					R Square Change	**F Change**	**df1**	**df2**	Sig. F Change
1	.573	.328	.280	.33833	.328	6.836	3	42	.001
a. Dependent variable: performance									
b. Predictors: (constant), formulation, implementation, evaluation									

Source, survey (2019) SPSS output

As we can see from the above table R/correlation coefficient of the model was 0.57. Therefore, this implies that there is a moderate/medium relationship between strategic management practice and performance of SMEs. And R square value is 0.33, this shows that variability of the dependent variable/ performance was explained by 33% of the independent variable/ strategy implementation. As we can observe from the regression model coefficients table strategy formulation and evaluation had statistically insignificant effect on performance. So in this study the only explanatory variable was strategy implementation. But according to different authors R-square does not explain the power of the independent/explanatory variables even its value is inflated since it might contain insignificant variable to the model. So to determine whether the model is good /goodness of fit, we depend up on the values of adjusted R square, because adjusted R square tells us the explanatory powers of the independent variables determined by the researcher. Hence, from the table adjusted R square shows that performance is explained by 28% of the independent variable/only strategy implementation and the remaining 72% showed unexplained factors. As per the researcher understanding the reason why adjusted R square becomes low was due to that, performance of SMEs could be explained by other factors instead of strategy formulation and evaluation.

4.5.4. ANOVA

The ANOVA table below had to present a model; with regression and residual sum of squares, degree of freedom, F- statistics and the corresponding exact significant level /p-value. In ANOVA, the F statistic must be used in combination with the p value when we are deciding the overall results are significant. If we have a significant result, it doesn't mean that *all* the variables are significant. The statistic is just comparing the joint effect of all the variables together.

Therefore: 1**. Does the model is statistically significant?**

Yes: The model is statistically significant, and so that overall strategic management practice had a significant effect on performance since F- statistics is 6.84 with a p- value of 0.001, this indicates, the model is statistically significant and as a result the model has contained an explanatory variable which was significant at 1%. Meaning, strategic management practice have been significantly affect performance at 1% of significance level.

Table 4.19 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.347	3	.782	6.836	.001
	Residual	4.807	42	.114		
	Total	7.155	45			
a. Dependent variable: performance						
b. Predictors: (constant), formulation, implementation, evaluation						

Source, survey (2019) SPSS result

4.5.5. Model coefficients

The regression coefficient analysis table below consists of five columns. The first column is about variables of strategic management practice, second column is about unstandardized coefficients, third column standardized coefficients, fourth column the T- statistics and the fifth one is about the exact p-value in which strategic management practice becomes statistically significant. In this study, the researcher used the unstandardized coefficients to explain the magnitude of the relationship. A positive or negative sign indicates the nature/direction of relationship. Whereas, p- value under sig. Column indicates the statistical significance or probability of the model providing wrong prediction/conclusion.

Table 4.20 Regression model coefficients

		Unstandardized Coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.632	.433		1.459	.152
	Formulation	.140	.134	.137	1.046	.301
	implementation	.432	.130	.447	3.328	.002
	Evaluation	.163	.129	.172	1.260	.215
a. Dependent Variable: performance						

Source, survey (2019) SPSS output

The following is a multiple regression model determined using coefficients of the independent variables and the constant term.

Performance (P) = $\beta_0 + \beta_1 SF + \beta_2 SI + \beta_3 SE + e$

➔ P= 0.63 + 0.14(SF) + 0.43(SI) + 0.16(SE) + e

Where: P= Performance

β_0 = Intercept/constant term

SF= Strategy Formulation

SI= Strategy Implementation

SE= Strategy Evaluation

e = error (Residual) and β_1- β_3 = Coefficients of the independent variables.

