

The Antecedents and Consequences of Strategic Planning in Small to Medium Sized Firms: A Conceptual Framework

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Abstract Effective strategic planning could be the key to SME success in the country. Hence, it is also crucial to review factors influencing or motivating the extent of strategic planning practices within the SME sector. This study attempts to develop a conceptual framework in relation to the antecedents and consequence of strategic planning in the context of SMEs in Malaysia. The purpose of the conceptual model is to analyze important antecedents and consequence of the strategic planning process of SMEs. In particular the conceptual model championed new important perspectives such as looking at important antecedents to strategic planning in the SME perspective such as ownership and environmental factors. The paper also advocates a review on how the level of strategic planning could potentially contributes to the business growth development of the SME sector. Based on the sample of 260 SMEs, the study have found that a significant positive relationship exist between the degree of strategic planning and the level of business growth experienced by SMEs in Malaysia. The study also provides evidence that the two major antecedents understudy namely:- ownership motivations and environmental uncertainty have a significant influence on the level of strategic planning effort exhibited by SME firms.

Keywords Strategic Planning, Ownership Motivations, Environmental Uncertainty, Business Growth

1. Introduction

On a global scale, small and medium enterprises are gaining tremendous attention given the sector's rising prominence and potential. According to Culkin & Smith (2000), the SMEs represent the largest business sector in every major economy. Given its importance there is no doubt why governments around the world have emphasized SME growth as part of their national development agenda (Abdullah & Bakar, 2000).

Aside from their impressive numbers, the SME sector represents important strategic economic drivers of growth and prosperity. According to Peacock (2004), the SME sector accounts for a great majority of jobs in the Organization for Economic Co-operation and Development (OECD) countries since the 1970s. The study also shows that their total contributions to the Gross Domestic Product (GDPs) (for instance, 51% in the United Kingdom, Malaysia (33%) and the United States and 57% in Japan and Canada) represent an increasingly amazing scale.

Despite the strategic importance of SMEs, the sector is still characterized by high failure rate (Watson, 2003;

Ahmad & Seet, 2009). As part of the strategy to enhance the sector, more effort and resources need to be diverted to comprehend why some SMEs perform better than others. Many studies have pointed to the fact that the adoption of strategic planning could be contributing factor to SMEs' continued performance in business growth (Braker & Pearson (1988); Pearce, Robin & Robinson, (1987); Lyles, Baird, Orris & Kuratko (1993).

In the process of comprehending the strategic practices of SMEs, it is entirely justifiable to first analyze the major antecedents to strategic planning. Much research insights could be garnered by comprehending the conditions or drivers that can give rise to an increase level of strategic planning among SMEs. It can be observed that these researches focuses primarily on the situational factors of the firm itself. Over focusing on the firm level may exclude an important valid consideration of the single most important person dictating strategy itself that is the owner-managers of the SMEs. It is an entirely valid proposition that in order to better comprehend the strategic practices of SMEs; studies should be undertaken in examining the personal characteristics of the owner manager of these establishments such as owner's motivations or visions for the establishments. Wang, Walker & Redmond (2006) are the pioneers who argue that business ownership motivations represent a strong factor that explains why a majority of small firms do not plan strategically. The main line of argument is that many owner

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managers have limited interest in maximizing growth and performance (Wang et al., 2006). As a result, these group of owner managers are more concern with pursuing personal goals and therefore do not see it important to be engaged in long term planning (Wang et al., 2007). The success of any business very much depends on how successful it is in meeting the demands of its business environment (Robbins & Coulter, 2013; Roberts & MacLennan, 2003; Scotts, 2003). Thus the nature or characteristics of the business environment could very well have a very profound impact on the manner by which SMEs are managed. In particular, environmental uncertainty could be a major factor affecting the strategic practices of firms. SMEs are inherently more risky than large firms not so much due to their structural differences but mainly caused by the higher riskiness imposed on them by their business environment (Storey & Cressey, 1996). Thus, it is entirely warranted for more studies to be undertaken in examining how this higher business environmental uncertainty experienced by SMEs in Malaysia could impact the level or degree of strategic planning in this sector. Thus, the aim of this conceptual paper is propose a conceptual model to examine,

- i) the impact of environmental uncertainty and ownership interest on strategic planning as major antecedents and then
- ii) to review the influences of strategic planning on the business growth at the consequence level.

