

The Influence of Strategy Formulation on Organizational Performance of Companies Listed at Nairobi Securities Exchange

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Abstract: The study examined the influence of strategic formulation on organizational performance of companies listed at the Nairobi Securities Exchange (NSE). It was based on positivism research philosophy and explanatory research design. The target population was 325 senior managers of companies listed at NSE. Stratified sampling technique was used with real estate investment trust, telecommunication and technology, manufacturing and allied, investment services, investment, insurance, energy and petroleum, construction and allied, commercial and services, banking, automobiles and accessories, and agricultural sectors forming the strata. A sample size of 179 senior managers were identified for data collection. Data was collected from the sample through structured questionnaire. Pilot test to assess the reliability and validity of the questionnaire was conducted. Pilot study results showed an overall Chronbach alpha of 0.7 that showed reliability of the questionnaire. Out of a sample of 179, data was collected from 147 respondents representing 82.12% response rate. Subsequent to the data collection, descriptive and inferential analysis was conducted. Descriptive analysis entailed, means, standard deviations and frequencies while inferential analysis included correlation analysis, One-way Analysis of Variance (ANOVA), factor analysis and regression analysis. The findings revealed that organizational performance was positively and significantly correlated with strategy formulation and that there was a significant mean difference between organizational performance and strategy formulation. Simple linear regression showed that strategy formulation significantly affects organizational performance. The paper recommends that in order to achieve the organizational vision and consequently enhance their performance, companies listed at the NSE should create conducive environment for effective strategy formulation such as ensuring all stakeholders are involved in formulation of strategies.

Keywords: Strategy formulation, organizational performance, security exchanges.

1. INTRODUCTION

Although the knowledge of strategic management has increased greatly over the decades, most of it has been collected in the contexts of the developed countries. Strategic management involves formulating, implementing, and evaluating decisions from different areas of an organization that facilitate the achievement of an organization's objectives. Simply put, strategic management entails both the development and implementation of strategies (Jofre, 2011).

In developing countries, businesses are forced to examine and improve their strategies and management systems due to the increasing competition, changing external demand and changing roles of business. The modern business environment in which business organizations operate is dynamic and success depends greatly on meeting the changing needs of all stakeholders (Striteska & Spickova, 2012). Due to these factors, a business organization must have in place an organizational performance measurement method in place in order to identify its current performance level and implement strategies and management systems that will make it improve the performance.

Ouedraogo (2007), however, proposed a local approach to the strategic management of organizations in Africa. Since the worldwide integration of international markets have disorganized the changing economic aspects of African nations, by letting the private sector to become the principal actor in the creation of wealth through business restructuring and privatization systems. New strategic management tools, new concepts and new management practices are currently the principal aspects that determine how highly the African organizations perform. Consequently, there have been queries as to whether the theories, concepts and classical approaches of management are appropriate for the context of the African countries.

The degree of strategic management in any organization has an influence on its growth and performance. This includes the mission and objectives of the organization where both external and internal analyses are carried out. The extent of strategic management encompasses the strategy selections, implementation and control of an organization. A company's mission encompasses its core values, beliefs, business definition and purpose forming the basis of the organizations identity and sets the basis conditions under which the organization's identity wants to function. Filtering of strategic issues is realized where a company has clearly developed mission shared by all key players in the organization (De wit & Meyer, 2010). Deciding on the business or businesses in which the company should engage and on other fundamentals that shall guide and characterize the business, such as continuous growth. The second process of Strategic Management involves developing of a company profile which reflects its internal condition and capability. This is where a company establishes beliefs, values, attitude, and unwritten guidelines that add up to the way the company does things. De wit and Meyer (2010), refer to these activities of investigating the capabilities and functions of organization as internal assessment or analysis. Additionally, scanning of business environment, identification of firm's strategic issues, strategy choice and setting up of implementation, evaluation systems are positively related to an organization's performance.

Several studies have been previously conducted on strategic management practices in the listed companies. Men and Wang (2008), for example, investigated and estimated the quality of strategy management information which is contained in the annual reports of steel sector listed corporations in the previous two years. The extent of disclosure was found to be limited to the overall requirements of compulsory information, and absence of transparency. Their paper recommended that the associated disclosure rule and inspiration should be enhanced. This is due to the fact that strategic management is among the most significant methods to create value for businesses, and the users of external information also require strategic management information in order to appraise business and make the necessary investment decisions.

In a sample of Chinese companies studied by Jenster and Sølilen (2013), better strategic management was found to have had a positive effect on several key corporate performance measures. There exists a distinction between the various strategies and organizational performance. Further, there are differences between various strategic management activities and organizational performance and activities related to Competitive Intelligence are on the average more important for organizational performance than the other planning activities. Similarly, A case study on Babcock University probing the effects of Strategic Management on organizational performance and how this has impacted on the management efficiency and effectiveness as strategic planning is essential in corporate organisations, found that there is a significant positive correlation between strategic management and corporate performance. Strategic planning is indeed beneficial to organisations in achieving the set goals and objectives and therefore universities and other organisations must carry out proper strategic planning to enhance company performance (Owolabi & Makinde, 2012).