From the above table the constant term 0.63 indicates a mean score of performance of SMEs if all other independent variables are constant. But on average the constant term can increase or decrease by a standard error of 0.43. From the model strategy implementation has a coefficient of 0.43 with a standard error of 0.13 at the true significant level of 0.002. This shows that there is a positive and significant effect of strategy implementation on performance. Other explanatory variables held constant, a unit change in the mean score of implementation increases the mean score of performance on average by 0.43 and statistically significant at 1% since $p< 0.01$. Except implementation other variables which are strategy formulation and evaluation shows statistically insignificant or simply these two variables did not have statistically significant impact on performance since their p-value is greater than the significance level determined by the researcher in advance. This means even though there is a positive coefficient of strategy formulation and evaluation obtained, they did not significantly affect performance because their p- value is 0.30 and 0.22 respectively it is greater than the significance level of 0.05.

4.5.6. Hypothesis testing

In hypothesis testing, we test a certain given assumption or belief about the population using some sample information. The decision to support the hypothesis is based on the information contained in a sample drawn from the population. The information's are test statistics (t-statistics) which is a single number calculated from the sample data and p- value which is a probability value calculated using the test statistics. Therefore, to make a decision we can use the p- value and α- value and compare the two probability values. Then support the hypothesis if p-value is less than α- value (significance level determined in advance by the researcher). Or by finding t- critical from the t- distribution table using significance level and degree of freedom we can compare it with the t- statistics value and support the hypothesis if the test statistics value is greater than the t- critical. But in this case the researcher used a significance level approach to test the hypothesis by comparing the t- critical with t- statistics value. Then reject the null hypothesis if t- statistics is greater than the t- critical and support the alternative hypothesis developed by the researcher.

Note: the t- critical value from the table is approximately 2.00 using 95% confidence interval and 46 degree of freedom.

Hypothesis 1: Strategy formulation has a positive and significant effect on performance.

Based on the comparison of t- critical value obtained from the t- distribution table characterized by degree of freedom and significance level and t-statistics, the researcher did no reject the null hypothesis, in which strategy formulation does not have statistically significant effect on performance at 5% significance level while alternative hypothesis was rejected (Since t- stat=1.05<t- critical=2.00).

Hypothesis 2: Strategy implementation has a positive and significant effect on performance.

This hypothesis was supported based on the comparison of t- statistics and the t-critical value. So t-critical is less than the t-statistics value. As a result it was statistically significant and strategy implementation has a positive and significant effect on performance at 1%. So the researcher has rejected the null hypothesis and support the alternative hypothesis formulated (Since t-statistics=3.33>t-critical=2.00)

Hypothesis 3: Strategy evaluation has a positive and significant effect on performance.

This hypothesis is similar with the first hypothesis. The researcher did no reject the null hypothesis that is strategy evaluation does not have statistically significant effect on performance of SMEs at 5% significance level while alternative hypothesis was rejected.

(Since t- stat=1.26<t- critical=2.00).

4.5.7. Discussion of results

Under this heading many issues are discussed by the researcher about strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs. Previous articles and researches related with strategic management practice and also its effect on performance are explained by the researcher. As the main objective of the study was to determine the effect of strategic management practice on performance of SMEs, the result shows that, overall there is a positive and significant effect of strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs. Before inferential statistics, the descriptive statistics result shows that there was a practice of strategic management issues to a small extent/limited extent. So this result is similar with the findings obtained by Majama and Israel (2017). The finding of the study by these researchers revealed that strategic management is limited in SMEs in Botswana since strategic planning is informal and undocumented and also there is a little usage of strategic planning tools.

But when we come to the effect of strategic management practice on performance there are studies with similar findings. Among those: (Lawal et al. 2012) found that there is a significant effect of strategic issue management on the attainment of organizational performance such as increase profit, building and maintaining reputation, increase sales return over and achievement of goals. Njeru (2015) who found that adoption of strategic management practice influences organizational performance and Mougbo (2013) found that adoption of strategic management has a significantly effect on competitiveness and organizational productivity. Yunus (2010) also found that strategic management has an effect on the market shares of SMEs and also strategy implementation has a positive relationship with profitability, similar with the second hypothesis of this study. Omsa, Ridwan, & Jayadi (2017) found that strategic management has an effect on performance but determination of mission statement and strategy formulation did not have an effect on performance, it was similar with the first hypothesis of this study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

Introduction

In this chapter, first the researcher disclose summary of findings about strategic management practice such as strategy formulation, implementation and evaluation plus internal and external environment analysis, strategic planning tools and types of strategies. Second, the researcher gave a conclusion about the effect of strategic management practice on performance of small and medium enterprises. Third, the possible solutions are suggested as a recommendation for the respective body stated under recommendation part of the study.

