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STRATEGIC PLANNING AND ORGANIZATIONAL ADAPTATION IN SERVICE-SECTOR MSME STARTUPS: EVIDENCE FROM NAIROBI, KENYA

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ABSTRACT

Strategic planning is widely recognized as a critical managerial process that enables organizations to align internal resources with external environmental demands and achieve sustainable growth. While extensive research exists on strategic planning in large firms, limited attention has been given to how service-sector micro, small, and medium enterprise (MSME) startups implement strategic planning, particularly in emerging economies. This study examined strategic planning practices among service-sector MSME startups in Nairobi County, Kenya. Guided by the McKinsey 7S Model and Dynamic Capabilities Theory, the study adopted a descriptive cross-sectional design. Data were collected using structured questionnaires administered to founders, owners, and managers of service-based MSME startups, yielding 156 valid responses, a 76% response rate. Findings reveal that although most startups initially lacked documented strategic plans, a majority later implemented formal planning practices. Key practices included environmental scanning, documentation of vision, mission, and goals, top-management-led strategy formulation, communication of strategy to employees, and periodic monitoring and evaluation. Persistent challenges included limited employee involvement and insufficient resource allocation. The study concludes that service-sector MSME startups increasingly recognize the importance of strategic planning, offering practical insights for entrepreneurs, policymakers, and scholars seeking to strengthen strategic management practices in emerging economies.

KEYWORDS: *Strategic Planning, MSME Startups, Organizational Performance, Service Sector, Nairobi County*

1. INTRODUCTION

The contemporary business environment is characterized by heightened competition, rapid technological change, and increasing uncertainty, compelling organizations to adopt deliberate strategic approaches to ensure survival and growth. Strategic planning has emerged as a critical managerial tool through which organizations define their long-term direction, allocate resources, and align internal capabilities with external opportunities and threats (Mintzberg, 1994; Porter, 1985). Through systematic analysis and structured decision-making, strategic planning enables firms to anticipate environmental changes and respond proactively.

Globally, MSMEs are increasingly recognized as engines of economic growth, innovation, and employment creation. According to the World Bank (2021), MSMEs account for over 90% of businesses and contribute to 50–60% of employment in developing economies. These enterprises, especially startups, face high mortality rates due to limited managerial capacity, financial constraints, and volatile market conditions. Strategic planning provides a structured framework to mitigate these risks by enabling entrepreneurs to identify market opportunities, allocate resources efficiently, and establish performance monitoring mechanisms (Beck & Demirguc-Kunt, 2006).

In developing economies such as Kenya, MSMEs play a central role in economic development by contributing significantly to employment creation, income generation, and innovation. National statistics indicate that MSMEs account for approximately 80% of employment opportunities and contribute about 35% of Kenya's gross domestic product. Within this segment, service-sector MSME startups have become increasingly important due to their flexibility, customer proximity, and ability to address unmet market needs in urban centers such as Nairobi (Aseka, 2014; Muraguri, 2010). Sectors such as hospitality, retail, ICT services, and health-related enterprises are particularly dynamic and responsive to emerging consumer demands.

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Despite their economic significance, service-sector MSME startups encounter challenges that constrain strategic effectiveness. Limited managerial experience, inadequate financial resources, and exposure to volatile market conditions hinder the implementation of formal strategic planning processes (Kagika, 2016). Empirical evidence further suggests that while strategic planning enhances firm performance and sustainability, many MSMEs operate informally, relying on ad hoc decision-making rather than documented strategic plans (Aosa, 2011).

Previous studies on strategic planning have predominantly focused on large firms or established SMEs, with relatively little emphasis on startups, particularly within the service sector. Existing literature also reveals contextual gaps, as most empirical studies originate from developed economies, while evidence from emerging markets remains limited (Obaid, 2022). In Kenya, studies have examined strategic planning in manufacturing firms, public institutions, and selected SME clusters, yet few have specifically explored how service-sector MSME startups engage in strategic planning practices, especially during their formative years.

This study addresses this gap by examining the nature and extent of strategic planning practices among service-sector MSME startups in Nairobi County, Kenya. Specifically, the study investigates the formality of strategic planning, key planning practices across different stages of the strategic management process, and the organizational characteristics associated with these practices. By focusing on startups rather than mature firms, the study contributes to a nuanced understanding of strategic management within early-stage enterprises in emerging economies. The study also extends existing literature by integrating the McKinsey 7S Model and Dynamic Capabilities Theory, providing a theoretical lens through which startup strategic practices can be assessed.