In Africa, strategic management has been found to be having a positive impact on insurance companies' profitability in Nigerian insurance companies. There is also a high and positive correlation between strategic management and better service delivery in the Nigerian Insurance industry. Additionally, strategic management enhances customer benefaction and reduces unethical practices in the Nigeria insurance industry (Alaka, Tijani & Abass, 2011). The corporate performance of Five Nigerian brewing companies that carry out strategic management namely Nigerian Breweries Plc, Guinness Nigerian Plc, Consolidated Breweries Plc, International Breweries Plc, and the Champion Breweries Plc was found to be related to their strategic management activities. Effective strategic management was suggested to be pivotal to the performance of brewing companies and consequently organizations should focus more attention to strategic management, and make an effort to choose appropriate strategies that matches their strategic plans while fully implementing the components of the strategic plan (Emeka, 2015).

Kimanthi (2015), further argues that a prudent organization needs to formulate a strategy that is appropriate for the organization, appropriate for the industry, and appropriate for the situation. Indeed, all organizations, whether for-profit or non-profit, private or public, have found it necessary to engage in strategic management in order to achieve their corporate goals. The importance of strategic management cannot be overemphasized given the role it plays in the achievement of the set goals of any organization. As a matter of fact, strategic management is the road map of where an organization is headed and the progress made so far. Besides, it is through the strategic management that an organization is able to monitor its activities. In the context of this paper, the organizational factors comprised of influence of human resources, influence of information systems and organizational culture on the implementation of strategic management.

In Africa, there are larger, more developed stock markets in relation to regulatory framework and more advanced in terms of technical infrastructure; Medium-sized markets which have been established for a long time; Small-sized new market which have grown rapidly; and Small-sized markets that are still at an early stage of development. Ngugi (2003), explains that two major factors have led to the apparent development of the NSE in Kenya. The first factor is the political environment both in Kenya and in the East African region which ensured change in the policy environment and changed the composition of market participation; and the second factor is the macroeconomic environment which prompted the demand for long term capital which has been locally marshalled to boost economic development.

Mahama (2013), opines that African stock markets including the NSE have not been greatly considered as an option by foreign investors because of the perception that the region is symbolized by the high volatility of markets and lower investment returns. The low investments return arise from poor financial performance by the listed companies which do not have in place the appropriate strategic plans. Several companies that were listed at NSE have closed while others were delisted due to poor performance (Roney, 2004). Those that are still listed at NSE have not reached their optimal level of performance as well. According to Grinde (1997), organizations whose mission is broadly shared and internalized by employees and those with clear and consistent performance expectations and evaluation procedures always have a better performance than those without such measures.

According to CISI (2016), the stock market framework is made up of both primary and secondary legislation. The primary legislation is passed by the parliament, which may pass on power to an executive department of government to come up with secondary legal codes. Primary legislation therefore is made up of statutes that set off comprehensive frameworks and principles, handing over power to an executive branch which in turn can issue secondary legislation, stipulating functional and practical requirements needed to implement them. The primary legislation that oversees the capital markets in Kenya is the Capital Markets Act and the Central Depositories Act. The Capital Markets Act subsequently created the Capital Markets Authority to be the regulatory organization for the financial services sector and it brings in subsidiary legislation as regulations and rules. The capital markets sector in Kenya functions within a supervisory framework that market intermediaries must abide by while they provide services to their clients. The aim of this regulatory framework is to develop and widen the capital markets by enabling the improvement of new financial products and organizations by way of research and guaranteeing even-handedness and order in the capital markets sector (CISI, 2016). In Kenya the NSE currently has 153 that it has listed to trade in the securities exchange (NSE, 2013).

Though existing literature found that strategic management has a positive effect on firm performance, empirical substantiation which supports this proposition is mainly circumstantial or narrowed down to a small number of qualitative case studies. Previous studies indicate that strategic management is an importance determinant of organizational performance, although it has been ignored in Kenya (Elwak, 2013). Aldehayyat and Twaissi (2011), opines that previous empirical studies show that there is a strong positive relationship between strategic management and organizational performance although the extent to which strategic management contributes to improvement of organizational performance is still a matter of argument because of the varied results which are found in empirical research. Furthermore, previous studies have mainly paid attention to the direct influence of strategic management on corporate performance but they have not been focusing on the specific steps that make up the strategic management and how strategic management processes influences organizational performance (Arasa & K'Obonyo, 2012). Additionally, these studies did not specifically focus on the role of strategic formulation on performance of companies listed at the security exchanges, and in particular the Nairobi securities Exchange. Hence this paper sought to fill this gap by establishing the influence of strategic management process on organizational performance with a specific reference to companies listed at the Nairobi Securities Exchange.

