



Strategic Management Practices and the Profitability of Micro, Small and Medium Enterprises in a Rapidly Urbanising Kenyan Municipality: Evidence from Kitengela, Kajiado County

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ABSTRACT :

Micro, Small and Medium Enterprises (MSMEs) are central to employment and income generation in Kenya, yet many struggle to remain profitable and a large share close within a few years. This study examined how four strategic management practices—strategic leadership, strategic resource allocation, strategic environmental scanning and strategic stakeholder management—relate to the profitability of MSMEs in Kitengela Municipality, Kajiado County. Anchored on the Resource-Based View and Dynamic Capabilities Theory, the study used a descriptive cross-sectional quantitative design. From a target population of 492 registered MSMEs, a proportionately stratified random sample of 221 enterprises was drawn and structured questionnaires were administered to owners and managers; 183 usable questionnaires were returned (response rate 82.81%). Data were analysed with SPSS version 26 using descriptive statistics, Pearson correlation and multiple linear regression. All four practices correlated positively and significantly with profitability ($r = 0.543$ to 0.634 , $p < 0.01$). Jointly, they explained 48.7% of the variation in profitability ($R^2 = 0.487$, $F(4, 178) = 42.2$, $p < 0.001$). Environmental scanning had the largest unique association ($\beta = 0.324$), followed by strategic leadership ($\beta = 0.312$), resource allocation ($\beta = 0.275$) and stakeholder management ($\beta = 0.215$), all significant at $p < 0.001$. The findings suggest that MSME support programmes should treat these practices as a connected set, with particular attention to market information and scanning capability. Because profitability was measured through respondents' perceptions and the design is cross-sectional, the results indicate association rather than causation.

Keywords: strategic management practices; strategic leadership; environmental scanning; stakeholder management; MSMEs; profitability; Kenya

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely described as the backbone of the Kenyan economy. They provide employment for a large share of the workforce, generate household incomes and contribute to national output, and the sector features prominently in the country's Vision 2030 industrialisation agenda. Despite this importance, survival and profitability remain persistent concerns. National tracker surveys of micro and small enterprises have reported that a substantial proportion of surveyed businesses had closed, and entrepreneurs cite limited access to finance, weak markets and inadequate managerial capacity among the main constraints.

One factor repeatedly linked to enterprise success is the way owners and managers set direction, deploy scarce resources, monitor their environment and manage relationships. Kenyan studies have associated strategic management practices with enterprise performance (Nduati & Mucheru, 2019; Cheroni & Njeru, 2024; Sekere, 2023), and international evidence points the same way (Hakim & Sunarto, 2018). However, much of this work treats strategic management as a single broad construct, measures "performance" rather than profitability, or concentrates on large firms and on Nairobi and other established centres. Little is known about which specific practices matter most for the profitability of small enterprises in fast-growing peri-urban commercial centres.

Kitengela Municipality, about 40 kilometres south of Nairobi along the Nairobi–Mombasa highway, is one such centre. It has changed in two decades from a rural settlement into a dense commercial hub of retail, service and light manufacturing enterprises operating under intense competition. Earlier work in Kitengela has examined credit, technology, regulatory and marketing issues and mobile financial services in relation to general business performance or growth. It has not established how particular strategic management practices relate to profitability.

This study addresses that gap. It asks whether, and to what extent, strategic leadership, strategic resource allocation, strategic environmental scanning

and strategic stakeholder management are associated with the profitability of MSMEs in Kitengela Municipality, both individually and jointly. The contribution is threefold: it isolates four specific practices rather than a composite; it uses profitability as the outcome; and it supplies evidence from a peri-urban setting that is under-represented in the Kenyan literature.

2. Theoretical Background and Hypotheses

2.1 Theoretical anchors

The study draws on two complementary perspectives. The Resource-Based View (RBV) holds that firms differ in performance because they control different bundles of resources and capabilities (Penrose, 1959; Wernerfelt, 1984). Barney (1991) argued that resources which are valuable, rare, imperfectly imitable and non-substitutable can underpin sustained advantage. For MSMEs, which are typically resource-constrained, the RBV highlights the importance of deciding where limited financial, human and physical resources are deployed, and of exploiting local market knowledge and customer relationships.

