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Strategic Planning Practices and Organizational Performance of Service-Based MSME Startups in Nairobi County, Kenya

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Abstract: *Organizational alignment and adaptive capabilities are widely acknowledged as critical drivers of performance, enabling firms to effectively coordinate internal resources and respond to dynamic market opportunities and challenges. While extensive research exists on organizational design and capability development in large firms, limited empirical attention has been given to how internal alignment and dynamic capabilities influence performance in micro, small, and medium enterprise (MSME) startups, particularly in service-oriented sectors in emerging economies. This study examines the effect of organizational alignment, measured through the McKinsey 7S framework, on the performance of service-based MSME startups in Nairobi County, Kenya. Guided by the McKinsey 7S model and Dynamic Capabilities Theory (DCT), the study adopted an explanatory cross-sectional design. Structured questionnaires were administered to founders, owners, and managers, yielding 156 valid responses (76% response rate). Alignment across the 3 phases of strategic planning were assessed, while organizational performance was measured through financial (profitability, revenue growth) and non-financial (market share, customer retention) indicators. Regression analysis revealed that higher alignment and adaptive capabilities have a significant positive effect on organizational performance ($\beta = 0.52$, $p < 0.01$), with a predictive power (R^2) of 0.43. The study concludes that well-aligned organizational elements, supported by dynamic capabilities, are key drivers of performance in service-sector MSME startups, offering practical insights for entrepreneurs and policymakers in emerging economies.*

Keywords: *strategic planning, MSME startups, organizational performance, service sector, Nairobi County*

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are widely recognized as central to economic development, employment creation, and innovation in emerging economies. In Kenya, MSMEs contribute approximately 35% of GDP and account for nearly 80% of employment opportunities (Government of Kenya, 2020). Among these, service-sector startups including ICT services, retail, hospitality, and health services play a critical role due to their proximity to consumers, operational flexibility, and ability to address unmet urban market needs, particularly in Nairobi County.

Despite their importance, service-sector MSME startups face performance challenges, including limited managerial experience, financial constraints, competitive pressures, and high mortality rates during the early years of operation (Beck & Demirguc-Kunt, 2006). These challenges make it imperative for startups to adopt effective management practices that enhance performance. Strategic planning has been widely proposed as a mechanism to address these challenges (Kagika, 2016). Defined as a systematic process of setting organizational objectives, assessing internal and external environments, and allocating resources effectively, strategic planning enables firms to align capabilities with environmental demands, anticipate market changes, and respond proactively (Mintzberg, 1994; Kagika, 2016).

Previous research demonstrates a positive link between strategic planning and firm performance, including financial outcomes such as profitability and revenue growth, as well as non-financial outcomes such as customer satisfaction and market share expansion (Obaid, 2022). However, most empirical evidence focuses on large or mature SMEs, leaving a gap regarding early-stage service-sector startups, particularly in Nairobi. These firms often operate under conditions of resource scarcity, informal structures, and dynamic markets, making it unclear whether formal strategic planning produces similar performance benefits (Njoroge, 2018). Given this context, understanding the effect of strategic planning on organizational performance is crucial for both theoretical and practical reasons.

Entrepreneurs can leverage planning to optimize resource utilization and enhance operational effectiveness, while policymakers can design interventions to strengthen MSME competitiveness. The study therefore aims to examine the magnitude, statistical significance, and predictive power of strategic planning in driving both financial and non-financial performance outcomes.

Specifically, the study addresses the research question: *Does strategic planning significantly affect organizational performance of service-based MSME startups in Nairobi County?* By adopting a dual-theoretical lens consisting of the McKinsey 7S model and Dynamic Capabilities Theory (DCT), this research assesses planning as both an intangible capability and a context-sensitive managerial practice. The findings will provide empirical evidence for decision-making by entrepreneurs and inform strategic management theory in emerging-market contexts, where MSME startups are key contributors to economic growth and urban employment.

2. Literature Review

2.1. Strategic Planning and Performance

Strategic planning is considered essential for aligning organizational goals with operational capabilities (Mwangi, 2023). It encompasses activities such as environmental scanning, strategy formulation, resource allocation, implementation, and monitoring. Empirical studies indicate that firms with structured planning processes achieve higher profitability, revenue growth, and operational efficiency (Anyieni, 2013; Mintzberg, 1994). Financial performance: Structured strategic planning enhances profitability, revenue generation, and cost management. In Nairobi, SMEs engaging in formal planning report improved financial outcomes compared to informal firms (Njoroge, 2018). International evidence from India and Brazil indicates that service startups employing formal planning mechanisms experienced higher revenue growth and market competitiveness (Garg & Rahman, 2017; de Azevedo et al., 2019).