2. LITERATURE REVIEW

Strategy formulation is the process of creating a strategy for either an individual, or an organization. It involves the development of long term plans for the effective management of environmental opportunities and threats while taking into account the company's strengths and weaknesses and incorporating outlining the corporate mission, specifying feasible objectives, developing strategies and setting policy guideline. The process includes the planning and decision making that results in the setting up of the organization's goals and the creation of a particular strategic plan (Daft, 2004; Bordean *et al.*, 2010).

In strategy formulation, strategic leadership involves managing an organization's strategy making process in the most effective manner in order to create competitive advantage. Strategy-making process involves the selection and the subsequent implementation of a set of strategies that strive for achieving a competitive advantage (Hill, Jones & Schilling, 2014).

Andrews *et al.* (2009), however, examined the independent impacts of strategy formulation variables such as rational planning, logical instrumentalism and strategy process absence and strategy content on organizational performance. The findings revealed that variables of strategy formulation including logical incrementalism and strategy absence had negative influence on performance while variables including prospecting and defending were established to likely bring about greater amounts of organizational performance.

Leaders help to determine the vision and mission of the company as well as facilitating the organization to implement effective strategies to achieve the vision (Azhar, Ikram, Rashid, & Saqib, 2012). According to Taylor, de Lourdes Machado and Peterson (2008), organizational leaders are tasked with effectively moving the company forward by taking the organization from its current state to a new and better state in terms of capacity and performance.

Leaders further acts as a connection between the soul and the body of a company. During the process of strategic management, leaders act as change enablers/drivers, guides, innovators, strategists, care takers, analysts, evaluators, organizers, developers, decision makers, risk managers, collaborators, debtors, and motivators (Azhar *et al.*, 2012). In order to gain competitive advantage, leaders identify organizational resources, enter inputs into the planning process, single out the capabilities that allow the organization to improve and then select a strategy that best enables the organization to exploit its resources and capabilities (Taylor, de Lourdes Machado & Peterson, 2008).

A company's leadership is involved in creating a vision of the organization's future, developing a set of guiding principles such as behavioral norms necessary to achieve that vision, clarifying the mission of the organization, and developing strategic goals (Wells, 1998). Crafting the organization's mission statement is the first component of the strategic management process. The mission statement outlines what the company engages in and is composed of four main parts namely a statement of the reason for existence (mission), a statement of some anticipated future state (the vision), a statement of the organization's key values and a statement of main goals. This statement briefly defines why the organization exists and what it intends to achieve. The vision similarly outlines an anticipated future state of the organization and it boldly articulates what the organization would like to achieve. A vision statements covers the specific features or attributes that describe the organization in its future desired position and it is used to motivate and inspire the organization's personnel, and it should be achievable (Taylor, *et al.*, 2008; Hinton, 2012; Hill, Jones & Schilling, 2014).

The overall performance of an organization is also likely to be enhanced when budgeting and strategic management are used and aligned properly. Any disconnections between budgeting and strategic management will lead to budgets that inhibit implementation of the organization's strategies or strategies that cannot be supported by the organization's finances (Blumentritt, 2006). Mansfield and Beresford (2014) recommended the integration of strategic and planning process into a 'smart budgeting cycle' which is made up of a number of elements such as focusing on outcomes, engaging members of the organization, utilizing and integrating financial and non-financial evidence, and planning for prevention.

The strategic management resource requirements therefore must be incorporated into the budgeting process during the strategy formulation. Managers at each level of management in an organization create operating budgets that regulate how they are supposed to attain objectives once they have been given an objective to achieve (Wells, 1998; Hill, Jones & Schilling, 2014).

Additionally, the strategy formulation stage of the strategic management involves analysis of the external and internal environment which an organization operates, and this can be achieved by use of SWOT matrix. This is carried out to help identify the key opportunities and threats for the company's work in the external context of the plan, identify the internal strengths and weaknesses of the firm, which determines the organization's capacity to react effectively to the opportunities and threats, prepare for the identification of strategic goals by removing conflicts between company's capacity and the needs that the company is attempting to concentrate on (Thomas, 2005).

Analysis of the external environment provides information on all the external factors that can influence the organization, but which the organization cannot change. The analysis of external environment focuses on resources, the legal situation, other power groups, and training and research activities. Analysis of the internal environment on the other hand offers information on everything relevant that has occurred and occurs within the company. It is recognized that the company has the complete ability to act, transform and change its internal environment. The analysis of external environment involves the analysis of clients or customers, competitors, providers or suppliers and the owners (Perera, & Peiró, 2012). Precisely, the external analysis comprises environmental/competitive analysis.

Singh and Panda (2015), carried out a research with an aim of investigating the impacts of organizational culture on strategic leadership development. They collected data through a survey questionnaire sent to the executives of Nalco Holding Company in Minnesota, United States, using snowball sampling technique across its various departments. The data was then processed using statistical analysis procedures such as descriptive statistics analysis and one-sample t-test. The results of their paper indicated that there is a significantly positive relationship between organizational culture and strategic leadership development. In their paper they concluded by stating that the positive culture existing in the organization is supportive for the development of future strategic leaders who are the key catalyst for the consistent increase in organizational performance of organizations such as NALCO. Their paper therefore implies that there is a significantly positive relationship between strategic leadership development, a variable of strategic formulation and organizational performance.