2. Literature Review

2.1. Strategic Planning and Business Growth

The issue on whether strategic planning leads to improve business growth has preoccupied the interest of many researchers in the past two decades. Assessments on the link between strategic planning and performance tend to vary depending largely on the emphasis of the research. Some studies based their assessments on the use and non-use of strategic planning, while others are more concerned with the formality of the planning process. In the context of the usage of strategic planning, some studies strongly advocated that the inclusion of strategic planning would lead to improved business growth, while emphasizing that its absence would lead to suboptimal performance (Robinson et al., 1984; Bracker & Pearson, 1986; Olson & Bokor, 1985).

Various studies have suggested a positive yet inconclusive relationship between formal strategic planning and organizational performance. These studies generally claimed that strategic planners outperform non planners and that formal plans are superior to informal plans (Rhyne, 1986; Pearce, Robin & Robinson, 1987). These early studies however are done in the context of large firms, and hence questions are raised on the applicability of these findings in the context of small firms.

The remaining review in this section specifically looks at the research done on the relationship between long range formal strategic planning and performance in the context of

small and medium sized enterprises (SMEs).

Robinson & Pearce have authored several studies of strategic planning and business growth in the context of small firms and the findings of these studies are at times contradicting. Robinson & Pearce (1988) in their study of banks have found little significant difference in the performance between formal and non-formal business planners and conclude that planning formality is found to be irrelevant for small firm performance. They argued that small banks tend to be more effective through the application of informal planning and decision making process, though the generalizability of these findings to other industries are questionable since they may be affected by industry dynamics. In a later study, Robinson, et al. (1984) have found that the extent of strategic planning have a positive effect on small firm's business growth regardless of the stage of their development (start up, early growth, or later growth). Robinson & Pearce (1988) conducted a more detailed study which specifically looks at the planning content of the strategies of small firms using an inter-industry sample of small manufacturers and found that the level of sophistication of planning significantly moderated the strategic detail – business growth relationship. This finding seems to contradict the earlier study done in 1983.

Bracker & Pearson (1988) undertook a study involving a comparison between structure and informal planners in this study indicates that those firms with more formal planning tend to achieve better business growth (Braker, et al., 1988). Yet some studies found that strategic planning have little impact on business growth performance of SMEs (Schwonk & Schrader, 1993; Ackelsberg & Arlow, 1995; McKiernan & Morris 1994; Lyles, Baird, Orris & Kuratko, 1993).

Thus, in summary the earlier studies and literature established during the 1990s and 1980s reviewed provided conflicting and inconclusive evidence relating to the importance of strategic planning in increasing financial performance of small firms.

In the recent decade of the 21st century research on SME business growth and strategy have attracted much attention from researchers and academics alike on a global scale due to the increasing prominence the sector have shown in both the global and national economies. Increasingly, many of these more recent studies have provide considerable support on the relevance of strategic planning and its benefits to SME firm's performance in terms of business growth (Upton, Deal & Felan, 2001; Stewart 2003).

Specifically, Upton, et al., (2001) conducted a survey of the strategic and business planning practices of fast growth family firms. A total of 65 family firms were employed in this survey. The average family based firm used in the sample was having a workforce of 100 staff, have both internal family members and external parties in the board, have intention to pass over the business to the next generation and is experiencing growth rate faster than Fortune 500 companies. The results of this study shows clearly that growth oriented firms actively adopt formalized long range planning, as a majority of the firms under

research reportedly explicitly express their vision and plans to achieve it in written form and that they prepare formal business plan with a three year or longer time horizon (Upton, et al., 2001). Plans are also adequately detailed in order to link them to performance and used for adjustment of management compensation whenever necessary Upton, et al., 2001). The findings also show that small firm's owners do share information on strategic goals and planned performance with other members of the firm (Upton, et al., 2001). Such findings run counter to previous research that family firms do not engage in strategic planning and usually exclude external parties in decision making. It seems therefore to suggest a link between growth rate and adoption of strategic long term planning. Stewart (2003) conducted an empirical investigation investigating the possible linkage between strategic planning and business growth of small businesses. The study based on 121 small businesses situated in Georgia has discovered that there is a statistically significant positive relationship between strategic planning effort and growth for these small businesses surveyed.

