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STRATEGIC FINANCIAL MANAGEMENT AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF SMALL AND MEDIUM ENTERPRISES IN WAJIR SOUTH SUB COUNTY

[1]Mohamed A. Yunis, [2]Dr. Janesther Karugu

[1,2]Department of Business Administration, School of Business, Kenyatta University, Kenya

Abstract: **The vision 2030 framework identifies small and medium enterprises sector as a major engine towards the achievement of middle income status in Kenya due to its role in creation of employment and economic growth. However, the framework is concerned on the high degree of business closure and shrinkage among these ventures. Kenyan small as well as medium sized ventures have a high failure rate with many of them failing within the first three years of operation. Generally, studies show that in Kenya, these ventures continue to have poor performance and face stiff competition from large firms. This dismal performance of small and medium enterprises could be attributed to approaches used by these businesses to counter obstacles which influence the quality of decisions and performance of enterprises given that individual enterprises were responsible for their survival. The purpose of this study was to determine the influence of strategic financial management on the performance of SMEs in Wajir South Sub County, Kenya. The study adopted a descriptive survey research design, targeting all the 1123small and medium enterprises owners in Wajir South Sub County. Primary data was collected using structured questionnaires. Multiple regression equation was used to determine the strength and directions of the relationships between the variables. The study found that strategic financial management positively and significantly affected the performance of small and medium enterprises in Wajir South Sub County. The study concluded that if the performance of the enterprises under study was to improve greatly, the business owners had to address the issues related to strategic financial management so as to improve the level of strategic management in these businesses and in this way, enhance their performance. The study recommends that SMEs in Wajir South Sub County, Kenya should develop strategic plans which outline the strategies to be applied by enterprises in different areas so as to improve their strategic outlook and that the businesses should actively work on building impressive business profiles so as to gain the trust of financial institutions which will enhance their access to financing.**

Keywords: **Strategic Financial Management, Organizational Performance, SMEs.**

1. INTRODUCTION

The small and medium sized business industry sector is more and more being acknowledged as the main mechanism for promoting development in economies in countries that are considered developed as well as those that are developing (Zacharakis et al., 2002). This sector is a crucial means of creating job opportunities, generating revenue, promoting innovations in addition to advancing technologies (Karadag, 2015). For that reason, SMEs present a principal asset to economies. In a large number of nations, the extent to which economies depend on SMEs has expanded in present years. Thus, how each enterprise performs individually is a determinant of the level of an economy’s development. SMEs performance is therefore perceived as their ability to result to the creation of job opportunities in addition to the assets of the business during startup, their survival within the market as well as their sustainability (Sandberg, Vinberg, & Pan, 2002).

SMEs are characterized by increased vulnerability, and the rate at which they failed was extremely high to an extent that not a single country would ignore such rates. Various challenges have been shown to account for these increased failure rates which range from a rate as high as 80% within the initial 3 years of operating within the market in the United States to in excess of 50% in New Zealand, Australia as well as (Mason, 2007; Switzer, 2007). The Business Statistics Office in the United Kingdom indicated that 60%of small-sized businesses failed in the initial 3 years of existing in the market.

Several studies in Kenya found out that, although many SMEs continue to be established, most of them are unable to grow and are barely surviving (Mwaniki, 2012). Otieno (2013) asserts that SMEs in Kenya continue to have poor performance and face stiff competition from large firms. Beyene (2002) asserts that no country can guarantee survival of any particular SMEs; individual SMEs must fight to remain competitive. Although many nations have put in place various programs aimed at assisting their SMEs, the efforts of entrepreneurs themselves play the biggest role in defining how they performed within this sector. Carefully selecting and correctly applying the proper techniques are the main factors that define the success of these entrepreneurs (Okeke, Onuorah, & Jakpa, 2016).

Firms are usually set up with the intention of excelling in whatever they are formed for. However, it is not always that such objectives are achieved due to dynamisms that characterize the operating environment. According to Pearce and Robinson (2004), all firms have to interact with an environment that is constantly changing and therefore need to establish a match between themselves and the environment. Firms thus tend to come up with strategies in order to be responsive to identified opportunities as well as difficulties within the operating environment (Ansoff, 1987).

Strategies resulting to superior performance are associated with actions that basically result to success within the sector. Hence, strategic management is crucial element in the expansion and growth of SMEs. Existing scholarly works support the reason why SMEs ought to engage in management practices considered to be strategic for achievement of high performance (Schraeder, 2002).The evidence that adopting strategic management among SMEs results to superior organization performance implies that the kind of strategic management tools applied by top 100 SMEs could be responsible for their superior performance.