Al-rbabah (2015), conducted a research with an intention of investigating the effects of strategic leadership on managing organizational change. In their paper they repeatedly mentioned that the main aim of organizational change is to improve organizational performance. The paper was conducted by first collecting primary data from the staff of Zarqa University in Jordan. The paper classified strategic leadership into three categories namely creative leadership, transformational leadership and transactional leadership. The data was then processed in a number of ways such as descriptive statistics analysis, correlation analysis, regression analysis and ANOVA. The results indicated that the relationships between creative leadership and management of organizational change and, transactional leadership and management of organizational change, are both positive and significant. They also found that there is no effect of transformational leadership on management of organizational change in Zarqa University. This paper concluded by stating that there is a significantly positive effect of strategic leadership on management of organizational change. This is to mean that strategic formulation has a significantly positive effect on organizational performance

Kaliappen and Hilman (2013), carried out a research with an aim of examining how to enhance organizational performance through strategic alignment of cost, leadership strategy and competitor orientation. The paper was carried out by first collecting primary data through questionnaires from three to five-star rating hotels' managers in Malaysia. Analysis of the data was done by conducting descriptive statistics analysis and correlation analysis. From their results they were able to conclude that strategic leadership has a positive and significant impact on competitor orientation and, that leadership strategy has a significant and direct impact on organizational performance.

Abdullahi, Abubakar, Muhammad and Kuwata (2014), examined the role of budget and budgetary control on organizational performance focusing on Tahir Guest Palace in Kano. Purposive sampling was used to select a sample of 278 staff from whom primary data was collected using questionnaires, while the secondary data was obtained through the financial statements of Tahir Guest Palace from 2007-2012. Results from the regression analysis revealed that budget target setting, budget administration, and budget process all have substantial impact on an organization's performance. The study suggested that the top-level management should uphold suitable standard on budget administration and preparation, and budget practice during strategy formulation.

Aslan, Diken and Sendogdu (2011), carried out a research with an aim of investigating the effects of strategic leadership on strategic change on innovativeness of SMEs in a perceived environmental uncertainty. Strategic leadership was divided into three main components namely transformational leadership, transactional leadership and visionary leadership. The survey was carried out by first collecting primary data from employees working in SMEs in Konya Province of Turkey. All analysis was conducted on SPSS validity of questionnaire constructs was done by performing confirmatory factor analysis. The data was then analyzed using correlation analysis and structural equation modelling. Strategic leadership was found to have a positive relationship with environmental uncertainty, strategic change and innovativeness. Transactional leadership was found to have a significantly positive relationship with environmental uncertainty and strategic change but not with innovativeness. Vision development was also found to have positive relationship with strategic change, innovativeness and environmental uncertainty. The general result indicated that strategic leadership has a significantly positive effect on strategic change and innovativeness through environmental uncertainty. Hence, strategic management has a significantly positive effect on organizational performance.

Ozer and Tinaztepe (2014), carried out a research with aim of investigating the effects of strategic leadership styles on firm performance. The paper was carried out by first collecting data from employees working in an export company in Turkey by sending them questionnaires via an electronic link. They divided strategic leadership styles into three leadership styles namely; transformational leadership, relationship-oriented leadership and management by avoidance. All analysis for the paper was conducted by use of SPSS and they made use of statistical analysis processes such as descriptive statistics analysis, correlation analysis, tests of internal consistency via Cronbach's alpha, Bartlett's tests of sphericity and, multiple and simple regression analysis. The results indicated that there were weak but positive relationship between firm performance and relationship-oriented leadership. Firm performance was found to have a stronger positive relationship with transformational leadership whereas management by avoidance was found to be negatively correlated with firm performance. They also found that transformational leadership has a stronger positive relationship with firm performance. The general result showed partial support for the hypothesis suggesting that there is a positive relationship between strategic leadership and firm performance.

Supriyadi (2012), conducted a research with an aim of examining the influencing effect of strategic leadership on a firm's innovative and inventive performance. The paper was carried out by first collecting secondary data regarding chief executive officers and chief scientific officers who managed biopharmaceutical companies in Indonesia. The data was then analyzed using statistical techniques mainly by use of a 3-level mixed effect Poisson regression hierarchical modelling. The results from this paper indicated that strategic leadership has a positive and significant effect on a firm's inventive and innovative performance.

