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Strategic management in a SME context and links to performance in South Africa

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Strategic management in a SME context and links to performance in South Africa

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A research report submitted to the Faculty of Commerce, Law and Management - University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

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ABSTRACT

The aim of this paper was to research the strategic planning processes in small to medium enterprises (SMEs) in South Africa and to determine if there was any relation between strategic planning and financial performance of the organisations selected.

A survey was conducted on a sample of 73 SMEs from various industries throughout South Africa. The results of the survey showed that the majority of small business did not have formal documented strategic planning processes in place, but rather followed an informal and flexible planning method for their strategy planning.

The results were inconclusive however when it came to determining the benefits of formal strategic planning on financial performance and competitiveness of the organisation, with both showing a small negative correlation towards strategic planning.

The findings of this research paper should benefit owners and managers of small enterprises as to the benefits and pitfalls of formal strategic planning on the small business organisation.

DECLARATION

I, Donovan Harvey, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Donovan Harvey

Signed at _____

On the _____ day of _____ 20 _____

DEDICATION

This research is dedicated to my loving wife Justine and my two beautiful boys Oliver and Ben. Thank you for all the sacrifices you made. You were not only an inspiration but also a pillar of strength and motivation when the going got tough.

I hope this will motivate you to follow your dreams and realise that with hard work and dedication anything is possible.

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TABLE OF CONTENTS

ABSTRACT i

DECLARATION ii

DEDICATION iii

ACKNOWLEDGEMENTS iv

CHAPTER 1. INTRODUCTION 6

1.1 PURPOSE OF THE STUDY 6
1.2 CONTEXT OF THE STUDY 6
1.3 PROBLEM STATEMENT 7
1.3.1 MAIN PROBLEM 7
1.3.2 SUB-PROBLEMS 7
1.4 SIGNIFICANCE OF THE STUDY 8
1.5 DELIMITATIONS OF THE STUDY 8
1.6 DEFINITION OF TERMS 9
1.7 ASSUMPTIONS 10

CHAPTER 2. LITERATURE REVIEW 11

2.1 INTRODUCTION 11
2.2 DEFINING STRATEGIC PLANNING 11
2.2.1 THE STRATEGIC PLANNING PROCESS 11
2.2.2 STRATEGIC PLANNING IN SMES 13
2.2.3 PLANNING FLEXIBILITY 15
2.2.4 STRATEGIC PLANNING OR STRATEGIC THINKING 16
2.2.5 A LACK OF KNOWLEDGE AS A BARRIER TO STRATEGIC PLANNING IN SMES 18
2.2.6 LIFESTYLE OR PROFIT MAXIMISATION 18
2.2.7 CULTURE AND LEADERSHIP 19
HYPOTHESIS 1 20
2.2.8 STRATEGIC PLANNING IMPROVES PERFORMANCE IN SMES 20
2.2.9 STRATEGIC PLANNING AND PERFORMANCE IN SMES 22
HYPOTHESIS 2 24
2.3 CONCLUSION OF LITERATURE REVIEW 24
2.3.1 HYPOTHESIS 1: SMALL TO MEDIUM ENTERPRISES DO NOT HAVE FORMAL LONG-TERM FOCUSED STRATEGIC PLANNING FRAMEWORKS IN PLACE 25
2.3.2 HYPOTHESIS 2: SMALL TO MEDIUM ENTERPRISES WHO UTILISE FORMAL STRATEGIC PLANS HAVE HIGHER LEVELS OF PERFORMANCE 25

CHAPTER 3. RESEARCH METHODOLOGY 26

3.1 RESEARCH METHODOLOGY / PARADIGM 26
3.2 RESEARCH DESIGN 26
3.3 POPULATION AND SAMPLE 27
3.3.1 POPULATION 27
3.3.2 SAMPLE AND SAMPLING METHOD 27
3.4 THE RESEARCH INSTRUMENT 28
3.5 PROCEDURE FOR DATA COLLECTION 28
3.6 DATA ANALYSIS AND INTERPRETATION 28
3.7 LIMITATIONS OF THE STUDY 29
3.8 VALIDITY AND RELIABILITY 29
3.8.1 EXTERNAL VALIDITY 29
3.8.2 INTERNAL VALIDITY 29
3.8.3 RELIABILITY 30

CHAPTER 4. PRESENTATION OF RESULTS 31

4.1 INTRODUCTION 31
4.2 DEMOGRAPHICS 31
4.2.1 LOCATION OF RESPONDENTS 31
4.2.2 NUMBER OF PERMANENT STAFF 32
4.2.3 GROSS TURNOVER 33
4.2.4 MAIN OPERATIONS 34
4.2.5 HOW LONG HAVE YOU BEEN IN BUSINESS? 35
4.2.6 CURRENT AGE OF RESPONDENTS 36
4.2.7 HIGHEST LEVEL OF EDUCATION 37
4.2.8 MOST IMPORTANT FUNCTIONS 37
4.2.9 TIME SPENT ON VARIOUS MANAGEMENT FUNCTIONS 38
4.2.10 COMPETITIVE ENVIRONMENT 39
4.3 RESULTS PERTAINING TO HYPOTHESIS 1: SMALL TO MEDIUM ENTERPRISES DO NOT HAVE FORMAL LONG-TERM FOCUSED STRATEGIC PLANNING FRAMEWORKS IN PLACE 39
4.3.1 CONCLUSION 41
4.4 RESULTS PERTAINING TO HYPOTHESIS 2: SMALL TO MEDIUM ENTERPRISES WHO UTILISE FORMAL STRATEGIC PLANS HAVE HIGHER LEVELS OF PERFORMANCE 41
4.4.1 CONCLUSION 43
4.5 SUMMARY OF THE RESULTS 44

CHAPTER 5. DISCUSSION OF THE RESULTS 45

5.1 INTRODUCTION 45
5.2 DEMOGRAPHIC PROFILE OF RESPONDENTS 45
5.3 DISCUSSION PERTAINING TO HYPOTHESIS 1 - SMALL TO MEDIUM ENTERPRISES DO NOT HAVE FORMAL LONG-TERM FOCUSED STRATEGIC PLANNING FRAMEWORKS IN PLACE 46
5.3.1 INTRODUCTION 46

5.3.2 Owner-Managers 47
5.3.3 Customer Relationships and resources....48
5.3.4 Reasons for being in business....49
5.3.5 Time....50
5.3.6 Knowledge and education of owners 51
5.3.7 Operating environment and size of the organisation....51
5.3.8 Consultants 52
5.3.9 Conclusion 53
5.4 Discussion pertaining to Hypothesis 2 - Small to medium enterprises who utilise formal strategic plans have higher levels of performance 53
5.4.1 Discussion of results....53
5.4.2 Correlation Analysis 55
5.4.3 Conclusion 56
5.5 Conclusion.... 57

CHAPTER 6. CONCLUSIONS AND RECOMMENDATIONS 58

6.1 Introduction 58
6.2 Conclusions of the study 58
6.3 Recommendations 59
6.4 Suggestions for further research 60

References..... 62

Appendix A 67

Research instrument 67

APPENDIX B 73

Research letter 73

APPENDIX C 74

Consistency matrix 74

LIST OF TABLES

Table 1. Elements of strategic thinking. Source (Liedtka, 1998) 17

Table 2: Summary of research on relationship between strategic planning and firm performance. Source (Hunt, 1999) 21

Table 3: Main operations of respondents 34

Table 4: Education level of respondents 37

Table 5: Ranking management functions by importance 37

Table 6: Ranking of time spent on various management functions 38

Table 7: Strategic planning constructs 40

Table 8: Strategic Planning mean and standard deviation 41

Table 9: Financial performance constructs 42

Table 10: Financial performance mean and standard deviation 42

Table 11: Strategic planning and financial performance correlation 43

LIST OF FIGURES

Figure 1: Strategic planning process. Source (Lazenby, 2007) 13

Figure 2: Proposed approach to explain lack or lower levels of strategic planning in SMEs (Wang et al., 2007) 19

Figure 3: Location of respondents 31

Figure 4: Number of staff 32

Figure 5: Gross Turnover 33

Figure 6: Number of years in operation 35

Figure 7: Age of respondents 36

Figure 8: Competitive environment 39

CHAPTER 1. INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to determine the strategy formulation processes undertaken by small to medium enterprises (SMEs) in South Africa. My research aims to identify the trends applicable to the South African small to medium business environment as they relate to strategic planning.

1.2 Context of the study

In South Africa, as with most of the world, SMEs play a vital role in the economic and social development of the country. In South Africa SMEs account for 91% of formal businesses and contribute 57% of GDP and 60% of employment (Mukole, 2010). SMEs play a large role in the economy and are widely regarded as being the driving force in economic growth and job creation (Brink, Cant, & Ligthelm, 2003). According to Maas and Herrington (Olawale & Garwe, 2010) SMEs are seen as a significant solution to improving South Africa's development issues. The World Bank has also made a commitment to developing SMEs as part of its strategy to alleviate poverty and foster economic growth and employment (Ayyagari, Beck, & Demirguc-Kunt, 2007). South Africa however has one of the highest failure rates of SMEs in the world (75%) (Olawale & Garwe, 2010). It is generally very difficult for SMEs to gain a competitive advantage as in most cases they have many competitors and limited resources (Pellisier, 2013).

Some common problems that cause SMEs to fail (Lloyd & TECHNIKON, 2002) are that they are more susceptible to factors affecting the external environment than larger firms due to their limited resources, from both a financial and management capabilities perspective. Strategic management can be used as a way of improving these failure rates. Some of the benefits associated with the strategic management process are: higher profitability, improved productivity, empowerment and more effective resource management to name a few (Lazenby, 2007). The discipline however has its critics, especially regarding the relevance of strategic planning to

SMEs. Some of the criticisms relate to SMEs not having the resources or luxury of long-term planning that larger corporates do. It is suggested that small businesses should do away with strategic planning and instead focus on strategic thinking (Krippendorf). This research should hopefully provide some understanding as to what small business managers are doing with regard to strategic planning and thinking and if there is any relation to their performance.

In a study conducted by Rogerson on successful SMEs in the clothing industry in the Witwatersrand (Rogerson, 2000), one of the conclusions he made was that “smart entrepreneurs” were able to respond quicker and make better strategic decisions. One of the issues the research will also hope to prove is that the more educated the owner-manager, the more likely the firm is to have a formal strategic process in place and the better the firm will perform.

1.3 Problem statement

1.3.1 *Main problem*

The main problem of the research was to analyse and evaluate the strategy process in small to medium enterprises in South Africa in order to determine whether or not formal strategy development processes were used in analysing and formulating the strategic direction of the firm and if it led to improved company performance.

1.3.2 *Sub-problems*

The first sub-problem was to identify whether there was a formal documented future orientated strategy process in place.

The second sub-problem was to try and determine if SMEs with a formal strategic process in place perform better than SMEs without any formal process. The research will look at both financial performance as well as competitiveness.

1.4 Significance of the study

The study hopes to provide guidance to owners and managers of SMEs by evaluating the importance of strategic planning in the context of a small enterprise in order to help them achieve sustainable growth in the future. The study is based on the assumption that most SMEs do not have formal strategic processes in place (Urban & Mothusiwa, 2014). Also most of the literature and research done on the strategy process is focused on larger organisations in developed economies with very little work done on SMEs in emerging economies (Welsh & Dragusin, 2009). The research will look to bridge this gap and provide relevance to the South African landscape.