SMEs consist of ventures that are varied to a large extent in terms of size as well as their characteristics, that is start-up ventures that are very small to SMEs that are well established. In Kenyan case, SMEs employ 50 to 200 staff and their capital assets total to around KSHs 2 million which excludes their property (Nyariki, 2013). In Kenya, these ventures highly contribute to employment and wealth creation, the distribution of incomes, accumulation of capabilities pertaining to technology and spreading the resources that are available. The Economic Survey (GoK, 2012) indicates that the SME industry was responsible for 79.8 and 89.7 percent of newly created jobs for the year ending 2011 and 2013 respectively (GoK, 2013).SME's are basically differentiated by the kind of production processes as well as managements, relationships during trade, financial practices as well as in house competencies. However important they are, statistics showed that 3 out of 5 ventures failed within the very initial few months of being in the business (KNBS, 2007). Nevertheless, it is usually acknowledged that small businesses are faced with challenges that are unique to them which consequently impact on their expansions as well as their profitability and therefore, constrain capacity to make a contribution to sustainability within economies in an efficient way.

2. STATEMENT OF THE PROBLEM

Notwithstanding their numerous roles in the economy, SMEs have been failing at very high rates in addition to poor performance levels (Anyieni, Bcom & Campus, 2013). Many are faced with the threat of failure within the first few months of their starting. It has also been recognized that whereas a large number of SMEs experienced strengthened growth once started, just a small number of these businesses achieve continuous and consistent growth throughout the entire lifecycle besides becoming established firms. Lucky (2015) asserts that majority of SMEs were really struggling to survive and those that are able to survive are still performing poorly.

The vision 2030 framework identifies SMEs sector as a key driver to achievement of middle income status in Kenya due to its role in creation of employment and economic growth. However, the framework is concerned on the high degree of business closure and shrinkage among the SMEs (Ochanda, 2014).Kenyan SMEs have a high failure rate with many of them failing within the first three years of operation (Njaramba & Ngugi, 2014). Past statistics in Kenya show that out of every five entities, three of these business entities collapse in first couple of months of being in operation (Government of Kenya, 2007). As such, Kinyua (2014) posit that most small businesses in Kenya fail to grow and flourish and the rate of business entities failure continues to rise. Generally, studies show that SMEs in Kenya continue to have poor performance and face stiff competition from large firms (Otieno, 2013). This dismal performance of SMEs could be attributed to approaches used by SMEs to counter obstacles which influence the quality of decisions and performance of enterprises given that individual enterprises were responsible for their survival.

Various studies had shown that the performance of SMEs was greatly related to strategic management issues within the enterprises more so given the fact that SMEs normally have to carry out their operations in addition to competing in business environments characterized by increased risks as well as uncertainties. Despite the known benefits associated with strategic management practices such as improvements in profit, increased customer base and market share, many SMEs had failed to embrace such practices perceiving them as a preserve of larger organizations which limited their capacity to deal with obstacles that affected their performance. Hence, a majority of these enterprises were facing major strategic management challenges which negatively impacted their performance.

The evaluation of existing research works indicates that the assessment of strategic management and related challenges within the context of SMEs had received little attention with many studies focusing on large organizations. For instance, Monday, Akinola, Ologbenla, and Aladeraji (2015) focused on the connection between management perceived to be strategic and the performance of firms in the case of firms within the manufacturing sector in Nigeria; Shamala (2013) focused on management practices that are strategic in nature and their connection to the difficulties experienced in Kenyan projects aided by Compassion International in Limuru region; Waweru and Omwenga (2015) focused on the impact of strategic management practices on how private firms within the construction industry in Kenya performed while Afande (2013) focused on the effects of strategic management practices on how financial institutions in Kenya performed. The studies only identified the strategic management practices but do not highlight the challenges of strategic management which greatly affect performance of firms more so SMEs. This investigation therefore aimed at filling these gaps through assessing the influence of strategic management challenges on how SMEs in Kenya performed with a particular focus on SMEs in Wajir South Sub County.

3. LITERATURE REVIEW

Liu (2010) assessed the process of managing finances in a strategic manner in SMEs in China. According to the findings, the main contents of this process comprised of the financing and investment strategies as well as the strategy for distributing profits. The challenges facing these ventures in managing the financial matters strategically included the absence of financial strategies that were scientific as well as standardized; the neglect of analyses of the strategic environment in addition to possessing unrealistic strategic financial targets; not paying increased attention to budgeting in implementing strategic financial plans in addition to issues in the financial management process within these ventures. The outlined challenges were attached to inflexible patterns of management, management ideas that were slacked, incompetent managers; lack of autonomy and diversification of channels within the financing system; inadequate capacity to invest and the failure to undertake feasibility studies in addition to internal control systems that were not complete resulting inadequate control.