Serfontein (2010), carried out a research with an aim of investigating the impacts of strategic leadership on the operational strategy and performance of business organizations in South Africa. Strategic leadership was divided into constructs namely action, coherence and discipline. The paper was conducted amongst CEOs and executive team members of top performing organizations as listed in the financial mail. The questionnaires were sent to them via email. They then adapted and developed measurement instruments which were then verified as reliable using Cronbach's alpha and then tested for validity by testing convergent validity, discriminant validity, face validity and Nomo-logical validity. The data was then analyzed using descriptive statistics and correlation analysis (Spearman's correlation analysis). The results from this paper indicated that the relationship between strategic leadership and performance of business organizations is positive but indirect.

In their research paper on the impacts of Strategic Environmental Scanning on Organization performance in a competitive business environment, Babatunde and Adebisi (2012), examined Nestle Nigeria Plc and Cadbury Nigeria Plc by using structured questionnaires to seek the opinions of the selected respondents. Analysis and interpretation of the collected data was through regression and coefficient of correlation method. Results confirmed that there is significant relationship between strategic environmental scanning and organization performance whereby it was found that 30% of the variation or change in effective organization performance is caused by variation in strategic environmental scanning. Identifying company's external opportunities and threats and defining internal strengths and weaknesses is an important exercise during the strategy formulation stage.

Using strategic environmental scanning to estimate the opportunities and threats of a business organization therefore helps in grasping the opportunities and eluding threats and consequently leading to organization profitability. The study recommended that organizations should periodically, continuously and strategically involve in strategic environmental scanning and focus on the threats and opportunities in the environment (Babatunde & Adebisi, 2012).

Kitonga, Bichanga and Muema (2016), carried out a research with an aim of investigating the relationship between strategic management and organizational performance in not-for-profit organizations. The paper was carried out by collecting primary data from the NPOs (also known as CEOs and Directors etc.) and other members of top management team (project managers) from the sampled not-for-profit organizations in Nairobi county, Kenya. Strategic leadership was subdivided into components namely strategic direction, human capital, ethical practices and organizational control. The paper tested for reliability of measurement constructs using Cronbach's alpha and tested for validity by calculating content validity index. The data was then analyzed using statistical techniques such as descriptive statistics analysis, multiple regression analysis and correlation analysis. The regression analysis results indicated that all the components of strategic leadership named correlate positively with organizational performance. The results further indicated that strategic decision and human capital correlate significantly with organizational performance while ethical practices and organizational control do not have a significant correlation with organizational performance. Their general conclusion is that strategic leadership has a positive significant relationship with organizational performance.

Nthini (2013), carried out a research with an aim of investigating the effect of strategic leadership on performance of commercial and state corporations in Kenya. The paper was conducted amongst employees working in charge of strategy and human resource department. They used descriptive survey design and collected data using questionnaires. Strategic leadership was divided into several components namely determined corporate strategic direction, effectively managed corporate resource portfolio, emphasized effective organizational culture, emphasized ethical practices and balanced organizational controls. The analysis of strategic leadership in commercial and financial state corporations showed that, in positive organizational culture core values, symbols and ideologies are shared. Balanced organizational controls showed a positive strong relationship with annual employee turnover. All the components of strategic management correlated highly with customer satisfaction, return on investment, net profit margin and low annual employee turnover. This implied that effective strategic management promotes organizational performance.

Koskei, Katwalo and Asienga (2013), conducted a research with an intention of investigating the influence of strategic leadership capability on organizational performance of research institutions in Kenya. In the research methodology they used stratified random sampling technique, and they tested reliability using Cronbach's test of internal consistency, quantitative research design and they analyzed the data by conducting factor analysis, analysis of variance (ANOVA), Pearson correlation analysis and regression analysis. The results from regression analysis indicated that strategic leadership capability was positively and significantly related to research institution's performance.

Maritim (2013), carried out a study to determine the impact of budgeting on the financial performance of Kenyan manufacturing and commercial state-owned enterprises. The study adopted a descriptive research design and used a questionnaire to collect primary data. Results from the regression analysis indicated that the budgeting practices that are common among the firms are budget planning, budget participation, budget participation and budgetary sophistication. On the other hand, employee involvement in the budgeting process led to better performance in actualization of the plan specified in a certain period followed by budget planning.

3. RESEARCH METHODOLOGY

This paper was based on positivism research philosophy. Positivism suggests that occurrences directly determine an individual's perception of them and therefore there exists a direct correlation between things and their representation (Willig, 2013). Saunders, *et al.* (2012), explain that in positivism, only phenomena that is observable leads to the production of credible data and while generating a research strategy to collect data existing theory is largely used in the development of hypotheses. A positivist researcher must be distant and independent from the research subject, attempt to control for bias, and select a universal or general sample so as to be objective in studying a phenomenon (Creswell, 2013). Positivism fits this study since there is direct correlation between strategic formulation and performance of companies listed at NSE. The study utilized positivism research philosophy since it is objective and independent of researcher with no human interest of the study. The philosophy has been applied in various research topics that related to strategic

management and organizational performance. Some of the authors who have applied this philosophy include (Willig, 2013; Petty *et al.*, 2012; Kaboub, 2008). This study utilized explanatory research design since it is useful in establishing the relationship between variables. For instance, it was used to examine the effect of strategy formulation on organizational performance of companies listed at the NSE. This research design was utilized by (Cooper & Schindler, 2014; Creswell, 2014; Trochim, 2006).