As has been noted earlier, the failure rate of SMEs in South Africa is extremely high when compared to the rest of the world (Olawale & Garwe, 2010). The role of strategic management could therefore play a vital role in reducing the number of SMEs that fail. According to Ehlers and Lazenby (Lazenby, 2007) strategic management is even more important in developing regions like South Africa. This is because there are many more factors and complicated environmental changes that need to be planned for, which makes it vital for strategic management to be seen as an essential process in any organisation.

1.5 Delimitations of the study

- The research focused on small to medium enterprises, specifically those with fewer than 200 employees.
- The strategic management process can be summarised into four main focus elements: strategic direction and analysis, strategy formulation, strategy implementation and evaluation and control. The research focused on the first two elements exclusively as these determine to a large extent if the SME has a formal written strategic planning process in place.
- Organisations who are subsidiaries of larger organisations and corporations were eliminated from the study as they are likely to follow a strategy process of their parent company.

- Only firms in the formal sector were used for the research. This allowed me to compare respondents more closely.

1.6 Definition of terms

Evaluation and control – Concentrates on evaluating the chosen strategy in order to verify that the results produced by the strategy are those intended (Lazenby, 2007).

Mission Statement – Defines the goals of the organisation in terms of its unique resources and what sets it apart from competitors (Motlatla, 2003).

Small to Medium Enterprises (SMEs) – The National Small Business Amendment Act (26 of 2003) defines a SME based on the number of full-time employees, annual turnover and gross asset value. These criteria vary depending on the industry sector. The Department of Trade and Industry classifies SMEs as organisations that have between 20 and 199 employees.

Strategic Analysis – How an organisation attempts to best combine its own capabilities with the opportunities in the marketplace in seeking to accomplish its overall objectives ("Pearson Education Glossary").

Strategic Management – Process whereby all organisational functions and resources are integrated and coordinated to implement formulated strategies which

are aligned with the environment, in order to achieve the long term objectives of the organisation and therefore gain a competitive advantage (Lazenby, 2007)

Strategic Management Process - The process by which an organisation analyses, formulates, implements and evaluates the organisation's strategy.

Strategy Formulation – The process of developing the strategy based on the information gathered in the strategic analysis.

Strategy Implementation – The process that turns the strategic plans into a series of action tasks and ensures that these tasks are executed in such a way that the objectives of the strategic plan are achieved (Lazenby, 2007).

1.7 Assumptions

- Respondents will provide the actual state of the firm as opposed to their perceptions regarding the strategic management process in their organisations.
    - This can be considered to be a fairly reasonable assumption as respondents may not wish to show themselves in a bad light.
    - This may make the results look better than they actually are.
- All respondents will have the required knowledge about strategic management processes and be able to accurately relay how their organisations formulate the strategy.
    - Due to the nature of the study and the broad range of small organisations being surveyed, it is fairly likely that some of the respondents might not have the relevant knowledge about the strategic management process and might not respond accurately.
    - This could lead to the results not being as accurate as they could be.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

The literature review will endeavour to determine the previous research and literature as it relates to strategic planning and the success of strategic planning particularly amongst SMEs in South Africa. The literature is fairly thorough and robust on studies done internationally, but there doesn't appear to be much research conducted specifically on the planning process amongst SMEs in South Africa. The literature review will also define the strategic planning process as well as the advantages and disadvantages related to strategic planning and how it affects performance of small enterprises.

2.2 Defining strategic planning

As a discipline, Strategic management can be said to be about change and planning to survive amid change, with the main focus being on the changing future, not the present or the past (Smit, Cronje, Brevis, & Vrba, 2011). Strategic management encompasses the entire strategic process from the formulation and planning process to implementation and control. It consists of the analysis, decisions and actions an organisation takes in order to create and sustain competitive advantage (Dess, 2005). Strategic planning can be described as the development of a broad long-term overall strategy to realise the mission of the business. It is usually undertaken by top management and is future orientated (Motlatla, 2003).

The strategic planning process (Smit et al., 2011) consists of creating a vision of the future; translating the vision into a mission statement, determining long-term measurable goals and choosing a strategy or strategies to attain the above.

2.2.1 *The strategic planning process*

There are various schools of thought relating to strategy and strategy formulation. Porter is of the opinion that sustainable competitive advantage can be achieved

through strategic positioning by either performing different activities than your rivals or by performing the same activities in different ways (Porter, 1996). He proposes the use of two generic strategies where a firm can position itself in an industry. According to Porter they can either follow a strategy of cost leadership or differentiation. Another popular view on strategic planning is that of the resource-based view. This train of thought was made popular in the 1980s and 1990s by Wernerfelt (Wernerfelt, 1984) and Prahalad and Hamel (Prahalad & Hamel, 1990). This theory suggests that the firm should try to develop internal resources that are unique in order to gain and sustain competitive advantage. In his article on strategy, Mintzberg determined that there is not one way of thinking when it comes to strategy but that the relevant theories are all parts of the overall strategy process (Mintzberg & Lampel, 1999).

The empirical evidence on the benefits of strategic planning however are largely inconclusive. O'Regan (O'Regan & Ghobadian, 2002) determined that the main reason for this may be due to the lack of a common definition for what a formal and informal strategic plan encompass. In past studies conducted on the topic (O'Regan & Ghobadian, 2002; Robinson Jr & Pearce Ii, 1983) the differentiation was to classify a formal strategic plan as a plan that is written and documented whereas an informal plan would not be.

The diagram below shows the simple process of a strategic plan and the common steps that are undertaken by senior management and strategy executives (Lazenby, 2007).

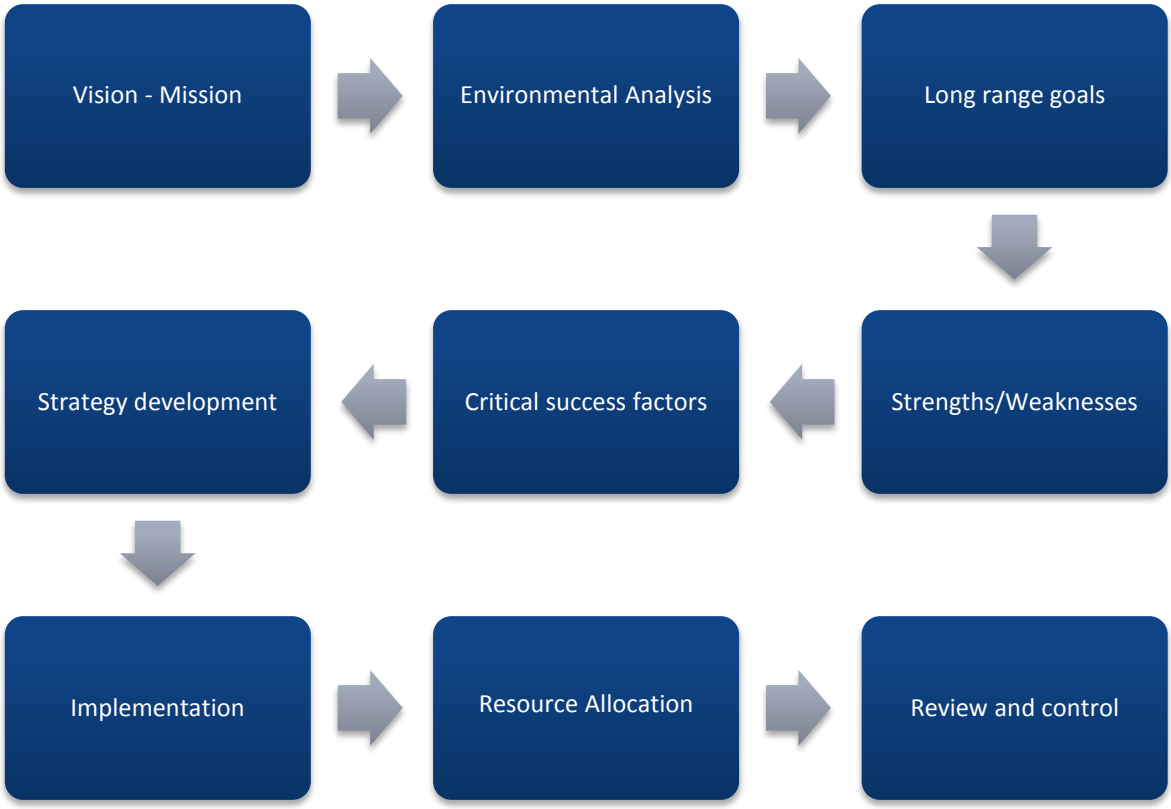


Figure 1: Strategic planning process. Source (Lazenby, 2007)

In the traditional strategic planning process, senior managers and strategy executives prepare economic forecasts, competitor analyses, and market studies. These are then discussed and aligned to the organisation's strengths and weaknesses and developed into a strategic plan (Worley, 2008). The traditional SME would not have the relevant resources or access to information in order to complete this process effectively.

2.2.2 *Strategic Planning in SMEs*

Research has consistently shown that the majority of small to medium enterprises do not engage in strategic planning (Baird, Lyles, & Orris, 1994; Wang, Walker, & Redmond, 2007; Wiklund & Shepherd, 2005). Owners and managers of small enterprises tend to focus more on the operational issues and day-to-day

opportunities and threats than on long-term strategic planning (Stonehouse & Pemberton, 2002). In small to medium organisations that do plan, these plans are generally intuitive rather than formally written and formulated and often make it very difficult to measure the businesses performance against (Kelmar, 1990). The majority of SME owner–managers often rank intangible goals such as independence, work/life balance and the ability to determine their own destiny above the performance of the business.

This lack of planning would tend to go against most of the empirical literature which shows that SMEs who engage in strategic planning are more likely to succeed and thrive and less likely to fail than those who choose not to plan strategically (Gibbons & O'Connor, 2005; Upton, Teal, & Felan, 2001; Wang et al., 2007). In a major study of small firms in the USA (O'Regan & Ghobadian, 2002) it was found that a formalised strategic planning process had the following benefits for the organisation:

- Improved goal formulation
- Distinct development of the organisation's competencies
- Clarification of authority
- Improved resource deployment
- Greater attention to the monitoring and control phases of the strategic plan

It has also been noted that SMEs who have formal plans in place tend to have fewer barriers when it comes to implementing the strategic plans (O'Regan & Ghobadian, 2002). It is much easier to have a "roadmap" detailing the steps needed for implementation rather than making ad hoc decisions and hoping for the desired outcome. It has also been noted that small businesses that adopt a formal planning process will tend to place greater emphasis on the quality of the decision making process which allows the owner to develop more of a comprehensive knowledge when it comes to the strategic issues facing the firm (Baird et al., 1994).

Previous research has shown that where an SME is a subsidiary of a larger organisation they tend to have a greater emphasis on formal planning than if they were an independent firm (O'Regan & Ghobadian, 2002). Ownership can be

regarded as a critical determinant of formal strategic planning and is considered to be less likely in independently owned small businesses due to a lack of resources (D.S., 1993). This is mainly due to the resources and knowledge being transferred from the larger parent organisation into the small business. One of the problems with this however is that often the owners and managers of the smaller firm do not have a say in the development of the strategy, but are still expected to implement the strategy effectively (Robert, 2013).