Non-financial performance: Planning also positively affects customer retention, market share, innovation capacity, and employee engagement. Service-sector MSMEs rely heavily on intangible resources such as reputation, customer trust, and knowledge management, all of which are strengthened through structured planning processes (Owusu & Ansah, 2020).

2.2. Strategic Planning in MSMEs

MSMEs face constraints such as limited human and financial resources, which may impede the adoption of formal planning processes (Mwangi, 2024). While some startups adopt structured planning as they grow, others rely on intuitive or reactive approaches, resulting in variable performance outcomes (Langat, 2015; Aosa, 2011). Evidence from Kenya indicates that formalized planning contributes to better alignment, prioritization, and operational efficiency, particularly in service-based enterprises (Riiny, 2017).

2.3. Empirical Evidence and Gaps

Despite its recognized importance, empirical research on strategic planning's effect on performance in service-sector startups in emerging economies remains limited. Studies have primarily focused on manufacturing SMEs or mature firms, leaving a knowledge gap regarding early-stage service MSMEs. The need for context-specific evidence is critical, given the unique challenges posed by Nairobi's urban, competitive, and rapidly changing business environment. The literature shows a consistent positive link between strategic planning and performance, yet gaps remain in quantifying the magnitude, significance, and predictive power of planning specifically for service-sector startups in Nairobi.

3. Theoretical Framework

This study adopts a dual-theoretical lens, integrating the **McKinsey 7S model and Dynamic Capabilities Theory (DCT)**, to explain how strategic planning affects organizational performance in service-sector MSME startups.

3.1. McKinsey 7S Model

The McKinsey 7S Model, developed by Peters and Waterman (1980), posits that organizational performance depends on the alignment and mutual reinforcement of seven internal elements: strategy, structure, systems, shared values, skills, style, and staff. The model distinguishes between "hard"

elements namely strategy, structure, and systems which are more tangible and easier to identify, and "soft" elements namely shared values, skills, style, and staff which are less tangible but critically influence organizational culture and employee behavior (Alshaher, 2013; Akinyi, 2018).

In the context of service-sector MSME startups in Nairobi, the 7S framework provides a lens to examine how startups coordinate internal resources to enhance performance. For example, strategy defines the plan for achieving competitive advantage, structure determines reporting lines and responsibilities, and systems guide day-to-day operations (Kaplan, 2005). Simultaneously, shared values establish organizational culture, skills reflect employee capabilities, style shapes leadership approaches, and staff refers to workforce management and development (Channon & Caldart, 2015).

When these seven elements are aligned, organizations can achieve coherence and consistency, enabling efficient resource utilization, enhanced coordination, and improved performance outcomes (Ana-Maria, Florica, & Cătălina, 2010). Misalignment, however, can undermine performance, as changes in one element may necessitate adjustments across others. For MSME startups operating in dynamic service markets, alignment across the 7S elements ensures that resources are effectively coordinated, human capital is optimally deployed, and operational processes are harmonized to achieve both financial (profitability, revenue growth) and non-financial (customer retention, market share) outcomes.

3.2. Dynamic Capabilities Theory (DCT)

Dynamic Capabilities Theory (DCT), proposed by Teece, Pisano, and Shuen (1997), emphasizes a firm's ability to **sense opportunities and threats, seize opportunities, and reconfigure resources** to adapt to turbulent and dynamic environments. Unlike static resource-based approaches, DCT explains why firms with similar tangible resources may perform differently based on their capacity to integrate, build, and reconfigure internal and external competencies.

For service-based MSME startups in Nairobi, DCT provides a framework to understand performance differences under conditions of high market volatility, rapid technological change, and evolving customer preferences (Mbugua, 2021). Startups that develop dynamic capabilities can adjust internal processes, reallocate human and financial resources, and adopt innovative practices in response to emerging challenges and opportunities. This flexibility allows firms not only to survive disruptions but also to outperform competitors in financial (profitability, revenue growth) and non-financial (market share, customer satisfaction) performance measures.