2. LITERATURE REVIEW

2.1 Strategic Planning

Strategic planning is widely recognized as a systematic, continuous, and deliberate managerial process through which organizations define their long-term objectives, assess internal and external environments, formulate strategies, and allocate resources to achieve desired outcomes (Kagika, 2016). It is not merely a one-time exercise but an ongoing cycle that guides organizations in navigating complex and dynamic environments. According to Mintzberg (1994), strategy can be understood through five interrelated dimensions: plan, pattern, position, ploy, and perspective. This conceptualization emphasizes that effective strategic planning integrates both deliberate and emergent elements, allowing organizations to respond to unforeseen challenges while maintaining a coherent long-term vision.

Practically, strategic planning involves several interdependent stages, including environmental scanning, strategy formulation, implementation, and monitoring and evaluation. Environmental scanning enables firms to identify opportunities and threats in the external environment and to assess their internal capabilities, resources, and constraints (Mwangi, 2024). Strategy formulation translates insights from analysis into actionable plans, while implementation ensures that these strategies are executed through appropriate resource allocation, organizational structures, and operational processes. Monitoring and evaluation provide feedback mechanisms to assess progress, inform necessary adjustments, and promote organizational learning.

Empirical evidence suggests that strategic planning enhances organizational coherence, improves decision-making, and strengthens adaptability in dynamic contexts (Anyieni, 2013). However, the extent and formality of strategic planning vary considerably across organizations depending on size, sector, and managerial competence (Mwangi, 2024). In particular, micro, small, and medium enterprises (MSMEs), especially startups, often rely on intuitive, informal, and ad hoc planning processes due to resource constraints, limited expertise, and high levels of uncertainty, which can hinder consistent strategy execution and long-term sustainability.

2.2 Strategic Planning in MSMEs

Research on strategic planning in MSMEs presents mixed findings. While some studies suggest that formal planning is less prevalent among small firms, others indicate that MSMEs increasingly adopt structured planning practices as they grow and face competitive pressures (Langat, 2015). In the Kenyan context, studies have shown that MSMEs engaging in strategic planning exhibit improved organizational alignment and operational focus, although implementation challenges persist (Njoroge, 2018).

Service-sector MSMEs present unique strategic planning dynamics due to their reliance on human capital, customer relationships, and service quality. These characteristics necessitate continuous environmental scanning and adaptive

planning to respond to changing customer preferences and technological advancements (Riiny, 2017). Unlike manufacturing firms, service startups must account for intangible resources such as reputation, knowledge, and customer trust, which require ongoing monitoring and strategy refinement (Adeoye, 2021). Nonetheless, empirical evidence on strategic planning practices among service-sector MSME startups remains limited.

Global studies indicate that startups engaging in early-stage strategic planning exhibit higher survival rates and profitability. For example, research in India and Brazil demonstrates that formal planning enhances resource mobilization, clarifies operational priorities, and reduces the risk of failure (Garg & Rahman, 2017; de Azevedo et al., 2019). In Africa, similar findings have been reported in Ghana and Nigeria, where service-sector startups with documented plans perform better in growth and financial stability compared to those relying on informal decision-making (Owusu & Ansah, 2020).

2.3 Theoretical Framework

This study is grounded in two complementary theoretical perspectives: the McKinsey 7S Model and Dynamic Capabilities Theory. The McKinsey 7S Model emphasizes that organizational effectiveness is achieved when seven key elements namely strategy, structure, systems, shared values, style, staff, and skills are aligned and mutually reinforcing (Channon & Caldart, 2015). In the context of startups, this alignment is particularly critical, as it ensures that strategic goals are not merely aspirational statements but are embedded within the organization's culture, operational systems, and human capital. A misalignment among these elements can hinder the implementation of strategies, limit organizational learning, and reduce overall performance, making the 7S framework a valuable lens for examining how MSME startups structure their strategic planning processes.

Dynamic Capabilities Theory, as articulated by Teece, Pisano, and Shuen (1997), complements the 7S Model by focusing on an organization's capacity to sense opportunities and threats, seize strategic opportunities, and reconfigure resources in response to environmental changes. This perspective is especially relevant for service-sector MSME startups, which often operate in highly volatile, competitive, and uncertain markets. By cultivating dynamic capabilities, startups can adapt their strategies proactively, adjust resource allocation efficiently, and respond to shifts in customer demand, technological advancements, and regulatory environments.