2.2.3 *Planning flexibility*

It has been noted previously that one way of making strategic planning fit the SME environment is by moving away from formalised long-term planning and focusing more on planning flexibility (Krippendorf). Planning flexibility is said to be the ability to be able to change plans quickly and move in a direction which is different to that which was originally planned (J.S, 1991). Usually this is due to some change in the external environment of the organisation (Johnson J. L., Lee R. P., 2003). Planning flexibility may be seen as being highly effective for small organisations as it allows them to adjust to changes in the operating environment and adapt their plans accordingly in order to take advantage of opportunities (Urban & Mothusiwa, 2014).

One of the benefits of strategic planning that does not apply to small businesses as much as it does to larger organisations is the integration and control aspects of the strategic planning process (Miller & Cardinal, 1994). Smaller firms are better off having flexible, less rigid plans.

In a study conducted by Brews and Hunt (Brews & Hunt, 1999) they concluded that there were four important implications that owners and managers needed to take in to account when deciding on the strategic planning approach.

- Formal strategic planning may reduce the amount of incrementalism required later.
- Plans should be specific but also need a degree of flexibility. This was particularly true in firms operating in dynamic environments.
- The time frame of the plan is important as results are often only seen in time.

- Firms operating in stable environments may not plan effectively as the need is not as great. This is important to note when and if the firm moves into a more unstable environment.

The research leads to the conclusion that there is a place for formal long-term planning, but that the plan needs to be flexible should the environment dictate a change in direction.

2.2.4 *Strategic planning or strategic thinking*

It has been said that owners and managers of small organisations should do away with strategic planning and rather focus on strategic thinking (Krippendorf) i.e. “the practice of hitting every challenge and opportunity strategically”. Strategic planning is synonymous with a very analytical and highly processed pattern of thinking, whereas strategic thinking is thought more of as a flexible, creative and often divergent way of thinking about the direction of the firm (Heracleous, 1998).

Mintzberg defined strategic thinking as being a “particular” way of thinking about strategy and that strategic planning could be used as a tool to improve strategic thinking (Mintzberg, 1994a). Liedtka has taken the work of Mintzberg a step further and broken strategic thinking down into five key elements (Liedtka, 1998).

Elements of strategic thinking →	*Relevant strategy concepts and techniques*
Systems perspective	• Stakeholder Mapping • Value systems analysis • Future search conference
Intent–focused	• Story writing
Thinking in time	• Scenario building • Gap analysis • Use of analogies
Hypothesis–driven	• What if? • Knowns, unknowns, presumeds • Alexander's question
Intelligent opportunism	• Share and compare • Simulation techniques

Table 1. Elements of strategic thinking. Source (Liedtka, 1998)

These elements help give strategic thinking a framework to improve the strategy "discussions" within the organisation.

2.2.5 *A lack of knowledge as a barrier to strategic planning in SMEs*

If there is an advantage for SMEs when it comes to strategic planning, then why do such a small amount of firms have formal plans in place? Various reasons as to why SMEs fail to plan strategically have been suggested. It has been argued that small business owner- managers tend to not have strategic plans in place due to a lack of knowledge, confidence or skills (Mazzarol, 2004; Posner, 1985). Robinson and Pearce have also suggested that owner- managers of small firms are also reluctant to share their strategic ideas with employees (Robinson & Pearce, 1984) and also cite a lack of time and very little knowledge of specialised planning frameworks as key reasons why SMEs fail to plan strategically.

A lack of knowledge especially when it comes to management may go a long way to explaining why owners of SMEs do not consider formal planning to be advantageous to their organisations. One of the findings from previous research on SMEs in Africa is that human capital has an important effect on the success of small businesses. In his study on SMEs in Kenya, Kinynajui (Rogerson, 2000) concluded that the major factor dividing successful small businesses from those that were battling to grow was the educational qualifications of the owners. Management behaviour and actions that are often missing in SMEs are the ability to set strategic goals and long-term planning (Brink et al., 2003).

2.2.6 *Lifestyle or profit maximisation*

Another reason for a lack of formal planning is that SMEs do not have formal strategic plans in place as most owners do not pursue growth and profit maximising goals, but instead focus on personal fulfilment goals. Wang, Walker and Redmond (Wang et al., 2007) have taken the process further and determined that the owner's motivations for being in business also need to be taken into account and not only the assumption that the firm is in business to maximise profit or growth. They have determined that where the owner's motivations relate more to personal fulfilment and a lifestyle choice, there appears to be lower levels of strategic planning. Where the owner-manager's motivation is on profit or growth maximisation there appears to be higher levels of strategic planning. This can be seen in Figure 2.

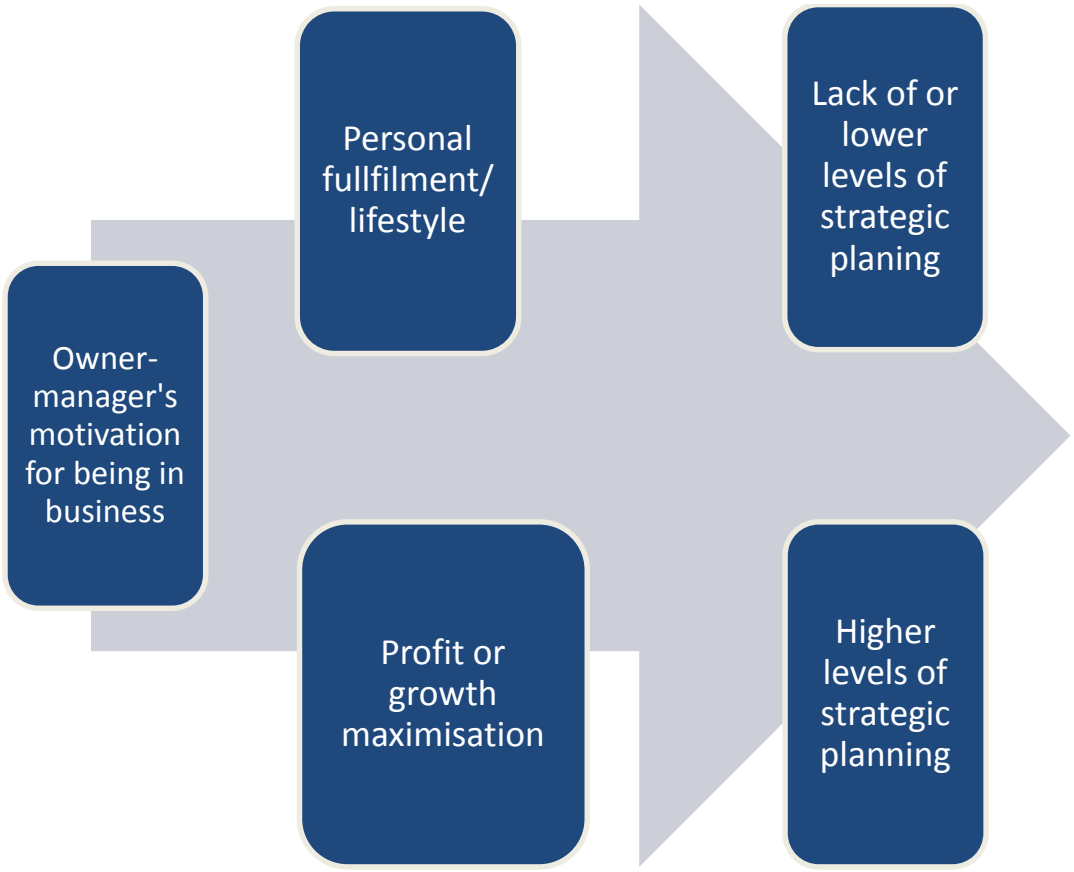


Figure 2: Proposed approach to explain lack or lower levels of strategic planning in SMEs (Wang et al., 2007)

2.2.7 *Culture and Leadership*

In a study conducted in America, the results showed that firms whose culture supported employee participation in decision making and goal setting were twice as successful (financially) than firms who scored low in these areas (Worley, 2008). Indirectly culture affects performance through its ability to affect change in strategy; directly it has an effect on the organisation's performance. The culture of the organisation as well as the leadership style of the owner can play a significant role in determining if there is a strategic planning process in place and how successful this process is. It has been said that most SMEs are an extension of the owner and often the goals and vision of the organisation are purely those of the owner (Wiklund & Shepherd, 2005). A market oriented organisational culture coupled with a flexible

strategic planning approach have been suggested as key drivers when it comes to business success (Alpan; Yilmaz, 2007).

In a study conducted on organisational culture in SMEs in Australia (J. H. Gray, Densten, & Sarros, 2003) it was concluded that an organisational culture directs management behaviour and can have a direct link on strategy formulation and decision making. An organisational culture of collaboration is more likely to lead to innovation and improved competitiveness (Salavou, Baltas, & Lioukas, 2004) whereas those organisations who favour administration and bureaucracy are less likely to be able to adapt in times of rapid change (Johnson, 1992). It has been noted previously that small firms often operate in extremely competitive environments with lots of change and uncertainty. A well-managed organisational culture that is aligned to a well thought out and effective business strategy can often be the difference between success and failure (Worley, 2008).

Hypothesis 1

H1: Small to medium enterprises do not have formal long-term focused strategic planning frameworks in place.

2.2.8 *Strategic Planning improves performance in SMEs*

Strategic planning can be described as the process by which organisations formulate, implement and control the strategy planning process via a formally documented set of actions in order to measure the organisation's progress (Mintzberg, 1994a). Shane and Venkataraman determined that strategic planning was a tool for owners and management to formulate a strategy by analysing the firm's internal and external environment (Shane & Venkataraman, 2000). Strategic planning is about creating the best future for the organisation by means of a defined set of goals (O'Regan & Ghobadian, 2002).

Strategic management studies are fairly inconclusive however when it comes to determining whether strategic planning improves economic performance. Some studies have been able to successfully demonstrate that there are positive links

between planning and improved competitiveness especially amongst firms in periods of rapid growth (Robinson Jr & Pearce Ii, 1983; Robinson, Pearce, Vozikis, & Mescon, 1984; Wiklund & Shepherd, 2005).

Other studies that have been conducted however have concluded that strategic planning has very little, if any, effect on firm performance (Boyd, 1991; Pearce, Freeman, & Robinson, 1987).

Table 2 below summarises some of the studies and their conclusions.

Study	Authors	Type of study	Conclusion	Reference
The tenuous link between formal strategic planning and financial performance	Pearce, Freeman & Robinson	Review of 18 empirical studies	Strategic planning has a questionable link to financial performance	(Pearce et al., 1987)
Strategic planning and financial performance: A meta-analytical review	Boyd, 1991	Meta-analysis of 21 studies	Planning/performance link very weak	(Boyd, 1991)
Strategic planning and firm performance	Miller & Cardinal	Meta-analysis of 26 studies	Strategic planning positively influences financial performance	(Miller & Cardinal, 1994)
Effects of formal strategic planning on financial performance in small firms	Schwenk & Shrader, 1993	Review of 14 studies	Positive relationship between planning and performance	(Schwenk & Shrader, 1993)

Table 2: Summary of research on relationship between strategic planning and firm performance. Source (Hunt, 1999)

In his study on the success of planning in acquisitions in US firms, Ansoff (Ansoff, Avner, Brandenburg, Portner, & Radosevich, 1970) concluded that those firms that planned significantly outperformed those that didn't in most measures of financial performance. Another interesting observation was that the firms who planned also performed more predictably than those with no planning in place leading to the conclusion that planning managed to reduce uncertainty.

