

# **Moderating Influences on the Strategy Making and Firm Performance Relationship: A Study of Small and Medium Enterprises**

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**ABSTRACT.** Over the years, SMEs have gained wide reorganization as a major source of employment, income generation, poverty alleviation and regional development in Sri Lanka. Strategy making in business firms has also been identified as a vital process of coping with rapid changes and stiff competition in the today's business environment. This study aims to examine the nature of strategy making and its relationship with firm performance, and moderating influences on the underline relationship of small and medium enterprises. A sample of 150 small and medium enterprises pertaining to six manufacturing sectors in North Central Province in Sri Lanka provided the data for an empirical test of these issues. Data, collected through the standard questionnaire from owner managers of the selected firms, were analyzed using the descriptive statistical techniques as well as the inferential statistical techniques of correlation, hierarchical regression, ANOVA and chi-square test. The analysis was conducted using SPSS 16 version.

The study found that significant and positive influence of strategy making on the firm performance. Results of hierarchical regression show that the relationship between strategy making and performance is moderated by the internal factors such as owner's experience and education level and as well as the external environment conditions. The findings further indicate that the firms whose managers promote strategy making maintain better performance levels than those who do not. Accordingly, strategic making is identified as a mechanism to overcome constraints imposed by limited resources in small firms to take advantage of new opportunities arising from challenging environmental conditions.

**Key words:** Small and Medium Enterprises, Strategy Making, Firm Performance, Environment Uncertainty, Owner Manager.

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