

ABSTRACT

Medium enterprises play an important role in the Kenyan economy as this sector comprise of the largest number of businesses that contribute to economic growth. In 2016 the Kenya National Economic survey showed that five out of seven medium scale businesses fail within the first year while in 2006, the survey indicated that three out of five businesses fail within the first few months of operation. The reason of failure has not been established. While studies have researched on different aspects of strategic planning focusing on financial performance, external environment and market orientation as possible cause of failure, effect of strategic planning on performance of medium enterprises has not been investigated. Effect of environmental analysis on performance of medium enterprises, effect of establishment of organizational direction on performance medium enterprises and effect of strategy formulation on performance of medium enterprises remains unknown. The study was carried out in Kisumu because it is one of the regions that experienced post-election violence leading to closure of businesses hence unemployment, high poverty level, and poor standards of living. The purpose of the study was to examine the effect of strategic planning on the performance of medium enterprises in Kisumu Central Business District. The objectives were to determine the effect of strategic environmental analysis on the performance of medium enterprises, to determine the effect of establishment of organizational direction on the performance of medium enterprises and to find out the effect of strategy formulation on the performance of medium enterprises in Kisumu Central Business District. The study was anchored on systems theory and contingency theory. Correlation research design was used to establish the relationship between variables. The population comprised of 1783 owners and employees of medium enterprises and a sample size of 537. Quantitative primary data was collected using questionnaires. The respondents were selected through stratified random sampling. A pilot study was carried to test reliability with a threshold of 0.70 Cronbach's alpha. Validity of questionnaires was confirmed by expert review and data analyzed using regression analysis. Data was collected from 54 respondents in order to eliminate data collection problem that may lead to low data reliability. The study revealed that environmental analysis and organizational direction had a positive and a statistically significant effect ($B=.827$, $p=.000$, $B=.601$ $p=.000$) respectively on performance. However, strategy formulation had a negative and significant effect ($B= -.552$ $p=.006$) on the performance. The result indicate $R^2 = .133$, meaning that in overall, organizational direction, strategy formulation and environmental analysis account for 13.3% variation in performance of medium enterprises. The adjusted $R^2 = .128$. the change between R^2 and adjusted R^2 is less than 5%. The study concluded that there existed a positive and statistically significant relationship between organizations' direction and the performance of the MEs. However, strategy formulation had a negative significant effect on performance. It is recommended that the firms emphasis activities of environmental analysis and organization direction. However, operations on strategy formulation should be monitored due to the negative significance. This result may benefit the MEs, policy makers in government and future researchers. Further research should be carried on planning practices of medium enterprises other than the ones operating in the Central Business District.