Dibrell, Craig & Newbaum (2014) have conducted a very recent study on a multi-industry sample of SMEs and have interestingly discover that there is a strong positive relationship between strategic planning processes with innovativeness and organizational flexibility. This in turn moderates the positive link between strategic management and firm business performance. Using a sample of 20 case studies on SMEs operating in declining markets, Bamiatzi & Kirchmaier (2014) have discover that even in adverse environmental conditions, firms with the multiple approach toward strategic planning is able to achieve good growth. Thus we could see that as time progresses existing literature reviewed tend to provide greater support to the notion that strategic planning do indeed lead to or at least is related to improved financial performance of SMEs. This is particularly true after examining the selection of studies done in recent years.

2.2. Uncertainty of Environment and Adoption of Strategic Planning

Matthews (1995) claimed that previous research on the impact of the environment on planning and performance have been largely developed and studied for large firms than for small firms. Shrader et al. (1989) also suggested that there are still very limited studies being done in examining the relationship between environmental uncertainties and planning of small firms. Thus, while commendable effort has been expended in analyzing and study environment uncertainty and large firms, there has been comparatively less effort until recently in examining the impact of environment uncertainty in small and medium enterprises (Aram & Cowan, 1990; Foster, 1993; Smith, 1998).

In one of the earlier studies, Miller & Friesen (1983) discover that aspects of environment uncertainty such as dynamism, hostility and heterogeneity tend to determine the amount of strategic analysis and change management

strategy in successful firms.

Swamidass & Newell (1987) conducted a study on the impact of environmental uncertainty on manufacturing strategy. The study based on 35 manufacturers discover that environmental uncertainty does indeed affect manufacturing strategy elements like manufacturing flexibility, strategic decision making etc. which in turn affects corporate performance. Sharma & Vredenburg (1998) attempted a study to examine the influence of business and ecological environment pressures on the choice of competitive strategy and competitive advantage. Drawing data from Canadian Oil and Gas industry and extensive data from 110 companies, the study discover that environmental pressures necessitate a need for proactive strategies which in turn lead to the development of key competences for the companies in this sector.

2.3. Ownership Motivation and Adoption of Strategic Planning

SMEs operators often do not actively engage in strategic planning due to the many constraints such as a lack of time, expertise, resources and the eagerness to centralize decision making (Robinson et al., 1984; Mulford et al. 1989; Crusoe, 2000; Shrader et al., 1989; Jones, 1982). While these prior studies have provided us with valid reasons for explaining why strategic planning is not prevalent within this sector, it can be observed that these research focuses primarily on the situational factors of the firm itself. Over focusing on the firm may exclude an important valid consideration of the single most important person dictating strategy itself that is the owner-managers of the SMEs. It is an entirely valid proposition that in order to better comprehend why SMEs do not plan, more studies should be undertaken in examining the personal characteristics of the owner manager of these establishments such as leadership styles and owner's motivations. Wang, Walker & Redmond (2006) are the pioneers who argue that business ownership motivations represent a strong factor that explains why a majority of small firms do not plan strategically. Ownership motivation in the context of SMEs is often categorized into pull or push factors as described by established literature (Buttner & moore, 1997; Brodie & Stanworth 1998; Cooper & Dunkleberg 1987; Gray, 1994; Singh & Denoble, 2003). Pull motivation factor are concern mainly with the operator's internal desire to initiate a business venture and is more concerned with achieving control by becoming an entrepreneur or being self-employed. The main drivers under this category are often link to the need for greater autonomy and the ability to use one's ability or talent exclusively for one's means (Burke, FitzRoy & Nolan; Singh & Denoble & Wang et al., 2007). Push motivation on the other hand are usually being referred to as negative drivers covering factors like job frustration, dissatisfied compensation, lack of advancement, retrenchment, etc. (Buttner & Moore, 1997, Currant & Blackburn, 2001; Wang et al., 2007).