5.1. Summary of findings

- ✓ Enterprises relatively focused on strategy implementation even though the mean values are close to each other and strategic management practice increase performance of SMEs to above a small extent but below average extent.
- ✓ As the researcher analyzed the correlation matrix, there is a weak positive relationship between strategy formulation and performance. The same is true for implementation and evaluation but there is a moderate and positive relationship between strategy implementation and performance and the relationship is significant at 5% for strategy formulation and at 1% for strategy implementation and evaluation.
- ✓ The dependent variable/ performance were explained by 28% of the independent variable/strategy implementation but the remaining 72% showed unexplained factors because performance of SMEs could be explained by other factors instead of strategy formulation and evaluation.
- ✓ The ANOVA result shows the models is statistically significant that overall strategic management practice had statistically significant effect on performance of small and medium enterprises since its F- statistics value is 6.83 and 0.001 p- value. So, the model showed that it is statistically significant at 1%.
- ✓ Among the strategic management issues implementation was only significant at 5% of significance level.

5.2. Conclusion

Small and medium enterprises have a great role on creating employment opportunity, production of goods and services, supplying inputs and raw materials for the largest organization and also serving the community by providing time based service. Due to the gap that there is no previous investigation made on this particular topic in Addis Ababa, the researcher has motivated to determine the effect of strategic management practice using strategy formulation, implementation and evaluation as an explanatory variable on performance of small and medium enterprises in Gullele sub city, Addis Ababa. In this study different issues related with strategic management have been investigated such as analysis of internal and external environmental factors, strategic planning tools and types of strategies adopted by SMEs and the finding shows that there is a practice of strategic management practice to a small extent. But the study more focuses on the effect of strategy formulation, implementation and evaluation on performance.

Therefore, first the researcher found that overall there is a positive and significant relationship between strategic management practice (strategy formulation, implementation and evaluation) and performance. Second, overall strategic management practice had statistically positive and significant effect on performance. But strategy implementation had only statistically significant effect on performance therefore the second hypothesis entitled "strategy implementation has a positive and significant effect on performance" was supported by the researcher whereas strategy formulation and evaluation did not have a significant effect on performance of SMEs and consequently rejected by the researcher. Finally, the expected sign of the model determined under model specification part of the study for strategy formulation, implementation and evaluation were positive signs. Based on the result obtained from the regression table the researcher accepts the signs of the model for the independent variables since the coefficients are positive.

5.3. Recommendation

The recommendations given below are made based on the findings and conclusions of the study. To make it practical it is better to follow the sequence.

As there is a limited practice of strategic management issues first, Gullele sub city SMEs administration office officials should communicate with Addis Ababa SMEs administration bureau officials to provide training about an overall strategic management issues and methodologies to practice very well. Second, small and medium enterprises have to be involved actively in strategy formulation, implementation and evaluation to increase their profit, market share, to provide satisfaction for customers and reduction of wastage. As it can be observed the mean score of the independent variables (strategy formulation, implementation and evaluation) is low. Different researchers and authors of strategic management said the more you engaged in strategic management practice, the more you increase your organization performance. Then, the management of SMEs should evaluate whether the practice strategic management or not by requiring different documents related with strategic management.

5.4. Suggestion for future researches

This study focused on the effect of strategic management practice (strategy formulation, implementation and evaluation) on performance of SMEs. Therefore, the researcher used the triple strategic management stages as an independent variables and performance as a dependent variable. The following are very important suggestions for future investigation to be conducted by other researchers.