Further articles have gone on to support the conclusions that when it comes to strategic planning, formal planning processes lead to better company performance in the long run (Armstrong, 1982; Miller & Cardinal, 1994). One of the criticisms of planning however is that it creates too much rigidity and does not accommodate the unpredictable environment in which organisations operate (Smit et al., 2011). According to Mintzberg there are two pitfalls that cause planning to fail: a lack of support from top management and an organisational climate that is not conducive to planning (Mintzberg, 1994b).

One of the leading proponents of planning as an important tool in the strategic management process was H. Igor Ansoff. He proposed that the strategic planning process should be divided into distinct steps and checklists, especially with regard to objectives, budgets and operating plans (Mintzberg & Lampel, 1999).

One of the approaches that has been adopted in order to move away from strategic planning as a formal rigid process is the concept of planning flexibility. Planning flexibility might be regarded as more important in the area of SMEs as it allows them to alter and adjust their plans easily and quickly in order to take advantage of opportunities that may lead to competitive advantage (Urban & Mothusiwa, 2014). Having a flexible strategic planning approach has been suggested as one of the major factors when it comes to business performance and competitive advantage (Alpkan, Yilmaz, & Kaya, 2007).

2.2.9 *Strategic Planning and performance in SMEs*

A review of the literature on strategic planning as it relates to small enterprises would tend to suggest that planning is not as formalised as it is in larger enterprises and consists mainly of ad hoc plans dealing with shorter term threats and opportunities. A study conducted by Stonehouse and Pemberton on 159 British small businesses (Stonehouse & Pemberton, 2002) discovered that there was more of a focus on short-term business planning than strategic thinking and they cited this as being one of the reasons for high failure rates amongst SMEs.

One of the reasons given for more informal planning in smaller enterprises is that formal mechanisms tend to restrict entrepreneurial flair and stifle innovation (McKiernan & Morris, 1994). It has been said that in order for firms to compete in today's environment they need to be increasingly nimble and flexible (Duane Ireland & Webb, 2007). It has also been noted that SMEs don't have formal strategic planning processes due to a lack of resources (Krippendorf).

Research however has shown that firms who engage in strategic planning are more likely to develop new products and processes, and will be more innovative in how they grow their business (Urban & Mothusiwa, 2014). In their research, Miller and Cardinal concluded that small firms can derive considerable benefit from having a formal strategic planning process in place, especially when it came to improving adaptive thinking in the organisation (Miller & Cardinal, 1994).

In a study conducted on small banks in the USA however it was found that over a three year period those banks with a formal strategic plan did not outperform those who took an informal approach to strategic planning (Robinson Jr & Pearce Ii, 1983). From a purely financial view it should appear that there is very little evidence to suggest that strategic planning improves SME performance.

It is also important to note that it is not about having a written plan in place but rather about the sophistication of the strategy development process that led to the production of the plan (Mazzarol, 2004). The plan itself is not going to guarantee that the strategy is effective, but as mentioned earlier having a formal planning process in place is more likely to improve the strategy development process (Baird et al., 1994). This is probably the reason why most plans tend to fall short on the implementation side as the expectations or proposals may not be viable or feasible for the firm.

According to a study done by Teder and Venesaar (Teder & Venesaar, 2005) the strategic development process in small enterprises is less formalised with the results being neither recorded nor officially approved. However research conducted by Baird et al. (Baird et al., 1994) has shown that firms that have formal planning processes in place are more likely to place importance on improving the strategic

decision making process and improve the goal formulation and implementation processes as a result.

Hypothesis 2

H2: Small to medium enterprises who utilise formal strategic plans have higher levels of performance.

2.3 Conclusion of Literature Review

The literature review shows that formal strategic planning is a core requirement for improved performance and helps managers to better understand and react to opportunities and threats (Armstrong, 1982). It also shows that even though the benefits are empirically proven, most SMEs do not have formal strategic planning processes in place for various reasons ranging from lack of time and expertise to the owner-manager's reasons for being in business (Wang et al., 2007). One thing the literature is clear on is that strategic planning helps to clearly define the company's long-term goals and vision and therefore gives the firm a clear direction (Baird et al., 1994). There are some critics however when it comes to strategic planning in SMEs who say that it stifles the entrepreneur's innovation and speed and therefore takes away the major advantage small businesses have over larger corporate enterprises (Robinson & Pearce, 1984). A solution has been proposed for small firms to adopt a process of planning flexibility which would allow them to adapt and change faster than if the planning was more long-term (Urban & Mothusiwa, 2014). The literature on whether or not strategic planning improves small firms' performance is a little less obvious. Most authors tend to agree that those firms who have formal strategic plans in place perform better than those firms who choose not to (McKiernan & Morris, 1994; O'Regan & Ghobadian, 2002) whilst others have determined that the link is not so obvious (Pearce et al., 1987). In conclusion it can be ascertained that small firms are less likely to have formalised strategic plans in place but those that do tend to perform better.

2.3.1 ***Hypothesis 1:*** *Small to medium enterprises do not have formal long-term focused strategic planning frameworks in place.*

2.3.2 ***Hypothesis 2:*** *Small to medium enterprises who utilise formal strategic plans have higher levels of performance.*

CHAPTER 3. RESEARCH METHODOLOGY

This section of the research proposal focuses on the methodology that was used to conduct the research. The literature as it relates to quantitative research will be discussed in order to gain some background on the approach and why it was suitable for this type of research. A review of the research design as well as the proposed research instrument and the data collection and analysis will also be provided. Finally, the validity and reliability of the study will be discussed.

3.1 Research methodology / paradigm

The research was undertaken via a cross sectional quantitative analysis. Quantitative analysis can be defined as analysis that is done in the form of numerical data (Neuman, 2003; Thornhill, 2009). This methodology has proven to be very successful and has been used in similar studies undertaken on strategy planning processes in SMEs (O'Regan & Ghobadian, 2002; Urban & Mothusiwa, 2014). The research was carried out on a sample of SMEs throughout South Africa with no distinction made to industry type. The idea was to get the largest and most diverse data set possible. Data was collected via a survey questionnaire which consisted of various constructs designed to determine the formality of the planning process as well as the effect this may have on performance (O'Regan & Ghobadian, 2002).

3.2 Research Design

The research was done by means of a quantitative, cross-sectional approach using primary sources of data. The data was collected via a survey questionnaire with the responses being measured using a Likert scale. The study aimed to replicate certain scales that were developed by Slevin and Covin (Slevin & Covin, 1997). The scales measure strategy formation on a seven point scale with high scores indicating a formal planned strategy formation and low scores an informal strategy process (Gibbons & O'Connor, 2005).

The benefits of using a survey are that it allows for access to a larger population therefore allowing for a greater amount of data to be collected (Thornhill, 2009). The disadvantages are that there is no chance to ask a respondent for clarification or to put answers into context.

3.3 Population and sample

3.3.1 *Population*

The population for the survey was small to medium enterprises operating in South Africa. There is no universal definition for an SME and according to Cronje et al. (Motlatla, 2003) an SME in South Africa is any organisation that has fewer than 200 people and direct managerial involvement by the owners. The eligibility criteria for the sample population was based on a pre-determined number of employees as defined by the National Small Business Act of 1996 as amended in 2003 and 2004 (*The National Small Business Act 102, 1996*, 2003). Another feature of the population is that the participating firms needed to be owner-managed in the sense that the major shareholder of the enterprise plays a leading management role in the firm.

3.3.2 *Sample and sampling method*

The research focussed on owner-managers at SMEs throughout South Africa. The sampling was gathered from members of the National Small Business Chamber, Small Enterprise Development Agency, South African Underwriting Managers Association (SAUMA), and Financial Intermediaries Association (FIA) as well as through personal connections and dealings with small business owners.

The intended sample size was 100 as this appears to be a number that has been effectively used in similar studies (Gibbons & O'Connor, 2005; O'Regan & Ghobadian, 2002).

3.4 The research instrument

The research instrument that I used was a survey questionnaire. The benefit of using a survey is that it allows access to a larger population therefore allowing for a greater amount of data to be collected (Thornhill, 2009). The survey also allows for standardised data to be collected allowing for easier comparison. The research was of a cross sectional nature due to the time constraints involved. According to Robson, cross-sectional research is often employed via the survey method (C, 2002).

The questionnaire is available in Appendix A.

3.5 Procedure for data collection

The research was gathered via a survey questionnaire administered to a sample of SMEs via a web-based, self-reporting survey instrument. The questionnaire was accompanied by a personalised email motivating the reason for the study and explaining that the results are confidential and that they can contact me directly should they have any questions. The proposed survey tool to be used is Qualtrics due to its accessibility and ease of use for respondents. A follow-up request was sent to all respondents two weeks after the original email.

3.6 Data analysis and interpretation

The data analysis was conducted via a statistical software system such as SAS. Descriptive statistics were run on the data in order to determine the main features of the data collected such as various industries and sizes of the firms that responded. Diagnostics test were run in order to determine the distribution of the data as well as the significance (Urban & Mothusiwa, 2014). A Cronbach's Alpha and factor analysis were done to determine the internal consistency of the data. The alpha coefficient represents the most widely used form of internal consistency estimate (O'Regan & Ghobadian, 2002). A comparative analysis was run in order

to determine if there was any link between the variables, particularly between the performance of the firm and the level of strategic planning.

3.7 Limitations of the study

The main limitations with this type of methodology are that either respondents will choose not to respond or they are not honest and consistent in their responses. Another limitation of the study is that only those companies that are still in business were surveyed. This may mean that there won't be a proper sample relating to the importance of strategic planning on performance as those firms that have gone out of business already will not be represented. If one reason for their failure was due to not have a strategic planning process in place, this will not be determined.

3.8 Validity and reliability

3.8.1 *External validity*

External validity is the ability to generalise findings made from a specific setting and small group to a broad range of settings and people (Neuman, 2003). One of the ways that the survey looked to maximise the external validity was by sending out questionnaires randomly to all firms meeting the SME requirements discussed previously. The second way was to eliminate any industry biases by not limiting the research to any specific industry by sampling a wide array of industries. This provided a good indication of the strategy process in South African SMEs and the effects they had or didn't have on performance.

3.8.2 *Internal validity*

Internal validity refers to there being errors internally in the design of the research report (Neuman, 2003). In order to ensure content validity was achieved the questions were based on the literature reviewed as well as previous research that had been undertaken. Internal validity was ensured by sending out the exact same questionnaire to all respondents and using a web based software system to

administer and collect the data. The timeframe for the respondents to reply was one week so as to reduce the effects of timing influences on the respondents by allowing them to respond when it suited them.