The target population for this paper comprised of 325 senior managers in 65 companies listed at the Nairobi Securities Exchange as of year 2017. Stratified random sampling technique was utilized to select the individual respondents. This study divided the target population into strata based on the sector in which the company operates. Thus, there were 12 strata namely; agricultural, automobiles and accessories, banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, investment services, manufacturing and allied, telecommunication & technology and real estate investment trust. This technique was selected since it is affordable in administering research instruments and it is generally applied in order to obtain a representative sample. This technique has previously been used by (Huck, 2009). Based on Yamane (1967) sample formula size with a precision error of 0.05 the paper estimated a sample size of 179 senior managers of companies listed at the NSE. This formula was selected because it is simple, scientific and can be used in studies that involve large populations. Additionally, this approach has been utilized by several studies such as (Huck, 2009; Daft, 2004; Bordean, *et al.*, 2010).

The paper used questionnaire as the basic data collection instrument to collect cross section data from senior managers in 65 listed companies at NSE. The use of questionnaire was preferred since it allows the researcher to collect data from a wide geographical area at a relatively low cost. It is also free from unfairness and guarantees non-disclosure of the respondent's identity. Questionnaires have widely been used by various authors such as (Daft, 2004; Bordean, *et al.*, 2010). Before the main survey the paper pretested, the questionnaire and found that the Cronbach's alpha for strategy formulation was 0.699. This value was equal to 0.7 indicating that the whole questionnaire was reliable. The paper tested for construct validity by administering the questionnaire to the experts in the field of strategic management and organizational performance. The experts were professors and consultants in strategic management. They provided comments on how the questionnaire should be improved to ensure that questions asked are valid.

The paper used descriptive and inferential analysis to test the hypothesis. Inferential analysis for this study comprised of factor analysis, correlation analysis, Analysis of Variance (ANOVA) and regression analysis. The paper utilized factor analysis to reduce data and create a summated score for strategy formulation construct and Pearson correlation coefficient to test the strength of relationship between organizational performance and strategy formulation. ANOVA was used to establish whether there was mean difference between the means of organizational performance and strategy formulation. The simple linear regression model was specified as;

$$OP_i = \beta_0 + \beta_1 SF_i + \varepsilon_i \dots \dots \dots (1)$$

Where; OP represents organizational performance, SF denotes strategy formulation, β 's are the parameters to be estimated, ε are the error term and i represents the individual manager.

4. RESULTS

The paper intended to collect data from 179 senior managers of companies listed at the NSE but 147 responses were collected from the respondents translating to a response rate of 82.12%. Majority of the respondents (59.3%) were male whereas the remaining 40.7% were female implying that the responses gathered were representative of both genders. About 46% of the respondents were aged between 41 and 50 years, followed by 30.1% who were aged between 31 and 40 years. 2.7 percent of the respondents were more than 60 years old. It implies that respondents across all age groups were represented in the paper. Respondents with bachelor's degree were 43.2%, followed by those with master's degree (36.3%). About 7.5% of the respondents had PhD while 2.1% of the respondents indicated that they had completed primary school. This indicates that majority of the respondents had the education level required to understand management issues. The paper revealed that 44.5% of the respondents were general managers/section heads, 19.9% were team leaders, 16.4% were managing directors, 14.4% were supervisors, 4.1% were Chief Executive Officers and 0.7% were owners of the business. This shows that the respondents were able to fully understand issues on management. About 30% of the respondents indicated that they work in the human resources department, 25.2% work in the information technology department, 19.5% work in the finance department, 14.6% work in the operations, and 10.6% work in the marketing department. Thus, all departments in the organizations were represented in the paper.

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The paper found that 39.7% of the respondents had worked for their company for 4-6 years, 21.9% had worked for 7-9 years, 20.5% had work experience of 1-3 years, and 14.4% had worked for less than one year. Only 3.4% of the respondents had worked for 10 years or more. The result indicates that majority of the respondents had worked long enough to understand management issues in their organization. Majority of the companies (74.1%) had been in operations for a period of 10 years or more. Only 4.1% of the companies had been in operation for less than one year. This shows that majority of the companies were well established. Similarly, majority (80.7%) of the companies were public limited companies, 12.4% were private limited companies whereas 6.9% were partnerships. The paper showed that 21.8% of the companies were in the banking sector, followed by those in the commercial and services sector (15.5%) and manufacturing and allied (13.4%). The paper showed that 31.9% of the companies had less than 1000 employees, whereas 24.1% had more than 3000 employees.

Regarding the annual turnover, the study found that most of the companies had annual turnover of more than Kshs. 10 billion. The paper found that majority (61.9%) of the companies had great to very great extent growth in their revenue for the last five years. About (74%) of the companies had great to very great extent growth in their sales for the last five years. Seventy six percent of the companies experienced great to very great extent overall performance (table 1).