1. This study was limited by lack of adequate empirical literature on the relationship between strategic management practices and SMEs performance in Ethiopia. This study therefore recommends that a repeat study to be done to confirm the results.
2. A research has to be conducted to identify the problems that limit SMEs to practice strategic management issues to above a moderate/ average extent.
3. The study used primary data collected at one point in time and hence its accuracy could not be assured. The study therefore recommends that a similar study be done but using data collected over period of time/time series data should be used.
4. As the researcher perceive the reason for lower adjusted R square was due to that performance of SMEs could be explained by other factors instead of strategy formulation and evaluation Therefore, research has to be conducted by adding other variables that can explain the performance of small and medium enterprises.
5. This research has to be conducted on the large business organizations to know the level of extent that strategic management affects their performance.
6. Research has to be conducted that can state the effect of internal environment factors on performance of small and medium enterprises.
7. Research has to be conducted on the topic entitled the effect of external environment factors on performance of small and medium enterprises.
8. Investigation has to be made to determine the effect of adopting generic strategies on the performance of SMEs.

The last three research topics in the above were not considered as determining factors of performance, rather they are used to determine whether there is a practice of internal and external environment analysis and generic strategies by SMEs.

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Appendixes

Appendix one: Structured questionnaire

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MASTER OF BUSINESS ADMINISTRATION

<u>Questionnaire for Managers</u>

The purpose of this questionnaire is to collect information for academic purposes in determining the strategic management practices on performance of fifty SMEs in Gullele sub city, Addis Ababa, Ethiopia. The information obtained has treated with the highest confidentiality and specifically used for academic purposes only.

Thank you for your cooperation!

- ✓ Student researcher: Tegbew Addis
- ✓ E- Mail address: tegbew2015@gmail.com
- ✓ Addis Ababa University, MBA

<u>Part I: Background Information</u>

1. Size of your enterprise
   1. Small ☐ 2. Medium ☐
2. In which industry are you operating?
   1. Manufacturing ☐ 3. Agriculture ☐ 5. Service ☐
   2. Construction ☐ 4. Trade ☐
3. How long does your firm been in existence?
   1. Below 5 years ☐ 3. Above 10 years ☐
   2. 5 - 10 years ☐
4. How many employees do have in your enterprise currently?
   1. Below 5 employees ☐ 3. 11-15 employees ☐ 5. No employees ☐
   2. 5-10 employees ☐ 4. above 15 employees ☐

<u>Part II: Strategic management practice</u>

1. **Environmental analysis**

The following are descriptive statements about external and internal environment analysis. Please indicate the extent to which each statement applies to your company. Use the scale below to tick × as appropriate.

1= Not at all 2= small extent 3=moderate extent
4= large extent 5= very large extent

S. NO.	Statements about Environmental analysis	Level of extent				
		1	2	3	4	5
I	**External environment analysis**					
1.	Studying political factors					
2.	Studying economical factors					
3.	Studying social factors					
4.	Studying technological factors					
5.	Analysis of competitors					
6.	Analysis of suppliers					
7.	Analysis of customers					
II	**Internal environmental analysis**					
8.	Identifying competencies					
9.	Identify resources required					
10.	Identify primary and support activities					
11.	Analysis of past performance					
12.	Analysis of the existing strategy					
13.	Analysis of employees skill and knowledge					
III	**Degree of use of Planning Tools/strategic analysis**					
14.	SWOT analysis					
15.	PEST analysis					
16.	Value chain analysis					
17.	Porter five force analysis					
18.	If any what strategic analysis tool is used and to what extent____ ____.					

2. Strategy formulation

1. Does the company have a vision statement?
   1. Yes ☐ 2. No ☐
2. Is the vision statement written or unwritten?
   1. Written ☐ b. unwritten ☐
3. Does your company have a mission statement?
   1. Yes ☐ 2. No ☐
4. Is the mission statement written or unwritten?
   1. Written ☐ 2. Unwritten ☐
5. Who is going to formulate strategy in your enterprise?
   1. Owners ☐ 3. Junior staffs ☐ 5. outside experts ☐
   2. Managers ☐ 4. All staffs ☐

The following are descriptive statements about strategy formulation. Please indicate the extent to which each statement applies to your company. Use the scale below to tick × as appropriate.