Dynamic Capabilities Theory extends this by focusing on how firms renew and reconfigure resources as conditions change. Teece, Pisano and Shuen (1997) defined dynamic capabilities as the ability to integrate, build and reconfigure internal and external competences in rapidly changing environments, and Eisenhardt and Martin (2000) described them as processes that integrate, reconfigure, gain and release resources to match market change. Together the two perspectives suggest that strategic management practices act as the mechanisms through which small enterprises both deploy existing resources (RBV) and adapt to their environment (dynamic capabilities), with possible consequences for profitability.

2.2 Hypotheses

Strategic leadership. Strategic leadership refers to the capacity of owners and managers to set direction, make timely decisions, promote innovation, manage change and control costs (Boal & Hooijberg, 2000). In MSMEs, where owner-managers make most strategic decisions, leadership quality is likely to be a first-order influence on results. Studies in Kenya and elsewhere link leadership and strategic management practices to stronger enterprise performance. We therefore hypothesise that:

- **H1:** Strategic leadership is positively and significantly associated with the profitability of MSMEs in Kitengela Municipality.

Strategic resource allocation. Strategic resource allocation concerns the deliberate distribution of financial, human and physical resources toward priority activities (Barney, 1991). Empirical work on SMEs reports that investment in people, technology and marketing is associated with better performance; Hakim and Sunarto (2018) report a similar association with profitability in Indonesia.

- **H2:** Strategic resource allocation is positively and significantly associated with the profitability of MSMEs in Kitengela Municipality.

Strategic environmental scanning. Environmental scanning is the systematic collection and analysis of information on markets, competitors, regulation and the wider environment to inform decisions (Aguilar, 1967). It corresponds closely to the “sensing” function in dynamic capabilities theory. Sekere (2023) found that scanning was associated with financial performance in Kenyan manufacturing SMEs, and Hakim and Sunarto (2018) reported that market analysis and competitor intelligence contributed to MSME profitability.

- **H3:** Strategic environmental scanning is positively and significantly associated with the profitability of MSMEs in Kitengela Municipality.

Strategic stakeholder management. Stakeholder management involves identifying the interests of customers, employees, suppliers and others and managing those relationships deliberately (Freeman, 1984). For small enterprises, repeat customers, motivated staff and reliable suppliers can directly affect revenue and cost. Evidence from Nigeria and Kenya links stakeholder-oriented practices to performance (Abdul-Wahab & Ayub, 2017).

- **H4:** Strategic stakeholder management is positively and significantly associated with the profitability of MSMEs in Kitengela Municipality.

3. Methodology

3.1 Design and study area

The study adopted a positivist philosophy and a descriptive cross-sectional quantitative design, collecting data at a single point in time from enterprise owners and managers. The setting was Kitengela Municipality, Kajiado County, Kenya, an area with a high concentration of retail, service and manufacturing and construction enterprises.

3.2 Population and sampling

The target population was 492 registered MSMEs on the municipal business registry as at August 2026, comprising 100 retail, 353 service and 39 manufacturing and construction enterprises. Only enterprises that had operated for at least two years and met the criteria of the Micro and Small Enterprises Act, 2012 were included. Using Yamane's (1967) formula at a 5% margin of error, the required sample was 221 enterprises ($n = 492 / [1 + 492(0.05)^2]$). Proportionate stratified random sampling by sector gave 45 retail, 158 service and 18 manufacturing and construction enterprises.

3.3 Instrument, reliability and data collection

Data were collected with a structured questionnaire adapted from earlier Kenyan studies of strategic management practices in SMEs. After a demographic section, five sections measured strategic leadership, strategic resource allocation, strategic environmental scanning, strategic stakeholder management and profitability, each with agreement statements on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Profitability items covered revenue growth, profit margins, return on investment, market share, expansion and overall financial performance. Content and face validity were established through expert review and a pilot study of 20 MSMEs in Isinya, outside the study area. Internal consistency was assessed with Cronbach's alpha using a threshold of 0.70. Questionnaires were delivered face to face, and respondents gave informed consent.

3.4 Data analysis

Data were cleaned, coded and analysed with SPSS version 26. Descriptive statistics (frequencies, percentages, means and standard deviations) summarised respondent characteristics and practice ratings. Pearson correlation examined bivariate relationships, and multiple linear regression estimated the joint association of the four practices with profitability: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$, where Y is profitability, X_1 strategic leadership, X_2 strategic resource allocation, X_3 strategic environmental scanning and X_4 strategic stakeholder management.

3.5 Ethical considerations

Ethical clearance was obtained from the Ethics Review Committee of Alupe University and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). Participation was voluntary, and confidentiality and anonymity were maintained.

