STRATEGIC MANAGEMENT PRACTICE ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES : THE CASE OF GULLELE SUB CITY, ADDIS ABABA, ETHIOPIA

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ABSTRACT

The purpose of this study was to determine the impact of strategy formulation, implementation, and evaluation on the performance of small and medium-sized enterprises. To conduct this study, the researcher employed a descriptive and explanatory research design to determine the relationship and impact of strategic management (strategy formulation, implementation, and evaluation) on performance. The study targeted 152 small and medium-sized enterprises (SMEs), and 50 of these were chosen as a sample, but 4 respondents did not return the questionnaire. The stratified probability sampling method was used, and data were collected from 46 SME managers via structured questionnaires with a 5-point Likert scale. Primary data was edited, classified, organized, and coded to produce descriptive and inferential statistics using the professional software Statistical Package for Social Science (SPSS) version 19. Regression analysis was used to determine the impact of strategy formulation, implementation, and evaluation on performance, while correlation analysis was used to determine the relationship between strategy formulation, implementation, evaluation, and performance using inferential statistics. Finally, the findings indicate that strategic management practice has a positive impact on performance. The only variable that affected performance was strategy implementation. Based on the findings, the researcher recommends that all enterprises have a written strategic intent, receive training from strategic management consultants/strategists, participate in enterprise-specific training programs, and actively engage in strategic management practice to increase profit, output, market share, customer satisfaction, and waste reduction.

***Keywords*:** Strategy formulation, implementation, evaluation, enterprises, performance

A. INTRODUCTION

Strategic management, which involves the formulation, implementation, and evaluation of strategies to achieve organizational goals, is a critical practice for organizations, particularly for Small and Medium Enterprises (SMEs). For SMEs, strategic management is essential for navigating the complexities of their operational environments and ensuring sustainable growth. Empirical studies have shown that strategic management enhances decision-making, resource allocation, and long-term planning, which are crucial for gaining a competitive advantage (Hitt et al., 2017). However, unlike larger firms, SMEs often adopt less formal or structured approaches to strategic management due to resource constraints. Despite this, even basic strategic planning has been found to significantly influence performance outcomes (Gică & Balint, 2012).

Strategic planning, a key component of strategic management, has been extensively studied. Research consistently indicates that SMEs that engage in formalized strategic planning tend to outperform those that do not. For instance, Wang et al. (2007) found that SMEs with clearly defined strategic plans experienced higher sales growth and profitability compared to those without such plans. Similarly, Gică and Balint (2012) demonstrated a positive correlation between strategic planning and operational efficiency, as well as market adaptability, in SMEs. These findings underscore the importance of strategic planning for SME success.

Lawal et al. (2012) found that strategic issue management enhances organizational performance by increasing profits, improving reputation, boosting sales, and achieving corporate goals. Yunus (2010) highlighted that while strategic management practices improve performance, many small businesses neglect effective strategy formulation. Majama & Israel (2017) revealed that SMEs in Botswana engage in strategic planning but only to a limited extent. Omsa, Ridwan, & Jayadi (2017) showed that strategic management practices significantly impact SME performance in Indonesia, though strategy formulation alone did not affect profit or sales volume. Njeru

(2015) found that top SMEs in Kenya adopted strategic management practices, including situational analysis, formulation, implementation, and evaluation. Muogbo (2013) discovered that strategic management is uncommon among manufacturing firms in Anambra State, Nigeria, despite its growth potential.

The SME sector plays a vital role in achieving socio-economic objectives, such as employment growth, increased output, export promotion, and entrepreneurship development. In Ethiopia, SMEs are particularly significant for job creation and the production of goods and services. The Addis Ababa City Administration's SMEs Development Bureau (Debela, n.d.) emphasizes the importance of SMEs in expanding manufacturing and industrialization, as they serve as the backbone of the economy by supplying inputs and raw materials to larger enterprises. Njeru (2015) further elaborated on how SMEs engage in strategic activities such as formulating vision and mission statements, conducting environmental analyses, setting long-term objectives, and developing strategies to enhance performance.

Despite the recognized importance of strategic management, there is a notable gap in empirical research, particularly in Ethiopia. While Degefu (2007) examined the impact of mission statements on the performance of large Ethiopian enterprises, his study did not focus on the broader scope of strategic management practices or their effects on SMEs. Globally, there is also limited empirical evidence on the collective impact of strategic management practices on SME performance. This research aims to address this gap by investigating the effects of strategic management practices on the performance of SMEs in Ethiopia. The study is particularly relevant given the variability in how SMEs practice strategic management, influenced by differing definitions and criteria for SMEs across countries. For example, the Ethiopian Ministry of Trade and Investment defines small businesses as those employing between six and thirty individuals.

The primary objective of this research is to evaluate the overall impact of strategic management practices on the performance of SMEs in Gullele sub-city, Addis Ababa, Ethiopia. The specific objectives include: (a). To assess the effect of strategy formulation on SME performance. (b). To evaluate the impact of strategy implementation on SME performance. (c). To investigate the influence of strategy evaluation on SME performance.

Alternatively, the following were the hypothesis formulated by the researcher for this study. **H1**: Strategy formulation has a positive and significant effect on the performance of small and medium enterprises. **H2**: Strategy implementation has a positive and significant effect on the performance of small and medium enterprises. **H3**: Strategy evaluation has a positive and significant effect on the performance of small and medium enterprises.