1= Not at all 2= small extent 3=moderate extent
4= large extent 5= very large extent

S. NO.	**Statements about Strategy formulation**	**Level of extent**				
		1	2	3	4	5
1.	Developing a vision and a mission statements					
2.	Identify external opportunities and threats					
3.	Determining internal strengths and weaknesses					
4.	Establishing long-term objectives					
5.	Generating alternative strategies					
6.	Choosing particular strategies to pursue					
I	**To what extent does your enterprise adopt the following corporate strategies?**					
7.	Expansion					
8.	Diversification					
9.	Merger and acquisition					
10.	Joint venture					
II	**To what extent does your enterprise adopt the following business level strategies?**					
11.	Cost leadership strategy/low cost					
12.	Differentiation strategy					
13.	Integrated strategy					
14.	Focus strategy					

3. Strategy implementation

1. Who does implement strategy in your enterprise?
   1. Top management ☐ 3. Junior staffs ☐
   2. Owners ☐ 4. All staffs ☐

The following are descriptive statements about strategy implementation. Please indicate the extent to which each statement applies to your company. Use the scale below to tick × as appropriate.

1= Not at all 2= small extent 3=moderate extent
4= large extent 5= very large extent

S.NO.	**Statements about strategy implementation**	**Level of extent**				
		1	2	3	4	5
1.	Company strategy is adequately and comprehensively communicated to members of the staff					
2.	Formulation of programmes, policies and Procedures					
3.	Design of appropriate motivational and reward systems					
4.	adequate allocation of resources to implement strategy					
5.	Organization strategy is matched to organizational structure					
6.	Strategy is implemented based on objectives and expected performance					

4. Strategy evaluation

The following are descriptive statements about strategy evaluation. Please indicate the extent to which each statement applies to your company. Use the scale below to tick × as appropriate.

1= Not at all 2= small extent 3=moderate extent
4= large extent 5= very large extent

S. NO.	**Statements about strategy evaluation**	Level of extent				
		1	2	3	4	5
1.	Measuring performance					
2.	Comparison of performance with objectives/standards					
3.	Recognizing the difference					
4.	Identify the reason for deviation					
5.	Taking corrective action if it is necessary					

<u>Part three: The effect of Strategic management practice on performance</u>

On the Scale of one to five chose the most appropriate corresponding answer to each statement provided regarding the effects of strategic management practice on performance.

Where, 1= Not at all

2= small extent

3=moderate extent

4=large extent and

5=very large extent.

S. NO.	**Performance measures**	Level of extent				
		1	2	3	4	5
1.	Increase market share					
2.	Bring innovation					
3.	Increase customer satisfaction					
4.	Increase profit					
5.	Increase output					
6.	Reducing waste					

Thank you very much!!!

Appendix two: Factor analysis result

The following tables show the factor analysis results for the dependent and independent variables.

1. **Strategy Formulation**

Items	Extraction
developing vision statement	.821
Identify opportunities and threats	.764
Identify strength and weaknesses	.789
Establish long term objectives	.703
generate alternative strategies	.867
Choosing the best strategy	.790
Extraction method; principal component analysis	

2. **Strategy implementation**

Items	Extraction
Our strategy is matched with structure	.977
Formulation of programmes, policies and procedures	.977
Adequate communication with staffs about the formulated strategy	.764
Design of appropriate motivational and reward systems	.763
Adequate resource allocation	.920
Strategy is implemented based on objectives and expected performance	.653
Extraction method; principal component analysis	

3. Strategy evaluation

Items	Extraction
Measuring performance	.910
Comparison of performance with objectives/standards	.905
Recognize the difference	.868
Identify the factor for deviation	.911
Taking corrective action if it is necessary	.833
Extraction method; principal component analysis	

4. Performance

Items	Extraction
Increase market share	.848
Increase customer satisfaction	.911
Increase profit	.735
Increase production of output	.889
Reduce waste	.855
Extraction method; principal component analysis	