3.8.3 *Reliability*

Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings (Thornhill, 2009). The main issues of reliability were to determine if internal consistency was achieved. This was done by correlating responses to each question with those to other questions in the questionnaire in order to determine if there was a correlation and consistency with regards to answers to certain questions (Thornhill, 2009). Reliability was also tested by using alternate forms of the same question in order to determine if the answers were reliable and consistent. Some of the threats to reliability that the research design needed to take into account included subject error and bias. The owner-managers may be biased in terms of their opinions with regard to the detail to which they apply strategic planning in their organisations as they may look to improve their standing. The way the research looked to overcome this was by making sure that the respondents were aware that the survey results are completely confidential so honesty would be of paramount importance with no adverse effects to the respondents. The second issue that may be faced was that some respondents may not have the necessary knowledge or business background required to answer the questions in the correct context. The research instrument looked to overcome this by only selecting the owner or top manager as a respondent. The survey questionnaire was tested on a few acquaintances with various backgrounds and education levels in order to determine the understanding of the questions before sending it to the research respondents.

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

This chapter details the results attained from the research survey. No discussion of the results will take place as this chapter is only concerned with presenting the results and not the analysis.

4.2 Demographics

The respondents were selected using the criteria as discussed earlier in the sampling method (3.3.2). The sample was chosen in order to gather information relating to the strategic planning process in small to medium enterprises.

4.2.1 *Location of respondents*

Figure 3: Location of respondents

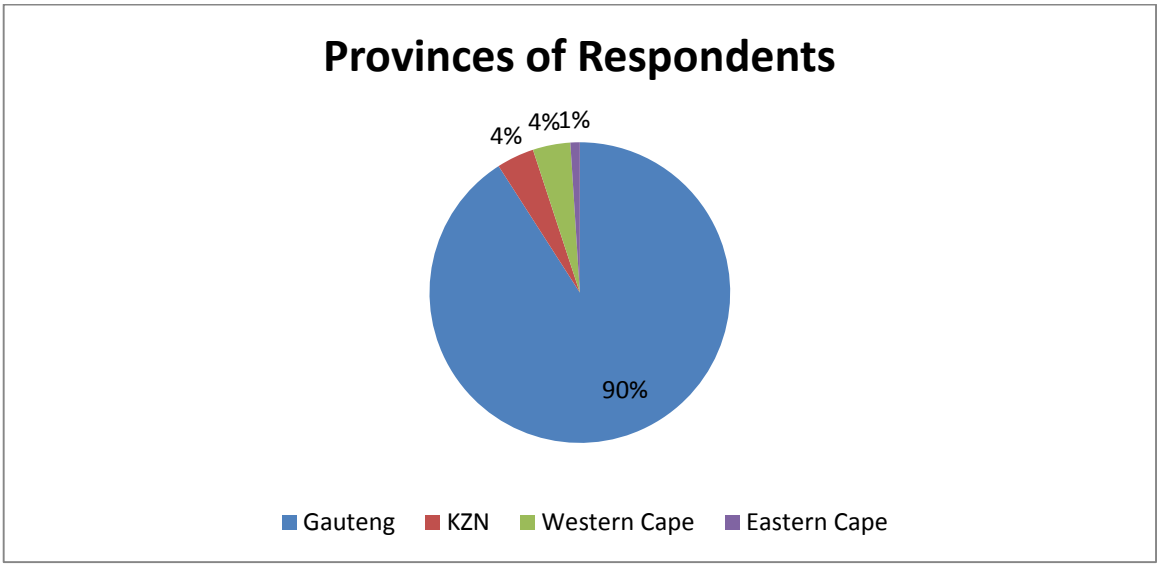


Figure 3 shows that the majority of respondents (90%) were located in Gauteng. As Gauteng is the largest economic hub in South Africa, the data should still give a fairly accurate depiction of the South African SME when it comes to strategy planning.

4.2.2 *Number of permanent staff*

Figure 4: Number of staff

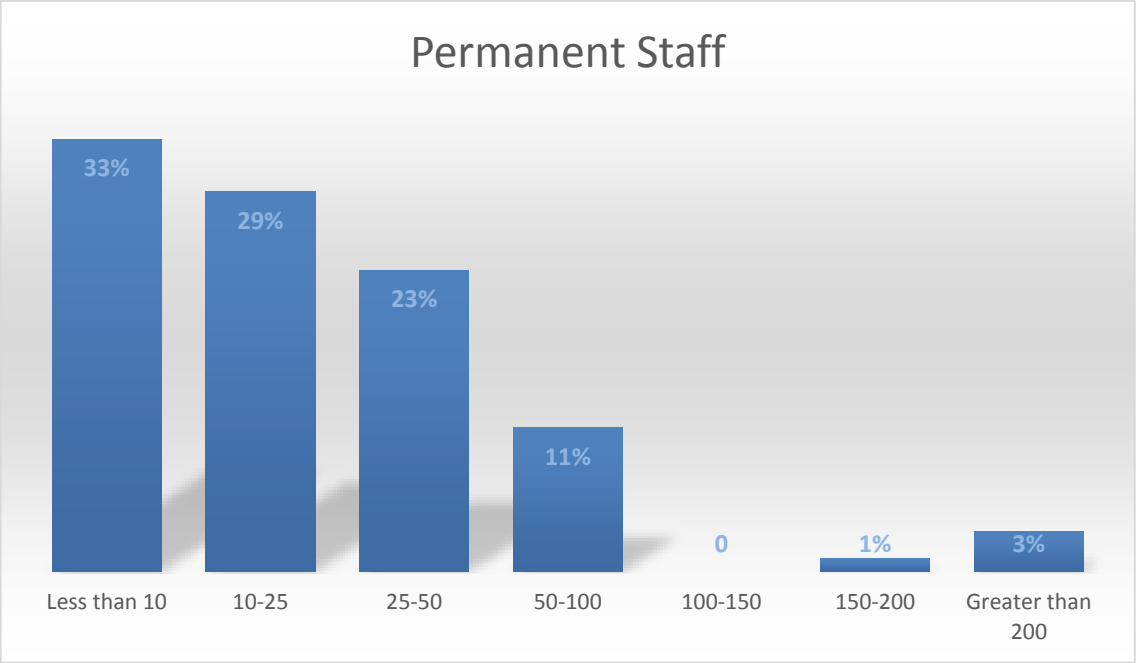


Figure 4 indicates that the majority of companies surveyed (85%) fall within the range of 1 to 50 permanent staff. Three of the companies surveyed were over the limit set in the population sample and were thus excluded from the analysis.

4.2.3 *Gross Turnover*

Figure 5: Gross Turnover

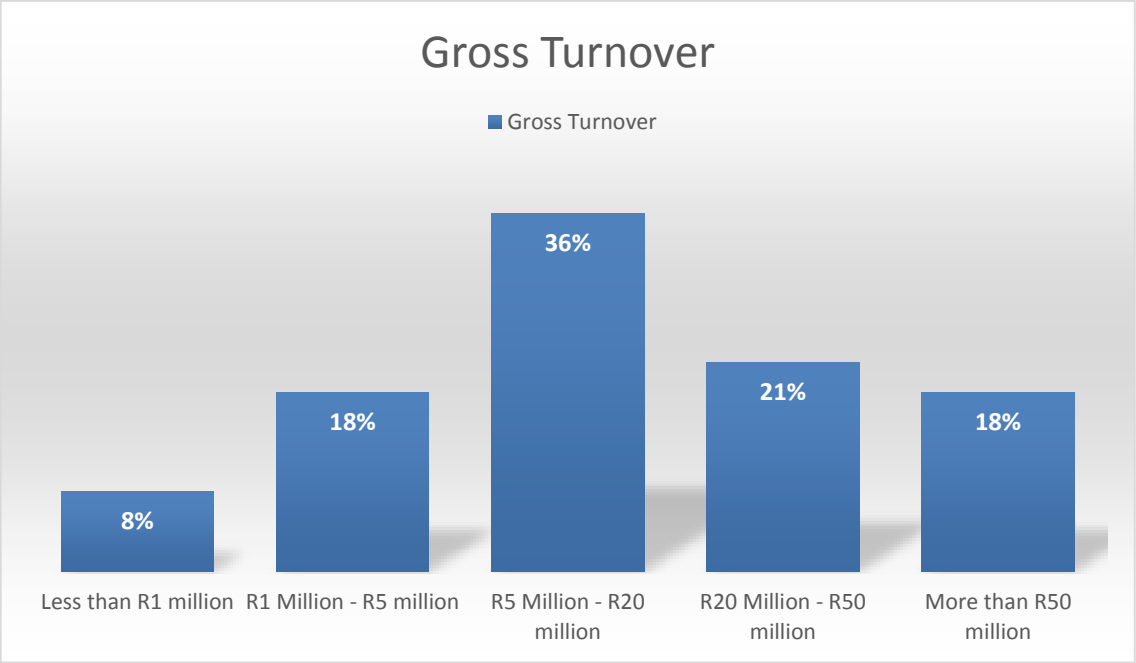


Figure 5 shows that the majority of respondents fall within the R5-R20 million range in terms of gross turnover. This again indicates that the survey population meets the criteria set out in the research methodology.

4.2.4 *Main Operations*

Table 3: Main operations of respondents

OPERATION	FREQUENCY
FINANCIAL SERVICES	34
CONSULTING	12
MANUFACTURING/ENGINEERING	5
CONSTRUCTION	1
OTHER SERVICES	12
TOURISM	1
OTHER	8

Table 3 depicts the various industry sectors in which survey respondents operate. The research aimed to look at the entire spectrum of industries in order to remove industry bias. As can be seen from Table 3, the majority of respondents fell within the financial services sector. The services industry in general, including other services and consulting with financial services, accounted for 79% of the survey respondents.