SME's operators ownership motivations is commonly

characterized by a mixture of both pull and push factors and is most effectively seen as a continuum (Hughes, 2003; Stanworth and Stanworth, 1995). The combination of both pull and push factors that drive specific ownership motivation is by huge extent determined by owner's expectation of positive changes in personal situation like greater control, flexible work schedule, freedom, etc. Thus, for many SME operators affective windfalls, psychic rewards or psychic income (Owenm Carsky & Dolan, 1992; Wheelock & Baine, 1998) are often viewed to be more important drivers than financial gains in setting up new ventures. Thus, literature seems to suggest that ownership motivation for SME operators may not entirely follow the logic of pure economic rationality or maximum profitability. In summary, while financial prospects is deemed to be always deemed to be important to ensure that businesses will survive, for many SME operators affective benefits may drive them to ignore or limit profit or growth potential. Therefore, from this theoretical basis, Wang, Walker and Redmond proposed a model if ownership motivation is driven primarily by economic rational or financial profitability then the tendency of SME operators to undertake strategic planning would be high. In contrast, if ownership motivation involves mainly on the attainment of non-financial or affective reasons, then the tendency for engagement in strategic planning would be relatively low. The study which is based on data collected from a sample 486 small firms in Australia identified four major groups of operators defined by their specific ownership motivations. The results indicate that operators motivated by financial prospects and personal achievement report the highest extent of strategic planning. The results indicate that SME operators driven by financial motivations would have greater incentive to strategize their business than those with non-financial objectives. On a similar vein, owners driven by personal development also tend to strategize since their satisfaction correlates with the growth and success of the business and hence the greater propensity and need to plan strategically.

3. Conceptual Model

The constructs used in the proposed conceptual model are essentially based on the work of several established literature on the area of strategic planning, ownership motivation and environmental uncertainty. The degree of strategic planning construct is based on the model developed by Richardson (1986) which provides a comprehensive synthesis of the different aspects of the strategic management process. Many studies have identified a possible link between environmental uncertainty and aspects of strategic management (Mulford, Shrader & Hansen, 1988; Duncan, 1972; Porter & Maanen, 1970). The relationship between ownership motivation and strategic planning adoption is based on the work of Wang et al. (2007). Their work

provided crucial insights on the influences of ownership motivation on strategic practices of SMEs. Building on the work of established literature (Buttner & Moore, 1997; Brodie & Stanworth 1998; Cooper & Dunkleberg 1987 & Gray, 1994; Singh & Denoble, 2003), Wang et al. (2007) seek to examine how ownership motivation as defined by pull and push factors could have a bearing on strategic planning practices of SMEs. Finally, the relationship between strategic planning and performance are essentially based on the findings of established works in this area most notably those of Robinson et al. (1984), Sexton & Van Auken (1982), Rhyne, 1986, Pearce et al., 1987, Mulford et al., etc.

Based upon pertinent literature and the conceptual model above the following propositions are developed.

Established studies (Miller & Cardinal, 1994; Mulford, et al., 1990; Schrader et al., 1989, Johnston & Carson, 1998) have produce support that environmental uncertainty do have some influence on the many aspects of strategic planning. Therefore the following research proposition is offered:

H1: The higher the level of uncertainty as perceived by managers of Malaysian SMEs, the greater the degree of strategic planning.

Ownership motivations as defined by literature (Buttner & Moore, 1997; Brodie & Stanworth 1998; Cooper & Dunkleberg 1987 & Gray, 1994; Singh & Denoble, 2003) could be categorized into pull and push factors. Prior research have shown support that ownership motivation could lead to some influence on the adoption of strategic planning (Wang et al, 2007), thus the following proposition is developed:

H2: Ownership motivation could affect the degree of strategic planning of SMEs.

H2A: SME Owners motivated by financial goals tend to undertake greater degree of strategic planning.

H2BSME Owners motivated by personal development goals tend to undertake greater degree of strategic planning.

H2C: SME Owners motivated by push motivation goals tend to undertake lesser degree of strategic planning.

H2D: SME Owners motivated by flexible lifestyle goals tend to lesser greater degree of strategic planning.