Integrating these theories provides a comprehensive framework for understanding strategic planning in startups. While the 7S Model emphasizes internal alignment and coherence, Dynamic Capabilities Theory highlights the external responsiveness and adaptive capacity of the organization. Strategic planning, therefore, serves as a bridge between these two dimensions, guiding startups in aligning internal resources while simultaneously building the flexibility needed to respond to market dynamics.

This dual-theoretical foundation enables a nuanced analysis of how service-sector MSME startups formulate, implement, and monitor strategic initiatives under conditions of resource constraints and environmental uncertainty. It underscores the importance of internal cohesion, effective leadership, and systematic planning while recognizing that strategic success also depends on the firm's ability to learn, adapt, and innovate continuously in response to emerging challenges and opportunities.

3. METHODOLOGY

3.1 Research Design

The study adopted a descriptive cross-sectional research design, suitable for examining strategic planning practices at a single point in time. This design enabled the collection of quantitative data from a diverse group of service-sector MSME startups in Nairobi County. The cross-sectional approach provides a snapshot of strategic planning behaviors and organizational characteristics, facilitating comparisons across firms of varying sizes, sectors, and ages.

3.2 Population and Sample

The target population comprised service-based MSME startups operating in Nairobi County. Respondents included founders, owners, and managers, as they were deemed most knowledgeable about strategic planning practices within their firms. A total of 205 questionnaires were distributed, of which 156 were fully completed, yielding a 76% response rate. The sample size was considered adequate for descriptive statistical analysis and provided a representative overview of the sector.

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3.3 Data Collection and Analysis

Primary data were collected using structured questionnaires covering organizational characteristics and strategic planning practices. Questions were structured around key stages of strategic planning: environmental scanning, strategy formulation, implementation, and monitoring. Likert scales, multiple-choice, and open-ended items were included to capture both quantitative and qualitative insights.

Data were analyzed using descriptive statistics, including frequencies, percentages, and cross-tabulations, to summarize strategic planning practices. Analysis was conducted using SPSS version 25, providing a robust and transparent method for interpreting the data. Findings were triangulated with existing literature to contextualize results within the broader strategic management discourse.

3.4 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.

4. FINDINGS

4.1 Organizational Characteristics

The study's findings revealed that a majority of the respondents were male, representing 55% of the sample, and were primarily aged between 25 and 34 years. This indicates that service-sector MSME startups in Nairobi are largely led by a young, dynamic, and entrepreneurial demographic. The age profile suggests that startup leaders are often in the early stages of their professional careers, bringing energy, innovation, and a willingness to experiment with new business models. Additionally, the majority of respondents held at least a bachelor's degree, highlighting a relatively high level of formal education and professional preparedness among founders and managers. Such educational attainment may contribute to more structured decision-making, awareness of strategic planning practices, and capacity to manage organizational growth effectively.

Regarding firm characteristics, most startups had been in operation for between five and seven years. This duration reflects businesses that have moved beyond the initial survival stage and are transitioning into the growth phase, where formal strategic planning becomes increasingly relevant. Ownership structures were dominated by sole proprietorships, accounting for 62% of the sample, followed by partnerships at 28%, and limited companies at 10%. This pattern underscores the predominance of informal or semi-formal business arrangements among early-stage startups. In terms of sectoral distribution, the firms were concentrated in ICT services (32%), retail and trade (25%), hospitality (20%), health services (15%), and other service-based ventures (8%), reflecting the diversity of entrepreneurial activity within Nairobi's service sector.

4.2 Formality of Strategic Planning

More than half of the firms (56%) reported conducting formal strategic planning meetings, while 44% relied on informal planning processes. Although a majority of firms did not have documented strategic plans at inception, many later adopted formal planning structures. Notably, the transition from informal to formal planning was often driven by the need for structured growth, access to financing, or regulatory compliance.

4.3 Strategic Planning Practices

Environmental scanning emerged as a widely adopted practice, with 85.9% of firms reporting periodic analysis of internal and external environments. Startups actively monitored competitor activities, customer preferences, and regulatory changes.

Strategy formulation was largely concentrated at the top management level, with 72% of decisions made by founders or senior managers. While strategies were generally communicated to employees (68%), limited resource allocation (41%) and inconsistent reward systems (38%) were identified as persistent challenges.