4.2.5 *How long have you been in business?*

Figure 6: Number of years in operation

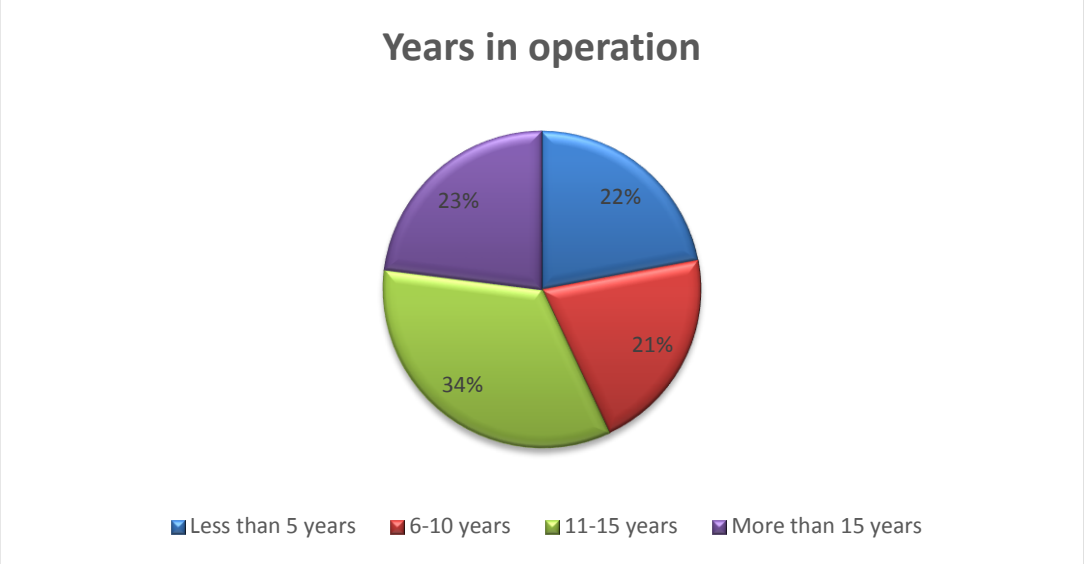
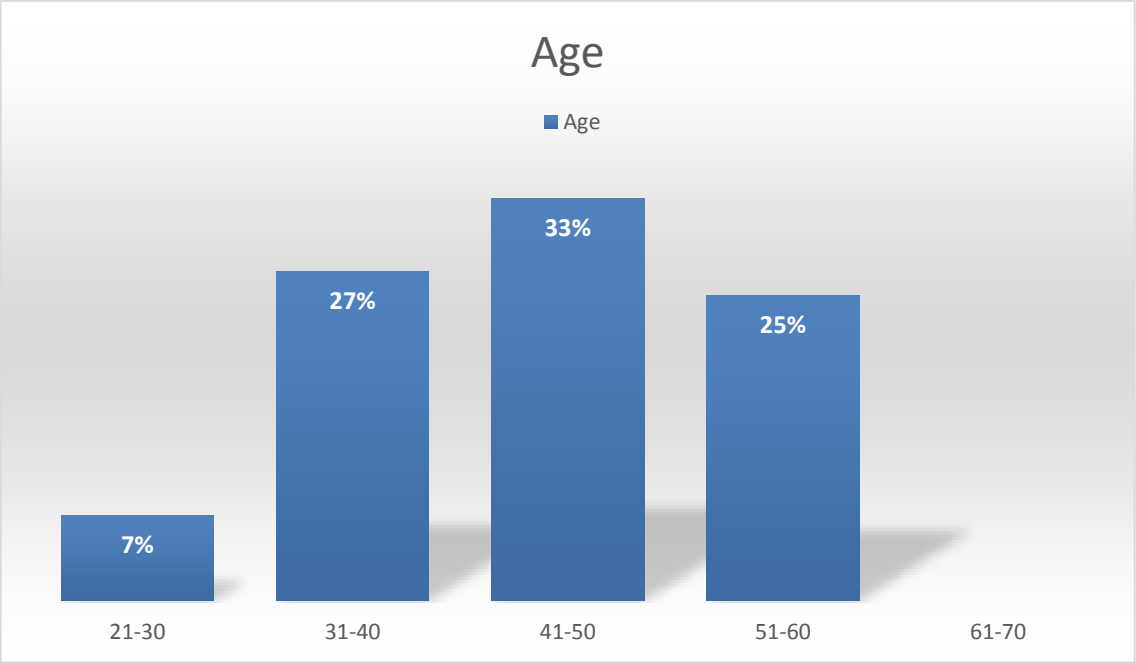


Figure 6 indicates that there is a good spread when it comes to years of operation. The majority of respondents have been in business for longer than 10 years and there is, therefore, very good history and experience to work with in terms of determining the two hypotheses.

4.2.6 *Current age of respondents*

Figure 7: Age of respondents



As is typical in most companies, the Shareholders and Directors surveyed fell mostly within the 40 to 60 age group. There were however a fair number of younger managers as well, which balanced out the perspectives well.

4.2.7 *Highest level of education*

Table 4: Education level of respondents

QUALIFICATION	COUNT
PHD	1
MASTER'S DEGREE	9
DEGREE	19
DIPLOMA/CERTIFICATE	26
MATRIC	17
OTHER	1

Table 4 indicates that 75% of respondents had a post matric specialisation or degree. The majority of diplomas and certificates (37%) were business or management related. The remaining qualifications were mainly in I.T and Insurance.

4.2.8 *Most important functions*

Managers were asked to rank the following management functions in order of importance to them, with 1 being the most important and 6 being the least important.

Table 5: Ranking management functions by importance

Management Functions	1	2	3	4	5	6
Overseeing day-to-day operations of the firm	26.0%	19.2%	15.1%	9.6%	6.8%	23.3%
Creating new products and/or services to gain market share	19.9%	12.3%	12.3%	17.8%	19.9%	17.8%
Monitoring staff performance	9.6%	12.3%	19.2%	26.0%	19.2%	17.8%
Scanning the environment in order to assess opportunities and threats	12.3%	6.8%	24.7%	23.3%	20.5%	12.3%
Analysing what competitors and the market are doing	1.4%	26.0%	13.7%	12.3%	28.8%	17.8%
Managing customer relationships	32.9%	28.8%	13.7%	9.6%	2.7%	12.3%

Table 5 indicates that most manager-owners (32.9%) found that managing customer relationships was the most important function when it came to their business. The least important management function was the overseeing of day-to-day operations within the organisation. Only 12.3% stated that future planning for threats and opportunities was important.

4.2.9 *Time spent on various management functions*

Managers were asked to rank the time currently spent on the following management functions, with 1 being the majority of the time and 6 being the least amount of time.

Table 6: Ranking of time spent on various management functions

Time spent on Management Functions	**1**	**2**	**3**	**4**	**5**	**6**
Reviewing organisations direction and performance	20.5%	11.0%	19.2%	20.5%	15.1%	13.7%
Dealing with day-to-day operations of the firm	26.0%	11.0%	21.9%	15.1%	13.7%	12.3%
Planning for future growth and revenue opportunities	12.3%	19.2%	26.1%	11.0%	19.2%	12.3%
Dealing with legislative and regulatory requirements	11.0%	15.1%	11.0%	13.7%	23.3%	26.0%
Dealing with customers	21.9%	26.0%	12.3%	11.0%	13.7%	15.1%
Managing employees' day-to-day functions	2.7%	12.3%	9.6%	32.9%	20.5%	21.9%

Interestingly enough the majority (26%) of respondents said that they spent the majority of their time dealing with day-to-day operations, even though they found that to be the least important management function. A large amount (20.5%) also indicated that they spend a decent amount of time on strategic review compared to strategic planning (12.3%).

4.2.10 *Competitive environment*

Figure 8: Competitive environment

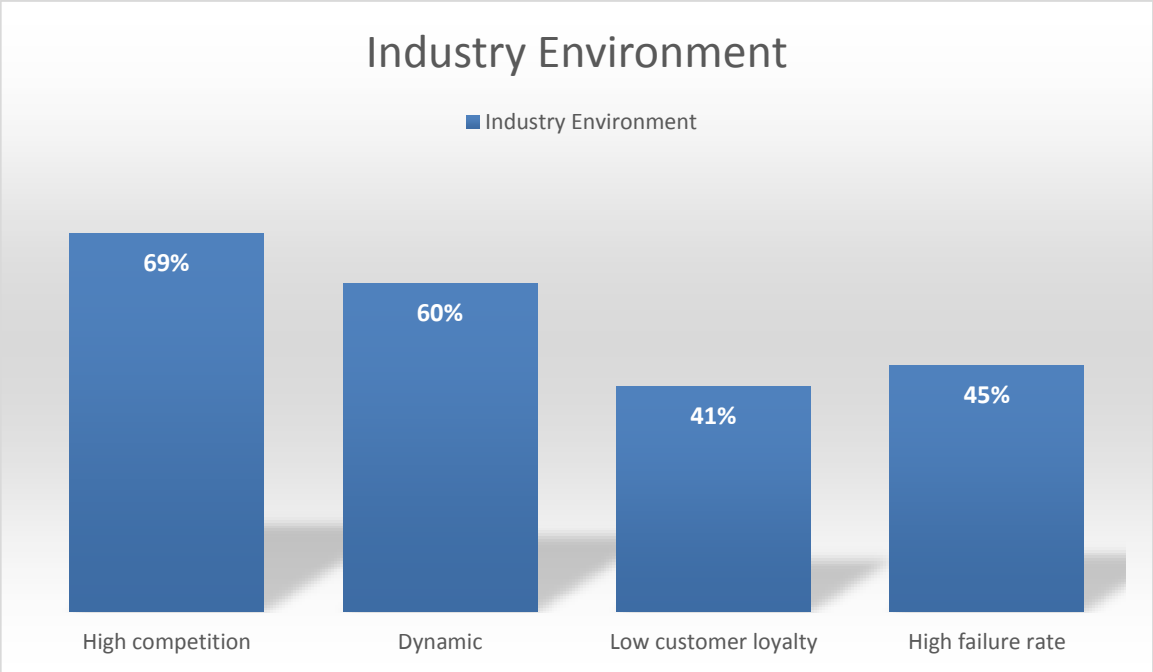


Figure 8 indicates that the majority of respondents operate in an extremely competitive environment with constant change. Only 41% of respondents however felt that customers were not loyal to their organisation, whilst 45% suggested that there was a high failure rate of firms within their industry.

4.3 Results pertaining to Hypothesis 1: Small to medium enterprises do not have formal long-term focused strategic planning frameworks in place

In order to gather data to answer the first hypothesis, 14 questions were asked (Annexure 1). These questions were scored on a 7 point Likert scale as follows:

Strongly Disagree		Disagree		Neutral	Agree		Strongly Agree
1		**2**	**3**	**4**	**5**	**6**	**7**

After reversing the negative items and based on internal reliability by means of Cronbach's Alpha and confirmatory factor analysis, these questions were then broken down into three constructs.

Table 7: Strategic planning constructs

Constructs	**Cronbach's Alpha**
Strategic Planning (Q15 – 3, 6, 8, 9)	0.6568
Planning Process (Q15 – 5, 10, 11, 12)	0.6319
Planning Involvement (Q15 – 1, 13, 14)	0.5367

Table 7 indicates that only the first construct, Strategic Planning, is statistically reliable with a Cronbach's Alpha score > 0.65. The second and third constructs can be used, but with limitations.

Table 8: Strategic Planning mean and standard deviation

	Mean	Standard Deviation
Strategic Plan score	3.74	1.19
Planning process score	3.69	1.23
Planning involvement score	4.23	1.10

The first variable, Strategic Planning, was used to answer the first hypothesis. As per Table 8 above, the mean score for strategic planning was 3.74 indicating that the majority of respondents had no strategic plan in place. With a mean of 3.69 in terms of the planning process, the majority of owner-managers also indicated that there is no formal planning process in their organisations. Most respondents were neutral in their responses when it came to strategic planning involvement among staff and managers within the organisation.

4.3.1 *Conclusion*

The data for the first hypothesis was collected in order to determine if small organisations had strategic planning processes in place. The data was divided into three constructs: strategy plan, planning process, planning involvement. The constructs were tested for reliability using Cronbach's Alpha and factor analysis. The mean and standard deviation were determined in order to answer H1.

4.4 Results pertaining to Hypothesis 2: Small to medium enterprises who utilise formal strategic plans have higher levels of performance

In order to gather data to answer H2, eight questions were asked using a 7 point Likert scale (Annexure 1).