DCT also highlights that capability development is a continuous, path-dependent process. Firms must iteratively learn from experience, adapt routines, and realign resources to maintain competitiveness. For MSME startups, leveraging dynamic capabilities involves aligning the 7S elements strategy, structure, systems, staff, skills, style, and shared values in ways that enable rapid sensing, decision-making, and execution. Consequently, DCT complements the McKinsey 7S Model by providing a temporal and adaptive perspective, emphasizing how aligned organizational elements can be continuously reconfigured to sustain superior performance in unpredictable environments (Chen, Jiang, & Liu, 2018; Collis, Anand, & Field, 2021).

4. METHODOLOGY

4.1. Research Design

The study adopted an explanatory cross-sectional research design, which was appropriate for examining causal relationships between strategic planning and organizational performance. This design allowed data on both the independent variable, strategic planning, and the dependent variable, organizational performance, to be collected at a single point in time. By capturing information simultaneously, the approach facilitated the analysis of relationships and the magnitude of effects between variables within the study context. The design was particularly suitable for service-sector MSME startups in Nairobi County, as it enabled the researcher to assess planning practices and performance outcomes across multiple firms efficiently while accommodating time and resource constraints commonly associated with startup research.

4.2. Population and Sample

The target population for the study consisted of founders, owners, and managers of service-based MSME startups operating within Nairobi County. These individuals were considered appropriate

respondents due to their direct involvement in strategic decision-making and oversight of organizational performance. A total of 205 structured questionnaires were distributed across the selected firms. From these, 156 questionnaires were correctly completed and returned, representing a response rate of 76 percent. This response rate was deemed adequate for statistical analysis, including regression techniques. Purposive sampling was employed to ensure that only respondents with sufficient knowledge and experience in strategic planning practices and operational performance participated in the study.

4.3. Data Collection

Primary data were collected through the use of structured questionnaires administered to founders, owners, and managers of service-sector MSME startups. Strategic planning was operationalized using a composite index that captured key dimensions, including environmental scanning, strategy formulation, strategy implementation, and monitoring and evaluation. This approach allowed for a holistic assessment of the extent to which formal planning practices were embedded within the firms. Organizational performance was measured using both financial and non-financial indicators to provide a balanced evaluation of firm outcomes. Financial performance indicators included profitability and revenue growth, while non-financial indicators focused on market share and customer retention. The questionnaire incorporated Likert-scale items to measure perceptions and intensity of practices, multiple-choice questions to capture categorical information, and open-ended questions to allow respondents to provide additional insights, thereby ensuring comprehensive and reliable measurement of the study variables.

4.4. Data Analysis

Data were analyzed using SPSS version 25 to ensure accuracy and robustness of statistical procedures. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize key organizational characteristics and the extent of strategic planning practices among the sampled MSME startups. Pearson correlation analysis was conducted to assess the strength and direction of the relationship between strategic planning and organizational performance, providing initial evidence of association between the study variables. To determine the magnitude and predictive effect of strategic planning on performance, multiple regression analysis was employed. The coefficient of determination (R^2) was used to establish the proportion of variance in organizational performance explained by strategic planning practices. Regression coefficients were examined to determine the direction and strength of the relationship. All statistical tests were evaluated at a 5% level of significance ($p < 0.05$), ensuring that the findings were statistically reliable and suitable for inferential interpretation..

4.5. Ethical Considerations

Ethical protocols included obtaining informed consent, ensuring confidentiality, and reporting data in aggregate. Participation was voluntary, and ethical approval was obtained from a recognized institutional ethics review board.

5. RESULTS

5.1. Descriptive Statistics

The descriptive results show that a majority of the startups (56%) conducted formal strategic planning meetings, indicating a growing recognition of the importance of structured planning processes among service-sector MSMEs. However, a substantial proportion (44%) continued to rely on informal planning approaches, suggesting variations in managerial sophistication and resource availability. The sectoral distribution of the sample reflects the diversity of Nairobi's service economy, with ICT services accounting for the largest share (32%), followed by retail and trade (25%), hospitality (20%), and health services (15%). Other service-based ventures represented 8% of the sample. This diversity enhances the generalizability of the findings across different service-sector contexts.