There are substantial evidence from established studies justifying a positive relationship between strategic planning and financial performance (Robinson et al., 1984; Bracker & Pearson, 1986; Olson & Bokor, 1985). Therefore the following hypothesis is suggested to test the relative impact of the degree of strategic planning on business growth.

H3: The higher the degree of strategic planning employed, the greater the level of business growth experienced by Malaysian SMEs.

H3A: The higher the degree of strategic planning employed, the greater the level of sales and revenue growth relative to competitors.

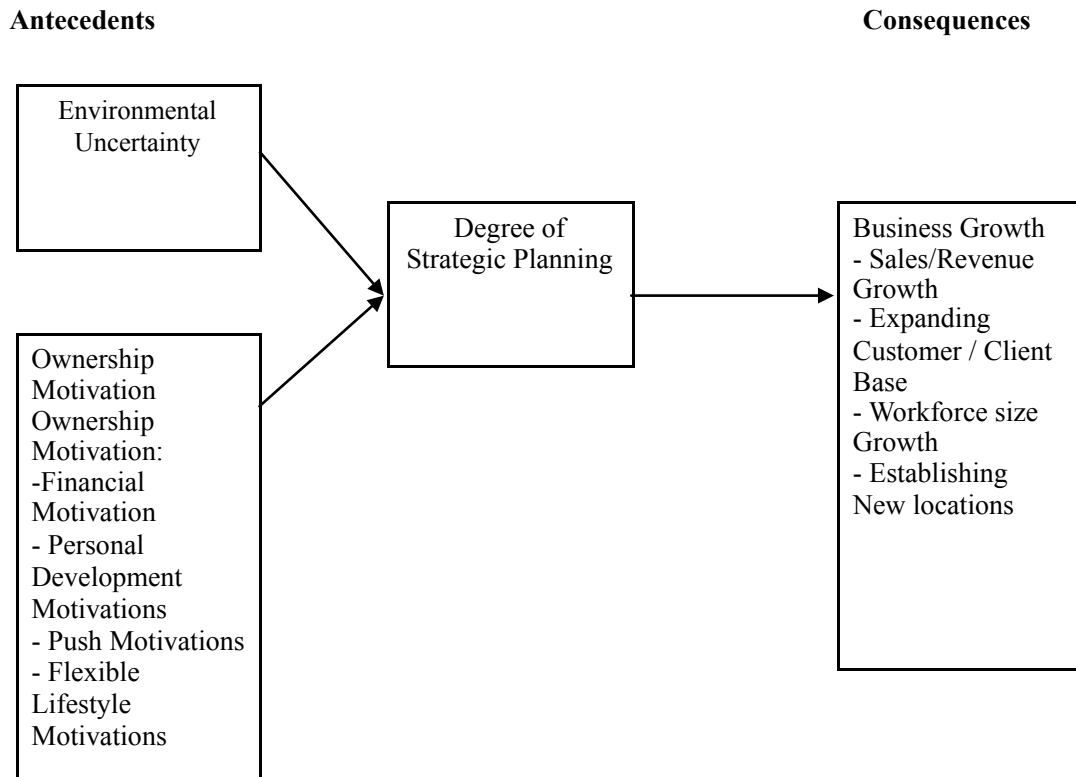


Figure 1. Conceptual Model of Planning Strategy and Business Growth (SME sector in Malaysia)

H3B: The higher the degree of strategic planning employed, the greater the expansion of new customer / client base relative to competitors.

H3C: The higher the degree of strategic planning employed, the greater the growth in workforce size relative to competitors.

H3D: The higher the degree of strategic planning employed, the greater the number of established new locations / sites relative to competitors.

For the purpose of statistical inference, Multiple Regression Analysis would be employed in to test hypotheses 1, 2, and 3. H1 examines the relationship between environmental uncertainties as an independent variable with degree of strategic planning as a dependent variable. While H2 studies the impact of ownership motivations on the degree of strategic planning. Finally, H3 examines the influence of the degree of strategic planning on business growth of SMEs.