Karadag (2015) assessed the challenges facing SMEs in undertaking financial management from a strategic management viewpoint in the case of Turkish SMEs. The findings revealed thatstrategic financial planning was crucial in raising the funds that were needed in starting up a business or efficiently and effectively overseeing daily functions and activities of the firms given that it directed and focused the finances of the businesses that were not adequate towards the desired outcomes. Despite being highly aware, it was interesting to note that a large number of failures of these ventures resulted from the failure to manage the working capital of the ventures in an effective and efficient manner and the implication of this was that there were critical deficiencies in thinking strategically as well as the processes for implementing the management of working capital. By undertaking financial reporting and controls in a strategic manner, the performance of SMEs was improved drastically through pin pointing the red flags and also areas of improvement regarding the past and current major indicators of financial performance, for example, growth in sales, profit margins or debts as well as the optimal and real levels of crucial items in the balance sheet for instance cash, in the management of the financial activities of the business.

The study by Kengne (2015) aimed at uncovering the chief constraints that prevented SME owners from coming up with strategic financial management choices that were sound. These choices comprise of choices regarding budgeting, the enterprise's capital structure, managing working capital and so on. The study found that most managers lacked knowledge regarding the techniques applied in financial management as well as the principles that were established to ensure that sound strategic choices are undertaken which translated to their underutilization. Given the complex nature of the process of making decisions pertaining to strategic financial management, the search for information, its analysis and considerations of risks that were involved and the options that were available needed to be known by the business owner. Therefore, making decisions pertaining to strategic financial management in the context of SMEs depended not only on the owners'/ managers' experience but also on their insight and willingness to take risks.

Patel (2016) conducted an evaluation of how strategic financial management enhances performances of small-sized ventures in the Nairobi County. The results showed that SMEs have been taking into consideration the key components which define strategic financial management, whereby enhanced a significant relationship between planning, investing, financing, budgeting and the performance of SMEs. However, no signification association existed between external factors and the performance of SMEs. Furthermore, results indicated that the factors involved in the implementation of strategic financial management, had a higher percentage in favor of a significant relationship between instruments for financial management and how SMEs performed. However, there was no substantial connection drawn between strategy implementation tactics in the organization, which were the trust factors in employees, organization consensus, organization structure and the performance of SMEs. Lastly, results also indicated the factors under challenges against the strategic financial management for SMEs. On an average of 80% of the factors portrayed a significant relationship between resource availability, leadership & communication as well as certain factors under business survival vs growth and the performance of SMEs.

Waweru and Ngugi (2014) explored the impact of practices attached to financial management on SME performance in Kenya. The exploration revealed that financial innovations greatly impacted on how these ventures performed and the major reasons for undertaking such innovations was to earn profits. Such innovations were crucial in generating long lasting firm stability and were dependent on technological competencies. In addition, the study showed that it was important to undertake investments that would act as a buffer in times of uncertainties and developing functional business support systems was essential for successful building of investment capacity. It was also found that risk affected the enterprises' survival and development hence MSEs required embracing a strategy and approach for managing risk.

Nthenge and Ringera (2017) sought to establish the impact of practices for managing business finances on financial performance of SMEs in Kiambu town. Three variables namely working capital management, investment decisions and financing decisions were assessed. Inferences from the investigation pointed out that a positive connection between the management of working capital; investment decisions; financial decisions and financial performance. The study showed that good working capital practices such as effective management of cash conversion cycle are closely linked to the firms' financial performance. This study showed that the investment decisions which inform the firm's asset portfolio used to generate the cash flows determines the firms' profitability, value, viability and overall financial performance. Hence, when a firm makes the right financial decisions, the prospects of enhanced financial performance is improved. That is, an effective investment decision leads to enhanced financial performance of the SME. It was shown that the SMEs use internally generated cash sources and borrowed funds through bank loans. This means that the owners of these organizations have established the need to balance when, where, how much and how to acquire funds to meet their investment needs. They balance equity and debt proportions so as to capitalize on firm value. That is, an effective investment decision leads to enhanced financial performance of the SME.

4. RESEARCH METHODOLOGY

This research adopted a descriptive survey design given that it consisted of a set of methods and procedures that describe the variables being examined with an aim of identifying the connection that existed between these variables. The study targeted all the business owners or a representative in each of the 1123 SMEs in Wajir South Sub County in Wajir County (Wajir County Government; Licensing Department, 2015). In this study, a sample of 10% of the total population (i.e. 112) was used. The study then applied simple random sampling method in generating the sample. Primary data was gathered using questionnaires that were structured since they contained close-ended questions. Descriptive statistics and inferential statistics were used to analyse quantitative data.