B. IMPLEMENTATION AND METHODS

This study employed a descriptive and explanatory research design with a quantitative approach to examine the correlation between strategic management practices and SME performance. According to Kuncoro (2003), such a design is suitable for analyzing relationships between variables. Primary data were collected through questionnaires using a five-point Likert scale, which allowed managers to express their opinions on the extent to which strategic management practices were implemented and their perceived impact on performance. The target population consisted of managers from 152 registered and licensed SMEs in Gullele sub-city, Addis Ababa, comprising 31 small and 121 medium enterprises, as provided by the Gullele sub-city SMEs administration office. A stratified random sampling technique was used, dividing the population into homogeneous groups based on enterprise type (manufacturing, construction, service, agriculture, and trade) and then randomly selecting samples from each stratum. A sample size of 50 SME managers was determined using Carvalho's (1984) predetermined sample table, which is appropriate for populations ranging from 151 to 280. Data analysis was conducted using

SPSS software version 19.0, beginning with reliability, validity, and normality tests. Descriptive statistics, including frequency, percentage, mean, and standard deviation, were used to analyze the practice of strategic management, while inferential statistics, such as correlation and regression analysis, were employed to determine the effect of strategic management practices (strategy formulation, implementation, and evaluation) on SME performance.

C. RESULTS AND DISCUSSION

Descriptive Statistics

The researcher conducted descriptive statistics on performance, strategy formulation, implementation, and evaluation using mean values and standard deviations using 46 samples. Out of 50 samples, 4 owner mangers did not respond the questionnaire on time.

Table 1: Descriptive Statistics for Independent and Dependent Variables

Variable	Mean	Standard Deviation	N
Independent Variables (Strategic Management)			
Strategy Formulation	2.2	0.50	46
Strategy Implementation	2.6	0.45	46
Strategy Evaluation	1.5	0.40	46
Dependent Variables (Performance)			
Market Share	2.4	0.55	46
Customer Satisfaction	2.5	0.50	46
Profit	2.0	0.60	46
Production Output	2.1	0.55	46
Waste Reduction	1.6	0.45	46

The data in the table 1 reveals that SMEs exhibit limited adoption of strategic management practices, which impacts their overall performance. The mean scores for strategy formulation (2.2), implementation (2.6), and evaluation (1.5) indicate that while SMEs engage in some level of strategic planning and execution, their efforts are often incomplete or ineffective. Strategy implementation scores slightly higher than formulation, suggesting that SMEs prioritize execution over planning. However, the very low score for strategy evaluation highlights a critical

gap in monitoring and assessing performance, limiting SMEs' ability to optimize their operations. Similarly, the dependent variables show moderate to low performance, with mean scores of 2.4 for market share, 2.5 for customer satisfaction, 2.0 for profit, 2.1 for production output, and 1.6 for waste reduction. These scores reflect challenges in expanding market presence, improving customer satisfaction, achieving financial stability, enhancing operational efficiency, and adopting sustainable practices.

The low standard deviations across all variables (ranging from 0.40 to 0.60) suggest that most SMEs in the sample perform similarly, with few outliers. However, the slightly higher variability in profit and market share indicates that some SMEs are performing better than others, likely due to more effective strategic implementation and resource allocation. Overall, the data underscores the need for SMEs to strengthen their strategic management practices, particularly in evaluation and waste reduction, to drive better performance. By improving strategic planning, execution, and monitoring processes, SMEs can enhance their market share, customer satisfaction, profitability, and operational efficiency, ultimately achieving sustainable growth.

Correlation Analysis

The following correlation table result in table 2 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 a significance of 1%. Therefore, the correlation matrix/table tells us there is a positive relationship between strategic management practice (strategy formulation, implementation and

evaluation) and the performance of SMEs. Strategy formulation, implementation and evaluation with performance are moving positively in the same direction or the relationship is positive.

Table 2; 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)

Regression Analysis

Regression analysis is 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.

Table 3; Model Summary

					Change Statistics				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**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

As we can see from the above table 3, 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's 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.

Analysis Of Variance (ANOVA)

The ANOVA table below presents 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 deciding whether 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 that strategic management practice have been significantly affect performance at 1% of significance level from table 4

Table 4; Analysis of Variance (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
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

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, the third column standardized coefficients, the fourth column is about 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 the relationship. Whereas, p- value under sig. The column indicates the statistical significance or probability of the model providing a wrong prediction/conclusion from table 5.

Table 5; Regression model coefficients

	Unstandardized Coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(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

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

Performance (P) = β0 + β1SF + β2SI + β3SE + e

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

Where: P= Performance

β0 = Intercept/constant term

SF= Strategy Formulation

SI= Strategy Implementation

SE= Strategy Evaluation

e = error (Residual) and β1- β3 = 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 for implementation other variables, which are strategy formulation and evaluation, show statistically insignificant or simply these two variables did not have a 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-p-value is 0.30 and 0.22 respectively; it is greater than the significance level of 0.05.

D. CONCLUSION

The study examined the impact of strategic management practices, specifically strategy formulation, implementation, and evaluation on the performance of small and medium enterprises (SMEs) in Gullele Sub-City, Addis Ababa. The motivation for this research stemmed from the lack of prior investigations on this particular topic within the country. The findings indicate that, overall, strategic management practices have a statistically significant and positive effect on SME performance, as demonstrated by the F-test results. However, when analyzing the individual components of strategic management, only strategy implementation was found to have a significant and positive impact on performance. Consequently, the second hypothesis, which stated that strategy implementation positively influences SME performance, was supported by the researcher. In contrast, strategy formulation and strategy evaluation did not exhibit a statistically significant effect on performance, leading to the rejection of the first and third hypotheses. These results suggest that while developing and assessing strategies are important managerial activities, their direct impact on SME performance may be limited unless effectively implemented. The study highlights the crucial role of strategy implementation in enhancing business performance, emphasizing the need for SMEs to focus on practical execution rather than merely formulating and evaluating strategies. These findings provide valuable insights for SME owners, managers, and policymakers, suggesting that greater attention should be given to the execution phase of strategic management to improve business outcomes.

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