4. Research Methodology

The survey method was selected as the main research approach for this study. The main characteristics of this survey are:

- The adoption of established research instruments well suited to the constructs and variables featured in the conceptual framework.
- Instruments will be subjected to test of reliability as well as test of validity (which include construct validity and content validity). These efforts are to ensure that subsequent analysis of data collected would help to meet the stated research objectives and answer the research questions.
- A full extensive survey in Northern Malaysia on a sample of 260 owner / managers of SMEs to gather primary data for in-depth statistical analysis.

5. Findings

The study has provided an in-depth look at the analyses that had been conducted on the data collected on 260 Malaysian SMEs with the goal of meeting the study's research objectives and testing the hypotheses developed from the conceptual model. Multiple regressions have been undertaken in testing the relationships between the antecedents as well as the consequences of the degree in strategic planning of SMEs surveyed. Outputs of the analyses are summarized in the tables below.

Table 1. Model Summary (Antecedents)

			Adjusted R	Std. Error of
Model	R	R Square	Square	the Estimate
1	0.569	0.323	0.310	0.77694

Table 2. Model Summary (Consequence – Sales / Revenue Growth)

			Adjusted R	Std. Error of
Model	R	R Square	Square	the Estimate
1	0.384	0.148	0.144	1.01159

Table 3. Model Summary (Consequence – Expanding Customer / Client Base)

			Adjusted R	Std. Error of
Model	R	R Square	Square	the Estimate
1	0.474	0.225	0.222	1.01070

Table 4. Model Summary (Consequence – Workforce Size Growth)

			Adjusted R	Std. Error of
Model	R	R Square	Square	the Estimate
1	0.521	0.271	0.269	1.04674

Table 5. Model Summary (Consequence – Establishing New Location / Sites)

			Adjusted R	Std. Error of
Model	R	R Square	Square	the Estimate
1	0.476	0.226	0.223	1.00134

Table 6.

Hypotheses	Result
H1: The higher the level of uncertainty as perceived by managers of Malaysian SMEs, the greater the degree of strategic planning.	Supported
H2: Ownership motivation could affect the degree of strategic planning of SMEs.	Partially
H2A: SME Owner – Managers motivated by financial goals tend to undertake greater degree of strategic planning.	Supported
H2BSME Owner – Managers motivated by personal development goals tend to undertake greater degree of strategic planning.	Supported
H2C: SME Owner – Managers motivated by push motivation goals tend to undertake lesser degree of strategic planning.	Not Supported
H2D: SME Owner – Managers motivated by flexible lifestyle goals tend to undertake lesser greater degree of strategic planning	Supported
H3: The higher the degree of strategic planning employed, the greater the level of business growth experienced by Malaysian SMEs.	Supported
H3A: The higher the degree of strategic planning employed, the greater the level of sales and revenue growth relative to competitors.	Supported
H3B: The higher the degree of strategic planning employed, the greater the expansion of new customer / client base relative to competitors.	Supported
H3C: The higher the degree of strategic planning employed, the greater the growth in workforce size relative to competitors.	Supported

Of the hypotheses outlined in the conceptual model, two of the main hypotheses are fully supported while one is partially supported providing important answers to the research questions and also meeting all of the research objectives outlined in this study. Results of the hypotheses are summarized in the following table 6.

6. Conclusions

This study has established a statistically significant relationship between the degree of strategic planning and the business growth of SMEs in Malaysia. This in turn implies that Malaysian SMEs that practices high degree of strategic planning could do so in improving the business growth. These research insights could be significant in advancing the government's goals in improving the performance of the SME sector in the future especially in terms of contribution to GDP and employment levels. The study also furthers our understanding of the strategic planning practices of the SME sector in particular to the major antecedents of ownership motivations and environmental uncertainty. These insights could be useful in appreciating the factors that serve as the basis for encouraging the adoption of the strategic approach to planning for the SME sector.

7. Recommendations for Future Research

The conceptual framework introduced in this research could effectively be employed as the inspiration for future research into the strategic planning process of SMEs in other areas of Malaysia as well as in other developing nations. Future research perhaps is warranted in comparing the strategic planning orientation of Malaysian SMEs with those in other developing countries. It is also entirely justifiable for future studies to review the similarities or even differences in several industries to increase our understanding of SMEs' planning approaches.

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