4. Results

4.1 Response rate and respondent profile

Of the 221 questionnaires distributed, 183 were completed and returned, a response rate of 82.81% (retail 82.22%, services 82.91%, manufacturing and construction 83.33%). Table 1 summarises the sample. Services dominated (71.58%), reflecting the structure of the local economy. Owners made up 68.85% of respondents and managers 24.59%, so most respondents were directly involved in strategic decisions. Over half of the enterprises (54.10%) had one to five employees, and 60.11% had operated for six years or more. A further 39.34% of respondents held a certificate or diploma and 26.23% held a degree or higher.

Table 1: Profile of sampled enterprises and respondents (N = 183)

Characteristic	Category	n	%
Business type	Retail	37	20.22
	Services	131	71.58
	Manufacturing and construction	15	8.20
Respondent position	Owner	126	68.85
	Manager	45	24.59
	Supervisor	12	6.56
Number of employees	1–5	99	54.10
	6–10	55	30.05
	11–50	24	13.11

Characteristic	Category	n	%
	Above 50	5	2.73
Years in operation	2 years	16	8.74
	3–5 years	57	31.15
	6–10 years	65	35.52
	Above 10 years	45	24.59

4.2 Ratings of strategic management practices

Respondents rated all four practices highly, with item means between 4.05 and 4.25 on the five-point scale (Table 2). The highest-rated items concerned customer retention ($M = 4.25$), employee contribution to productivity ($M = 4.22$) and responding to PESTEL changes ($M = 4.22$). The lowest-rated items—setting financial targets, evaluating the return on financial investments, identifying new market opportunities and using stakeholder feedback—still averaged above 4.0, but they point to relatively weaker areas of practice.

Table 2: Highest- and lowest-rated items by strategic management practice

Practice	Highest-rated items (mean)	Lowest-rated item (mean)
Strategic leadership	Efficient use of resources (4.18); encouraging innovation (4.15); controlling operating costs (4.12)	Decisions guided by clear financial targets (4.05)
Strategic resource allocation	Employee productivity (4.20); regular resource monitoring (4.18); technology adoption (4.15)	Evaluating returns on financial investments (4.05)
Strategic environmental scanning	Responding to PESTEL changes (4.22); using environmental information in decisions (4.18); competitor benchmarking (4.15)	Identifying new market opportunities (4.05)
Strategic stakeholder management	Customer retention (4.25); employee contribution (4.22); supplier negotiation (4.18)	Using stakeholder feedback (4.10)

4.3 Bivariate relationships

Each practice correlated positively and significantly with profitability (Table 3). Environmental scanning showed the strongest association ($r = 0.634$), followed by strategic leadership ($r = 0.612$), resource allocation ($r = 0.587$) and stakeholder management ($r = 0.543$), all at $p < 0.01$. Taken alone, each practice explained between 29.5% (stakeholder management) and 40.2% (environmental scanning) of the variation in profitability.

Table 3: Correlations and single-predictor regressions with profitability

Practice	r	R ²	F (1, 181)	p
Strategic leadership	0.612	0.375	108.6	< 0.001
Strategic resource allocation	0.587	0.345	95.4	< 0.001
Strategic environmental scanning	0.634	0.402	121.7	< 0.001
Strategic stakeholder management	0.543	0.295	75.8	< 0.001

4.4 Multiple regression

When the four practices were entered together, the model was significant, $F(4, 178) = 42.2$, $p < 0.001$, with $R = 0.698$, $R^2 = 0.487$ and adjusted $R^2 = 0.475$. The four practices therefore jointly accounted for 48.7% of the variation in profitability, leaving 51.3% to other factors and error. As Table 4 shows, every practice retained a significant unique association. Environmental scanning had the largest standardised coefficient ($\beta = 0.324$), followed by strategic leadership ($\beta = 0.312$), strategic resource allocation ($\beta = 0.275$) and strategic stakeholder management ($\beta = 0.215$). The fitted model was: Profitability = $1.245 + 0.298$ (leadership) + 0.256 (resource allocation) + 0.312 (scanning) + 0.198 (stakeholder management). On the basis of these results, the null hypotheses for H1 to H4 were rejected.