Strongly Disagree	Disagree		Neutral	Agree		Strongly Agree
1	**2**	**3**	**4**	**5**	**6**	**7**

After reversing the negative items and based on internal reliability by means of Cronbach's Alpha and confirmatory factor analysis, these questions were then broken down into two constructs.

Table 9: Financial performance constructs

Constructs	Cronbach's Alpha
1. Financial Performance (Q18 – 1, 2, 3)	0.7552
2. Competitive Performance (Q18 – 4, 5, 8)	0.7145

Table 9 indicates that both constructs are statistically reliable with both having Cronbach's Alpha scores > 0.65.

Table 10: Financial performance mean and standard deviation

	Mean	Standard Deviation
Financial Performance score	5.17	0.97
Competitiveness score	4.93	1.01

In terms of financial competitiveness, Table 10 shows that the majority of respondents considered their organisations to be performing well from a financial perspective with only 7% of respondents indicating that they had not made a net profit over the last three years.

In terms of improved competitiveness the majority of respondents (61%) noted that they had seen improved market competiveness over the last three years.

In order to answer hypothesis two, a Multivariate Correlation was run in order to attempt to determine if there was any correlation between Strategic Plans, Planning Process and Financial and Competitive Performance.

Table 11: Strategic planning and financial performance correlation

		Strategic Planning Score	Planning Process Score	Financial Performance Score	Competitiveness Score
Strategic planning score	Pearson Correlation	1.0000	-0.1491	-0.1209	-0.2516
	Probability > |p|		0.2081	0.3083	0.0317*
Planning process score	Pearson Correlation	-0.1491	1.0000	-0.2525	0.0422
	Probability > |p|	0.2081		0.0311*	0.7228
Financial performance score	Pearson Correlation	-0.1209	-0.2525	1.0000	0.5125
	Probability > |p|	0.3083	0.0311*		<.0001*
Competitiveness score	Pearson Correlation	-0.2516	0.0422	0.5125	1.0000
	Probability > |p|	0.0317 *	0.7228	<.0001*	

As can be seen from Table 11, there is a small statistically significant negative correlation between strategic plan and competitive performance ($r = -.252$, $p < .05$) and financial performance and planning process ($r = -.253$, $p < .05$). However there is no statistically significant relationship between strategic planning and financial performance ($r = -.121$,$p>.05$) and planning process and competitiveness ($r = .042$, $p> .05$).

4.4.1 *Conclusion*

The data pertaining to the second hypothesis was collated into two constructs: financial performance and competitiveness. The constructs were tested for reliability using Cronbach's Alpha with both constructs reliable at > 0.65. Correlations were then run on the constructs in order to determine the role of strategic planning on organisation performance. Only two of the correlations were statistically significant at p values < .05.

4.5 Summary of the results

This chapter detailed the data received from respondents via the survey that was sent out over the space of two months. The descriptive information provides valuable insight into the type of organisations that participated as well as information with regards to the experience and education of the owners of these organisations. This descriptive data is invaluable in trying to determine the reason for a lack of strategic planning and its effect on the firm's performance.

The data for hypotheses one and two was carefully analysed and checked for reliability in order to answer the two research questions. The analysis as well as a discussion of the data presented in this chapter follows in Chapter 5.

CHAPTER 5. DISCUSSION OF THE RESULTS

5.1 Introduction

A discussion on the results of the surveys sent to respondents is covered in this chapter. An analysis was done in relation to the data received and an explanation of the results will be put forward. The information will be dealt with separately as they pertain to the two hypotheses. The results for each hypothesis will be compared to the research literature in order to determine how the research stacks up against similar earlier studies.

All the results outlined in this chapter are a direct interpretation of the analysis that was run on the data collected. A simple mean and standard deviation was used to answer the first hypothesis. For the second hypothesis a correlation was run as well as a regression analysis. Overall, the regression analysis was fairly inconclusive but will still be discussed as there may be some relevance or further research that could come out of it.

5.2 Demographic profile of respondents

In total 120 surveys were sent out to prospective SMEs in South Africa. A total of 81 complete responses were received which was a success rate of 68%. Of these 81 responses, 6 were removed as they employed more than 200 staff and did not meet the SME criteria set out in the research. The survey questionnaire was made available to businesses throughout South Africa but the vast majority of respondents (90%) were located in the Gauteng province. As Gauteng is the business hub of South Africa it was felt that this would still give a fairly good representation of SMEs within the context of South Africa. The majority of respondents (85%) had less than 50 employees with only 1% having more than 100 employees. This gave the survey a strong focus on the smaller firms within the SME bracket. There was a fairly good split among firms in terms of turnover but the majority were still in the smaller end of the scale with the bulk of firms (75%) earning between R5 and R50 million. There was also a good spread between the firms in

terms of how long they had been in business. The majority of organisations had been operating for more than five years and were quite well established in their systems and procedures which gave the information collected some robustness.

5.3 Discussion pertaining to Hypothesis 1 - Small to medium enterprises do not have formal long-term focused strategic planning frameworks in place

5.3.1 *Introduction*

In setting out to try and prove H1, that small to medium enterprises do not have formal strategic planning processes in place we first looked at previous studies done on a similar basis. The majority of these studies were done on European and American SMEs with very little research having been done on South African small businesses.

The literature showed that even though it had been proven to be beneficial, most small firms did not have a formal strategic planning framework or process in place (Baird et al., 1994; D.S., 1993; Posner, 1985; Robinson & Pearce, 1984). The data collected showed that with a mean of 3.74 the majority of managers surveyed suggested that their organisations do not have a formal strategy plan in place. In fact 51% of respondents stated that their business actually functions better when they are left to operate on a day-to-day basis with no formal strategic planning. This would tend to disagree with previous research conducted (Baird et al., 1994; Naffziger, 1991; Robinson & Pearce, 1984) where it was shown that the majority of owners of SMEs set formal plans for periods greater than a year and that the formal planning process improved decision making.

5.3.2 *Owner-Managers*

Various reasons have been given for the lack of formal planning in SMEs. One of these reasons may be that one of the major characteristics of SMEs is that often the owners and managers are the same people (Teder & Venesaar, 2005) and the owner tends to have the vision in his head rather than as a formalised plan. In this case the survey was sent out to senior management and of the respondents 77% were also the owner or shareholder of the organisation.

This would agree with the previous work done by Teder and Venesaar on a similar study on SMEs in Estonia where they concluded that in 72.5% of respondents the only clear plans and visions existed in the head of the owner-managers (Teder & Venesaar, 2005). Ownership has often been cited as a critical factor when it comes to the adoption of a strategic planning process, according to Variyam (D.S., 1993). Independently owned small businesses are less likely to have a formal strategy in place than SMEs who are subsidiaries of larger firms. This is mainly due to a lack of resources.

In the research conducted 58% of owner-managers concluded that they are the only ones responsible for the strategic planning in the organisation. This would go against the literature on organisational culture which indicates that organisations who value a culture of employee participation when it comes to decision making and goal setting were twice as likely to be more successful than firms who didn't value these attributes (Worley, 2008).

However 81% did say that all their staff were aware of the organisation's vision, so even though in most cases the owner is making the decisions, they are at least communicating the plans to staff. This would go against previous research done which indicated that owners of small business were reluctant to share their strategic plans with employees (Robinson Jr & Pearce Ii, 1983).

5.3.3 *Customer Relationships and resources*

Another interesting insight that the research has shown is that owner-managers consider relationship management with customers and overseeing day-to-day operations of the business as their most important management functions. Only 12.3% considered strategic planning and monitoring to be the most important management function.

This would agree with most of the literature which has shown that most owners and managers of SMEs tend to focus more on operational issues and day-to-day opportunities and threats as opposed to long-term forecasting and planning (Stonehouse & Pemberton, 2002). Some interesting findings in similar research however has shown that only 26.5% of respondents indicated that time spent on day-to-day operations interfered with their planning process (Brink et al., 2003). So even though owners spend more time on the day-to-day issues, it didn't seem to affect their planning time in this case.

The main reason for this could be that SMEs are a lot smaller than large corporate firms in terms of resources and personnel and therefore the owner tends to perform more of the day-to-day functions than a comparative corporate CEO would.

The owners also have a much more personal stake in the organisation and have often started the business from scratch by themselves. They will be used to running the organisation in a very hands-on manner and may struggle to delegate tasks in order to allow them to focus more on long-term planning and forecasting.

This was proven to be the case in a study conducted on resistance to change in growth in SMEs (C. Gray, 2002). It was determined that owners were very resistant to change the organisation even if there were growth opportunities available following the change. A major reason cited once again was the difference between owners who were in business purely for financial reasons and those who had lifestyle as well as financial reasons.

5.3.4 *Reasons for being in business*

In a small firm ownership and management are usually held by the same person so the objectives of the owner and the firm tend to be very closely aligned (Birley & Westhead, 1994). This can therefore lead to the firm being run and managed in accordance with external factors that may affect the owner, such as lifestyle and family considerations. These factors could put a strain on the performance of the organisation and lead to the firm underperforming.

An owner-manager who has started a business for lifestyle reasons may be more reluctant to change the status quo in order to grow the business financially as he may see a shift in the wrong direction in terms of worklife balance. The owner-manager may also not be aware of or actively seeking new opportunities if he is happy with the lifestyle the organisation offers him. Therefore there may be no need in the owner-manager's mind for formal strategic planning to take place and the day-to-day operations and customer relationship focus may be the only things he sees as important. Brink and Cants' research determined that 50.7% of owners complained that work takes up the majority of their time (Brink et al., 2003).

In previous research conducted on the reasons that SMEs do not have formal planning processes in place (Wang et al., 2007), it was concluded that the reason the owner went into business played an important role in whether or not a formal strategic planning process was implemented. The research indicated that where the owner was in business to maximise profit as opposed to lifestyle reasons, he was more likely to have a formal planning process.

The results would disagree with this conclusion. The majority of respondents indicated that they were indeed in business to maximise the organisation's profit and growth. This would have led us to believe that there would then be a propensity of respondents who would have indicated they had formal plans in place. The study however did not ask them to rank the main reasons for being in business so there may be some limitations in the study on this point.

5.3.5 *Time*

From the research conducted the majority (26.5%) of respondents indicated that they spend most of their time dealing with the day-to-day issues surrounding the organisation. This again could be due to a resource issue or a change issue.

In a similar study conducted on the problems faced by SMEs in South Africa (Brink et al., 2003) it was found that only 24% of respondents agreed that they neglect planning due to time constraints. However 48.5% agreed that daily routine tasks tended to take up the majority of their time. This would agree with the research conducted. Owners of SMEs, especially where they are also the founder of the business, like to have a hands-on approach to all functions within the organisation and often don't spend the majority of their time on the functions where they would add the greatest amount of value.

Respondents also noted that they spend a large amount of time on customer relationships. This would make sense especially if these are long-term relationships that the owner has cultivated personally over time. It has been noted that it costs almost five times as much to acquire a customer than to retain one (Baumeister, 2002). This is even more important in small organisations with limited resources. A strength of most SMEs is that in most instances customers can speak to the senior management or owners as opposed to having to go through a contact centre. Owners of SMEs often include key customers in their personal networking and often spend time entertaining key individuals (Gilmore, Carson, & Grant, 2001). Often this is the competitive advantage that the small business has over a large corporate and it is easy to see why owner-managers would regard this as being a very important function of their time.