5. FINDINGS

The study sought to find out the effect of strategic financial management on the performance of SMEs in Wajir South Sub County. The respondents were required to rate a number of responses given on Likert scale. The data collected and associated analysis is given in Table 1

Table 1: Stakeholders' Participation and Project Outcome

Strategic Financial Management	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
The enterprise has precise and standardized financial strategies which are constantly and fully implemented	16.10%	14.90%	20.70%	40.20%	8.00%	3.09	1.24
The enterprise has constantly pursued adequate investments and actively responds to opportunities in the market	9.20%	32.20%	23.00%	25.30%	10.30%	2.95	1.17
The business values the importance of a strategic outlook when taking and implementing its investment decisions	17.20%	29.90%	24.10%	24.10%	4.60%	2.69	1.15
The enterprise has well-established strategies and implementation processes regarding the management of its working capital	9.20%	16.10%	21.80%	44.80%	8.00%	3.26	1.12
The enterprise normally conducts information search and analysis and considers the risks involved and options available before any decision making	19.50%	28.70%	9.20%	20.70%	21.80%	2.97	1.47
The enterprise regularly produces reports on key performance areas	10.30%	21.80%	20.70%	33.30%	13.80%	3.18	1.23
The management emphasizes on employees skills, training and development to empower financial control in the business	9.20%	25.30%	20.70%	29.90%	14.90%	3.16	1.23
The enterprise budgets and conducts budget reviews for all your activities before implementation	13.80%	18.40%	35.60%	26.40%	5.70%	2.92	1.11
Average						**3.03**	**1.21**

Source: Survey Data (2018)

The respondents were therefore required to respond to a number of statements on strategic financial management in their enterprises. The results are presented in Table 4.2. The results show that 48.2% of the respondents agreed that their enterprises had precise and standardized financial strategies which were constantly and fully implemented, 31.0% disagreed with the case while 20.70% of the respondents had a neutral view. The study findings further showed that 35.6% of the respondents agreed that the enterprises had constantly pursued adequate investments and actively responded to opportunities in the market, 41.4% did not agree with the findings while 23.00% had a neutral opinion.

The result also revealed that 28.7% of the respondents were in agreement that their businesses valued the importance of a strategic outlook when taking and implementing its investment decisions, 47.10% disagreed with the case while 24.10% of the respondents had a neutral view. It was also established that 52.80% of the respondents, the majority, agreed that their enterprises had well-established strategies and implementation processes regarding the management of its working capital. The study also discovered that 42.5% of the respondentsagreed that in their respective businesses, information search and analysis was normally conducted onrisks involved and options available before any decision makingwas considered, 48.2% did not agree with the case while 9.20% had a neutral opinion.

It was further found that 47.1% of the respondents agreed that their enterprises regularly produced reports on key performance areas, 32.1% disagreed with case while 20.7% of the respondents had a neutral opinion. The results also revealed that 44.8% of the respondents agreed that the management emphasized on employees' skills, training and development to empower financial control in the business, 34.5% disagreed with the case while 20.7% had a neutral view. The study noted that 32.1% of the respondents agreed that the enterprise budgeted and conducted budget reviews for all their activities before implementation, 32.2% of the respondents did not agree with the case while 35.6% had a neutral view.

On average, the mean of responses of 3.03 indicates that majority of the respondents had a neutral view of the statements on strategic financial management in their businesses and that their responses were varied given a standard deviation of 1.21.

6. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that strategic management challenges greatly affected the performance of SMEs in Wajir South Sub County. The study increased strategic financial management, adequate knowledge and capacity as well as effective organizational culture affected the performance of SMEs in this sub county. The study concluded that if the performance of the SMEs under study was to improve greatly, the business owners had to address the issues related to strategic financial management, knowledge and capacity as well as organizational culture so as to improve the level of strategic management in these businesses and in this way, enhance their performance.

The study recommends that new startups and existing businesses should invest in strategic planning by drafting a strategic plan which outlines the strategies to be applied by enterprises in different areas so as to improve their strategic outlook. The SMEs lacking the capacity can consider outsourcing advisory services/support services in the area of strategic financial management (e.g. budgeting) or linking up with institutions such as banks and microfinance institutions who offer this services for free or subsided fee. The study also recommends that SMEs should budget for information search in the various business areas and also adopt risk management strategies such as risk analysis before making major business decisions.

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