5.2. Correlation Analysis

Pearson correlation analysis revealed a moderate and statistically significant positive relationship between strategic planning and overall organizational performance ($r = 0.65$, $p < 0.01$). This result indicates that MSME startups that adopt more formal and structured strategic planning practices tend to record superior performance outcomes. Both financial indicators, including profitability and revenue

growth, and non-financial indicators, such as market share expansion and customer retention, were positively associated with strategic planning. The findings suggest that planning supports better resource allocation, clearer strategic direction, and improved managerial decision-making. Consequently, structured strategic processes enhance operational consistency and competitive positioning, enabling service-sector MSME startups to respond more effectively to environmental changes and performance demands within dynamic and resource-constrained business environments common in Nairobi County.

5.3. Regression Analysis

Regression results revealed:

- **$\beta = 0.52$**, $p < 0.01$ for strategic planning → organizational performance
- **$R^2 = 0.43$**, indicating that 43% of the variance in performance is explained by strategic planning practices
- F-statistic = 36.2, $p < 0.01$, confirming model significance

These results demonstrate that strategic planning has a statistically significant and positive effect on organizational performance in service-based MSME startups as indicated Table 1.

Table 1. *Regression Summary: Strategic Planning → Organizational Performance*

Predictor	β	t-value	p-value
Strategic Planning	0.52	6.02	0.001

Source: Authors (2026)

6. DISCUSSION

The results confirm a significant positive effect of strategic planning on organizational performance among service-sector MSME startups in Nairobi County. The β coefficient of 0.52 indicates a strong relationship, suggesting that firms implementing structured planning processes achieve better performance outcomes. The predictive power ($R^2 = 0.43$) implies that strategic planning accounts for nearly half of the variation in performance, highlighting its importance as a managerial capability. Financially, firms with formal planning practices reported higher profitability and revenue growth, consistent with prior studies (Obaid, 2022; Njoroge, 2018). Planning enhances resource allocation efficiency, reduces operational inefficiencies, and improves decision-making, all of which contribute to financial sustainability. Non-financially, strategic planning strengthened market share, customer retention, and operational consistency, corroborating findings from Ghana and India (Owusu & Ansah, 2020; Garg & Rahman, 2017). Startups that engaged in environmental scanning, documented goals, and monitored performance were better able to anticipate market trends, respond to competitor actions, and maintain customer loyalty.

The findings support the McKinsey 7S Model, as organizational performance improves when startups align and harmonize the seven critical elements namely strategy, structure, systems, shared values, skills, style, and staff. Such alignment ensures coordinated action, clarity of roles, and effective deployment of both human and operational resources, enhancing performance outcomes. Dynamic Capabilities Theory (DCT) is also validated: performance depends on the firm's ability to sense opportunities and threats, seize them, and reconfigure internal resources in response to changing market conditions. Service-based MSME startups in Nairobi operate in dynamic urban environments characterized by rapid technological adoption, regulatory shifts, and evolving consumer preferences, making the ability to adapt organizational elements and reconfigure capabilities crucial for sustaining financial and non-financial performance. The moderate-to-strong effect observed suggests that while planning is a key driver of performance, other factors such as access to finance, managerial experience, and regulatory environment may also influence outcomes. Moreover, the study found that limited employee involvement and inconsistent implementation reduced the potential benefits of strategic planning, aligning with prior studies on Kenyan SMEs (Aosa, 2011).

This study provides empirical evidence that formal, well-executed strategic planning enhances both financial and non-financial performance in service-sector MSME startups. Entrepreneurs and policymakers should prioritize capacity building in planning, including training in environmental

scanning, goal-setting, monitoring, and inclusive strategy execution. Future research could investigate longitudinal effects of planning and explore moderating factors such as organizational culture or digital adoption.

7. Conclusion and Implications

This study demonstrates that strategic planning significantly enhances organizational performance among service-sector MSME startups in Nairobi County. Both financial (profitability, revenue growth) and non-financial (market share, customer retention) indicators improved with structured planning practices, and 43% of performance variation was explained by planning.

- **Managerial Implications:** Entrepreneurs should institutionalize formal strategic planning processes, including environmental scanning, goal documentation, implementation frameworks, and monitoring systems. Involving employees in planning increases ownership and execution quality.
- **Policy Implications:** Policymakers can support MSMEs by providing training, advisory services, and incentives for structured planning adoption. This is critical in resource-constrained environments where startups face high failure rates.
- **Research Implications:** Future studies could explore the mediating or moderating roles of organizational culture, technological adoption, or financial access. Longitudinal studies may reveal the sustained impact of strategic planning on startup growth and survival.

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