Monitoring and evaluation practices were present in many firms, though the communication of evaluation outcomes varied. Only 47% of startups had formalized monitoring frameworks, suggesting a need for greater integration of performance management systems.

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5. DISCUSSION

The study's findings revealed that a significant majority of the respondents were male, constituting 55% of the sample, while the remaining 45% were female. This gender distribution suggests that leadership within service-sector MSME startups in Nairobi is predominantly male, reflecting broader trends in entrepreneurship in Kenya and other emerging economies, where men are more likely to engage in business ownership due to socio-cultural, financial, and structural factors. However, the presence of a substantial proportion of female entrepreneurs indicates growing gender inclusivity, as more women increasingly participate in service-sector ventures, contributing to economic growth and innovation.

Age distribution further highlighted that most startup leaders fell within the 25 to 34-year age bracket. This profile indicates that service-sector MSME startups are largely driven by a young, dynamic, and entrepreneurial demographic. Leaders in this age group are often at the early stages of their professional careers, bringing energy, creativity, and a willingness to experiment with innovative business models. Their relative youth also suggests adaptability and openness to new technologies, digital tools, and customer-centric approaches, which are critical for startups operating in competitive and rapidly evolving service environments. Moreover, this demographic is likely to leverage social networks, online platforms, and informal channels to access market opportunities, resources, and collaborations, compensating for the challenges associated with limited capital or formal institutional support.

In terms of educational background, the findings revealed that the majority of respondents held at least a bachelor's degree. This reflects a relatively high level of formal education and professional preparedness among startup founders and managers. Educational attainment enhances managerial competence, strategic thinking, and problem-solving abilities, which are essential for navigating the complex and uncertain environments that characterize early-stage enterprises. It also correlates with awareness and adoption of strategic management practices, enabling entrepreneurs to systematically plan, monitor, and adjust their organizational strategies for improved performance. Well-educated leaders are better positioned to analyze market trends, anticipate challenges, and implement innovative solutions, thereby enhancing the resilience and competitiveness of their startups.

Regarding firm characteristics, most of the startups had been in operation for between five and seven years. This period suggests that the sample included businesses that had successfully moved beyond the initial survival stage and were transitioning into the growth phase. During this phase, the need for formal strategic planning becomes more pronounced, as firms must balance expansion with resource optimization, market responsiveness, and operational efficiency. Ownership structures were predominantly sole proprietorships (62%), followed by partnerships (28%) and limited companies (10%). The predominance of sole proprietorships indicates the informal nature of early-stage ventures, where founders retain full control over decision-making. Sectoral distribution revealed that firms were mainly concentrated in ICT services (32%), retail and trade (25%), hospitality (20%), health services (15%), and other service-based ventures (8%). This distribution reflects the diverse entrepreneurial activity in Nairobi's service sector, driven by urban demand, technological adoption, and opportunities for innovative service delivery. The sectoral diversity also suggests that strategic planning practices may vary based on industry-specific challenges, customer expectations, and operational requirements.

These organizational and demographic characteristics provide a nuanced understanding of the profile of service-sector MSME startups in Nairobi. The predominance of young, educated, and male entrepreneurs, combined with varied ownership structures and sectoral engagement, underscores the critical need for structured strategic planning to support growth, sustainability, and competitive advantage in this dynamic context.

6. CONCLUSION

This study examined strategic planning practices among service-sector MSME startups in Nairobi County, Kenya. The findings indicate that while many startups begin operations without formal strategic plans, most eventually adopt structured planning practices. Environmental scanning, documentation of strategic direction, and monitoring mechanisms are increasingly common, although challenges related to inclusivity and resource support persist.

The study contributes to strategic management literature by providing empirical evidence from an emerging economy context. Practically, the findings inform entrepreneurs, investors, and policymakers about the critical role of strategic planning in startup growth and sustainability. Policymakers can develop training programs to enhance planning

capabilities, while entrepreneurs can benefit from structured frameworks that integrate strategy with resource allocation and staff engagement.

The study also highlights avenues for future research, including longitudinal studies tracking the evolution of planning practices over time and comparative studies across sectors and regions. By integrating theoretical perspectives with empirical insights, the study provides a robust foundation for understanding strategic planning in service-sector MSME startups in resource-constrained environments.

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