Table 1: Organizational Performance

Organizational performance		Not at all	Small Extent	Moderate Extent	Great Extent	Very great extent	Total
Growth in Revenue	Frequency	4	7	45	52	39	147
	Percentage	2.7	4.8	30.6	35.4	26.5	100.0
Growth in sales	Frequency		6	32	58	49	145
	Percentage		4.1	22.1	40.0	33.8	100.0
Overall performance	Frequency	2	2	31	58	53	146
	Percentage	1.4	1.4	21.2	39.7	36.3	100

Majority of the respondents slightly agreed to strongly agree with various aspects of leadership initiative, budget/finances and environmental context. The paper carried out factor analysis so that the items of strategy formulation could be reduced. The construct of strategy formulation was measured using nine items thus the construct was factor analyzed to identify a suitable measure. The results showed that the KMO had a value of 0.839 and Bartlett's test had $\chi^2 = 631.331$, $p = 0.000$. This result confirmed that the construct of strategy formulation could be factor analyzed (Table 2).

Table 2: KMO and Bartlett's Test for Strategy Formulation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.839
Bartlett's Test of Sphericity	Approx. Chi-Square
	Df
	Sig.
	631.331
	36
	0.000

The total variance explained for strategy formulation showed that two components explained about 65% of the total variability in the nine items (Table 3).

Table 3: Total Variance Explained for Strategy Formulation

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.582	50.910	50.910	4.582	50.910	50.910	3.671	40.792	40.792
2	1.254	13.929	64.839	1.254	13.929	64.839	2.164	24.047	64.839
3	.904	10.040	74.879						
4	.584	6.490	81.369						
5	.516	5.734	87.103						
6	.413	4.590	91.693						
7	.300	3.329	95.021						
8	.236	2.617	97.638						
9	.213	2.362	100.000						

The findings on the Scree plot confirm that strategy formulation can be measured using two components since out of nine components only two components had Eigen values greater than one. The results of scree plot are presented in the Figure 1.

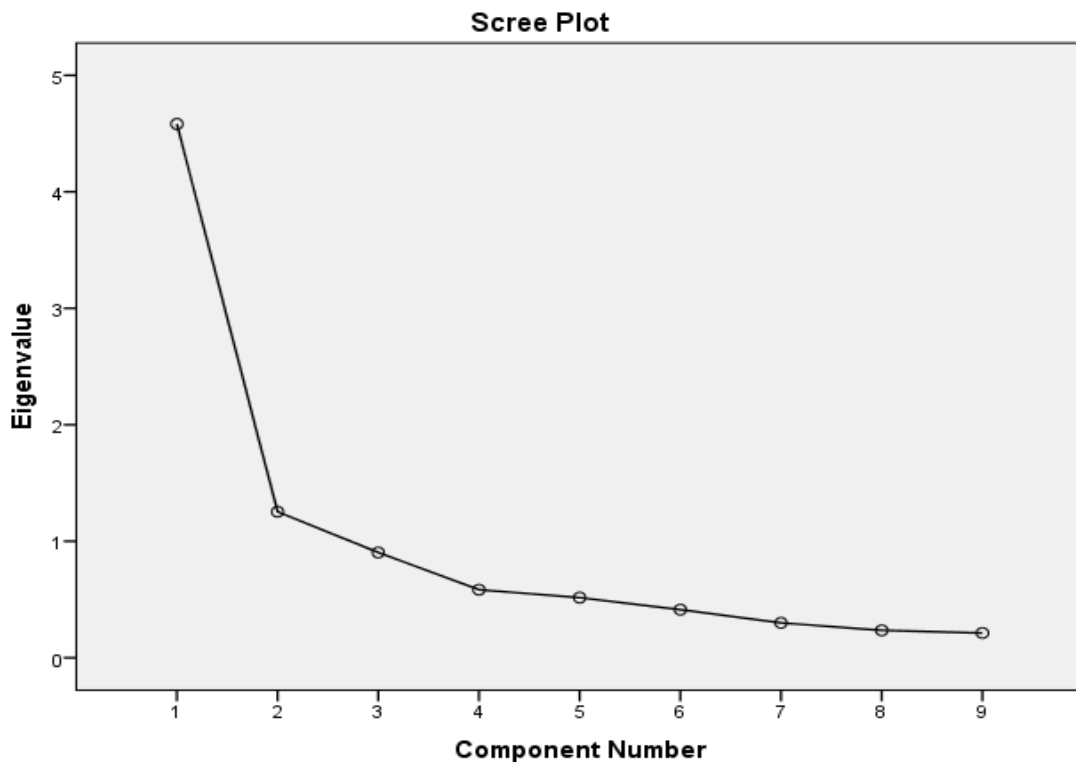


Figure 1: Scree Plot for strategy formulation

The paper found that two factors could be used to create a summated score of strategy formulation. Based on the rotated component matrix, the two factors selected for creating the index are; “The managers are actively involved in making major decisions during the strategy formulation” which is heavily loaded to component one and had factor loading of 0.897. The second factor is “this company uses an operating budget which summarizes how managers are supposed to use company resources” that is heavily loaded to component two and has factor loading of 0.863 (Table 4).