Table 4: Multiple regression of profitability on strategic management practices

Predictor	B	SE	β	t	p
(Constant)	1.245	0.298	—	4.178	< 0.001
Strategic leadership	0.298	0.065	0.312	4.585	< 0.001
Strategic resource allocation	0.256	0.062	0.275	4.129	< 0.001
Strategic environmental scanning	0.312	0.068	0.324	4.588	< 0.001
Strategic stakeholder management	0.198	0.061	0.215	3.246	0.001

Dependent variable: profitability (five-point scale). $R^2 = 0.487$; adjusted $R^2 = 0.475$; $F(4, 178) = 42.2$, $p < 0.001$.

5. Discussion

The results show that, in Kitengela, MSMEs whose owners and managers report stronger strategic management practices also report higher profitability, and that this holds for each of the four practices after the others are taken into account. The size of the joint relationship ($R^2 = 0.487$) is substantial for a cross-sectional survey, though more than half of the variation remains unexplained, which is consistent with the wide range of other influences on small-firm profits such as access to finance, competition and regulation.

Environmental scanning had the strongest association, both alone and alongside the other practices. This is consistent with the dynamic capabilities argument that sensing changes in markets and the external environment is the starting point for adaptation (Teece et al., 1997; Eisenhardt & Martin, 2000), and with Kenyan evidence that scanning is associated with financial performance (Sekere, 2023) and Indonesian evidence on market analysis and competitor intelligence (Hakim & Sunarto, 2018). Kitengela's dense and fast-changing market, where enterprises compete directly for the same commuter and residential customers, may make timely market information especially valuable. Respondents' relatively lower rating of "identifying new market opportunities" suggests room for improvement in turning information into action.

Strategic leadership was the second strongest predictor. In owner-managed enterprises the same people set targets, control costs and decide on innovation, so leadership quality and day-to-day decisions are closely linked to results. The finding aligns with studies that associate strategic management practices with improved MSME profitability and performance (Nduati & Mucheru, 2019; Cherono & Njeru, 2024) and with the view of strategic leadership as direction-setting and timely decision-making (Boal & Hooijberg, 2000). The lowest-rated leadership item, guidance by clear financial targets, points to a practical entry point for capacity building.

Strategic resource allocation was also significantly associated with profitability. From an RBV perspective this is intuitive: where resources are scarce, the choices about whom to employ, which technology to adopt and how closely to monitor resource use matter more than they do in better-endowed firms (Barney, 1991). Respondents rated employee productivity, resource monitoring and technology adoption highly, while evaluating returns on financial investments scored lowest, suggesting that investment appraisal is a relative weakness.

Stakeholder management had the smallest, though still significant, unique association. A plausible reading is that its benefits, such as customer loyalty and supplier terms, are partly captured by the other practices, for example through the information that scanning provides. Customer retention received the highest rating of any item ($M = 4.25$), in line with stakeholder-based arguments (Freeman, 1984) and with studies linking stakeholder-oriented practices to performance (Abdul-Wahab & Ayub, 2017).

Taken together, the pattern supports the view that the four practices operate as an integrated set rather than as isolated tools: the practices that scan the environment and set direction appear to matter most, while those that deploy resources and manage relationships complement them.

6. Conclusions, Implications and Limitations

Strategic leadership, strategic resource allocation, strategic environmental scanning and strategic stakeholder management are each positively and significantly associated with the profitability of MSMEs in Kitengela Municipality, and together explain nearly half of the variation in reported profitability. Environmental scanning shows the strongest unique association.

Implications for practice. MSME owners and managers could prioritise building simple scanning routines, such as regular competitor and customer checks, alongside basic financial target-setting and investment appraisal. Business development service providers and the county government could offer training in these areas and establish market-information and technology support facilities. Policy makers could embed strategic management capability

within broader MSME support that also addresses access to finance and business development services. These recommendations follow from the associations observed; the study did not test the effect of any intervention on profits.

Limitations and future research. Profitability was measured through respondents' perceptions on a Likert scale rather than from financial records, and both predictors and outcome were reported by the same respondent, which may inflate associations through common-method bias. The cross-sectional design supports association, not causation, and the study covers one municipality with a sample of 183 enterprises. Future studies should combine perceptual measures with financial statements or tax records, use longitudinal or experimental designs, and compare other fast-growing commercial centres such as Kisumu, Nakuru and Mombasa.

Declarations

Ethics approval: Ethical clearance was granted by the Ethics Review Committee of Alupe University; a research permit was issued by NACOSTI.

Conflict of interest: Funding: Data availability: Acknowledgements.

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