Table 4: Rotated Component Matrix for Strategy Formulation

Strategy Formulation	Component	
	1	2
The manager is actively involved in creating company mission and vision	.845	.162
The managers act as change enabler or drivers in the company	.567	.396
The managers are actively involved in making major decisions during the strategy formulation	.897	-.069
This company uses an operating budget which summarizes how managers are supposed to use company resources	.147	.863
My company has aligned its budget with the company strategy through good communication, enhanced responsibility, and improved feedback flows	.773	.263
This firm always makes decisions that are based on the budget	.170	.844
This company makes use of tools such as PESTEL, Porter’s Five Forces, and SWOT Matrix to analyze the external and internal business environments	.735	.341
This company incorporates environment concerns while making strategic decisions, evaluating strategic development alternatives and issuing guiding principles	.587	.371
The strategic decisions of this company are based on the prevailing business environment context	.546	.445

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The Pearson correlation coefficient between firm performance and strategic formulation was 0.453 with a p value of 0.000. This implies that the relationship between firm performance and strategic formulation was positive and statistically significant at 5 percent significance level (Table 5).

Table 5: Correlation Analysis between Organizational Performance and Strategy Formulation

Strategy Formulation	Organizational Performance	
	Pearson Correlation	.453**
Sig. (2-tailed)	.000	
N	142	

The results for the mean difference between organizational performance and strategy formulation reported F test of 5.669 with a p-value of 0.000 which was less than the p value of 0.05. These results showed that there was a significant mean difference between organizational performance and strategy formulation (Table 6).

Table 6: ANOVA between Organizational Performance and Strategy Formulation

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	99.617	10	9.962	5.669	0.000
Within Groups	230.193	131	1.757		
Total	329.810	141			

The paper carried out simple linear regression on the effect of strategy formulation on organizational performance and found the R Square of 0.214 and the value of Durbin-Watson test of autocorrelation as 1.582. The R square showed that about 21% of variations in organizational performance were explained by strategy formulation. The Durbin Watson implied that the error terms were not related thus there was no autocorrelation in the data (Table 7).

Table 7: Summary for Effect of Strategy Formulation on Organizational Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.463	.214	.197	2.09891	1.582

The ANOVA results for strategy formulation showed that the value of F statistic for unmoderated model was 12.428 with a p-value of 0.000 which was less than 0.05 suggesting that strategy formulation and other independent variables jointly explained the organizational performance (Table 8).

Table 8: ANOVA for Effect of Strategy Formulation on Organizational Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	164.257	3	54.752	12.428	.000
	Residual	603.545	137	4.405		
	Total	767.801	140			

The regression results indicated that the coefficients for strategy formulation was 0.608 and the p-value was 0.000 which was less than the p value of 0.05. This result indicate that strategy formulation has a positive and significant effect on organizational performance (Table 9). This finding implied the rejection of the null hypothesis which stated that strategy formulation does not significantly influence organizational performance. Thus, the findings revealed that strategy formulation positively and significantly influence organizational performance of companies listed at the NSE. The findings are in line with earlier findings supporting the results like Serfontein (2010), who found that the relationship between strategic leadership/management and performance of business organizations is positive though indirect. Falshaw, Glaister and Tatoglu (2006), however, found that no relationship exists between formal planning process and company performance. Organizational performance therefore is a function of previous planning and other management practices, and not the current.

Table 9: Coefficient for Strategy Formulation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.578	1.394		2.566	.011
Strategy formulation	0.608	.150	.398	4.064	.000

5. CONCLUSIONS

The paper sought to establish the relationship between strategy formulation and organizational performance of companies listed at NSE. Using inferential analysis comprising of factor analysis, correlation analysis, Analysis of Variance (ANOVA) and regression analysis. The results from the regression analysis indicated that organizational performance had a positive and significant correlation with strategy formulation. The paper thus concluded that strategy formulation positively and substantially influences the organizational performance of companies listed at the NSE. This implies that the procedure by which a company develops its vision, mission, analyses its external and internal environments and finally, creates and selects a long-term strategic objective to accomplish its defined goals has a positive impact on the organizational performance.

The paper recommends that in order to achieve the organizational vision and consequently enhance their performance, companies listed at the NSE and other securities exchanges should create conducive environment for effective strategy formulation such as ensuring all stakeholders are involved in formulation of strategies. Future research can investigate the role of strategic formulation on organizational performance of listed companies in East African Community. Additionally, the research can separate the foreign companies from the locally owned companies and split the different companies listed at the securities exchange according to the different sectors that they operate in.

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