One of the interesting things to come out of this research was that 20.5% of respondents indicated that they spend the majority of their time reviewing the direction and performance of the organisation. This is interesting as it again indicates that in most cases owners are aware of the strategy of the organisation but are not using a formal planning framework to determine or document the strategy as indicated previously. This would agree with the literature (Brews & Hunt,

1999; Urban & Mothusiwa, 2014) which has shown that when it comes to SMEs there may be a greater emphasis on planning flexibility than formal planning.

5.3.6 *Knowledge and education of owners*

Some of the arguments given as to why owners of small organisations fail to have formal strategic plans in place is due to a lack of knowledge, confidence and skills (Mazzarol, 2004; Posner, 1985). The research conducted would tend to disagree with this point. Of the 73 respondents, 55 had a post matric qualification with 29 of those having a university degree or higher. In terms of knowledge there didn't appear to be any correlation between a higher education and the propensity to have a strategic planning framework in place. Therefore education didn't appear to have any effect on whether or not there was a plan. This was particularly interesting as the majority of post matric qualifications were related to either business or management, meaning that most respondents would have been exposed to the strategic planning process. In previous research it was shown that those with management qualifications attached greater priority to planning (Brink et al., 2003). This was not observed in this research.

In terms of confidence and skills 60% of respondents were over the age of 40 and also 78% of respondents had been in business longer than five years. This would tend to indicate that firstly they should have a fair amount of experience having been in the working environment for a fair amount of time, and secondly they should have picked up skills and confidence purely from having run a sustainable business for a long period of time. This would therefore go against some of the major reasons given for not formalising strategic planning.

5.3.7 *Operating environment and size of the organisation*

Some criticisms of strategic planning are that the plans are often too rigid and are not easily adaptable to sudden changes in the operating environment (Smit et al., 2011). The research concluded that the majority of respondents (60%) felt that they operated in a very dynamic industry environment and therefore had to make

changes fairly quickly. The research would tend to agree with this criticism as most respondents said their business operated better when there was no formal plan in place.

Another interesting observation was that there was no apparent relationship between the size of the SME and their propensity to have a formalised strategic plan. One would think that the “larger” SMEs would be more likely to have formal plans in place. This would agree with previous research done on small banks in the USA where it was determined that no correlation existed between the size of the SME and the strategic planning process (Robinson Jr & Pearce Ii, 1983)

5.3.8 *Consultants*

One other element that was looked at in the research was the use of consultants by SMEs for strategy formulation and planning. The majority of respondents (80%) indicated that they did not use or see a need for consultants. This is interesting as I would feel that a consultant could play a huge role in helping a small organisation especially as literature has determined that resources in SMEs are very limited (Mazzarol, 2004) and an outside consultant could add both value and time to an organisation.

It has been noted however that owners of small organisations are extremely reluctant to share their strategic plans with outside consultants (Robinson et al., 1984). Brink and Cant (Brink et al., 2003) in their work on the problems experienced by South African small businesses concluded that one of the reasons for the high failure rates of SMEs in South Africa was due to a reluctance from owners to seek outside advice when it came to management functions such as strategic goal setting and future planning. It would be interesting to see why owners of SMEs are so averse to using outside consultants and could be the basis for some future research.

5.3.9 *Conclusion*

The previous research and literature indicates that the majority of small business owners do not have formal strategic plans in place. A number of reasons are given for this from a lack of skills and confidence to the fact that the owner may be in business for reasons other than pure financial profit. The research conducted as it relates to the first hypothesis has shown that for the most part the results seem to back up the previous work done on this research topic. The research however did show that a lack of skills and confidence were less likely to be a factor as most respondents were well educated and had been in business for a long period.

The reasons may stem more from the fact that most owners surveyed preferred to operate their organisations on a more short-term planning basis and felt more comfortable dealing with opportunities and threats as and when they arose. This could be due to the fact that most firms operated in a dynamic, competitive market and needed to change quickly. Also the owner makes most of the decisions himself and therefore may not feel it relevant to have a formalised planning session or framework as most of the decisions are in his head.

Based on the research done, *Hypothesis 1: Small to medium enterprises do not have long-term strategic planning frameworks in place,* is proven to be true.

5.4 Discussion pertaining to Hypothesis 2 - Small to medium enterprises who utilise formal strategic plans have higher levels of performance

5.4.1 *Discussion of results*

In order to try and answer the second hypothesis, respondents were asked about their organisation’s performance from a financial and a competitiveness perspective. Sixty nine percent of respondents surveyed considered their industry environment to be very competitive.

According to the majority of strategic management studies it has been shown that that there are positive links between planning and improved competitiveness (Robinson Jr & Pearce Ii, 1983; Robinson et al., 1984; Wiklund & Shepherd, 2005).

Research conducted amongst SMEs showed that the majority of respondents (mean 5.17) considered their organisations to be financially successful with 84% indicating that they had made a net profit over the last three years. This appears to be quite high compared to similar research where only half of all respondents considered their businesses to be financially successful (Brink et al., 2003). Most organisations also considered their competitiveness to have improved over the last three years (mean 4.97).

This would therefore indicate that despite the majority of SMEs surveyed indicating that they do not have long-term strategic planning frameworks in place, they were still financially successful over the last three years and considered their competitiveness to have improved over the same period. This would tend to go against the majority of the literature reviewed (Mazzarol, 2004; Miller & Cardinal, 1994) but in some instances would agree with previous studies that had been undertaken. In a study conducted in the United Kingdom (Stonehouse & Pemberton, 2002) it was determined that there was more of a short-term planning approach than a strategy of long-term strategic thinking amongst SMEs. They did however conclude that this was the main reason for the high failure rate of SMEs.

This research would tend to agree with the first point but the findings conclude that most organisations surveyed were performing fairly well from a financial perspective and thus having no formal planning as a reason for failure doesn't appear to hold. This however could largely be due to the fact that only businesses that were still in operation were surveyed and SMEs that have failed should also be taken into account before reaching any final conclusions.

The literature as it relates specifically to SMEs however tends to show that when it comes to performance and competitiveness, firms that followed a less rigid approach and were more flexible tended to perform better (Alpkan et al., 2007). This would appear more likely to be the reason for the financial and competitiveness

performance. Even though owners had no formal strategic planning process in place it would still appear that they had a strategic plan and direction within which they were operating.

5.4.2 *Correlation Analysis*

The Correlation Analysis was run in order to determine if there was any link between strategic planning on the one hand and financial and competitive performance on the other.

The results showed that in actual fact there was a small negative correlation (-0.1205) between strategic planning and financial performance, indicating that respondents actually felt that formal strategic planning hurt their financial performance. There was a similar negative correlation (-0.256) between strategic planning and competitive performance. This could be due to the fact that previous research indicates that owners of SMEs may consider long-term planning to be too rigid and therefore does not accommodate the unpredictable environment in which small organisations often operate (Smit et al., 2011).

This was also confirmed by the research with 63% of owners saying they felt they needed to change strategic direction quickly and often.

The literature as mentioned earlier is fairly inconclusive when it comes to the relationship between strategic planning and firm performance. The results would tend to follow the results found in the research where it was determined that there doesn't appear to be any difference between those firms with a formal planning process and those without (Baird et al., 1994; Robinson et al., 1984). In previous research conducted however there appeared to be a very small (0.1507) positive correlation (Boyd, 1991) whilst a similar study on small firms also showed a small but significant positive relationship (Schwenk & Shrader, 1993). What this research did discover however was that the growth rate of sales appeared to be greater in firms that had formal planning processes in place.

It is still interesting to see that strategic planning has a negative correlation on financial performance. This was discussed earlier in the limitations of the study and it was suggested that respondents might be slightly biased when it comes to reporting on financial and competitive performance and may tend to lean slightly more to the positive. The only way to have countered this would have been to look at actual financial data of these organisations which unfortunately was not feasible for this type of study.

5.4.3 *Conclusion*

The literature is fairly inconclusive when it comes to formalised strategic planning in small to medium enterprises leading to improved financial and competitive performance in the long run. The research conducted appears to follow that results found in previous studies where there doesn't appear to be any difference in financial performance between firms that have formal strategic plans and those that don't.

The reasoning would be that because most firms surveyed indicated that they don't have formal strategic plans in place we would expect that they would also not be financially profitable or competitive. To the contrary, the data has shown that the majority of organisations were both competitive and financially profitable despite operating in competitive environments. There are some limitations to this data that have been discussed previously but it is still interesting to see that small firms can be both successful and competitive despite not having formalised strategic planning structures in place. The main conclusion that can be drawn from this is that even though there is no strategy planning process the owner-manager still has a strategy in place, even if it is not a formal documented policy.

In terms of answering Hypothesis 2: *Small to medium enterprises who utilise formal strategic plans have higher levels of performance,* it would appear that no conclusion can be made. There was no positive correlation between strategic planning and financial or competitive performance and both firms that made use of strategic planning and firms that didn't still appeared to be financially successful.

5.5 Conclusion

The research set out to try and determine the strategic planning process in small to medium businesses and then to try and correlate the planning process with the performance of the organisation. The literature and previous research told us that SMEs do not have formal planning processes in place despite the research showing that in most cases it was beneficial to the performance of the organisation. The research conducted agreed with the literature with regards to there being no formal planning process in place amongst SMEs in South Africa.

Where the research was not as clear was on the effect the lack of a planning process had on the performance of the organisation. The majority of respondents appeared to be both financially profitable and competitive. There also appeared to be a negative correlation between strategic planning and performance. The main reason given for this is that owners of SMEs see a strategic planning process as being too rigid and long-term whereas they prefer to be less rigid and more flexible when it comes to strategy planning.

CHAPTER 6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The chapter summarises the research results and the discussion on those results and also links back the research to the literature review. This chapter also offers some recommendations to owner-managers of SMEs as well as some advice on areas for future research.

6.2 Conclusions of the study

This study set out to try and determine what owners and managers of small to medium enterprises were doing when it came to strategic planning. The literature and previous research indicated that in most cases SMEs did not have formalised strategic planning processes in place and in some instances it was suggested that this was one of the reasons for the high failure rate of SMEs.

The second objective of the research was to try and see if there was any link between a formalised strategic plan and the performance of the organisation. The literature tended to lean towards there being a positive correlation between strategic planning in SMEs and subsequent performance of the organisation, especially over the long-term.

The research found that the majority of owner-managers of small to medium enterprises do not have formal strategic planning processes in place. This tended to agree with the literature as well as with similar research conducted previously. Some of the reasons for this from the literature are a lack of resources and the fact that SMEs may not have the luxury of long-term planning but rather need to be quick and agile in order to gain a competitive advantage. The research conducted would tend to agree with that as most respondents felt their business functioned best when they could operate on a day-to-day basis. One of the other reasons given in the literature to explain no formal planning amongst SMEs was the idea that owners of small firms may not be in business solely for the purpose of making

money but may have some ulterior reasons for having started the business such as lifestyle and independence. In this case we found that only a small percentage of the respondents' main reason for being in business was not to maximise profit and growth. The main conclusion then to be drawn from the research is the fact that most managers of SMEs spend a greater proportion of their time on day-to-day operations of the firm and managing customer relationships than a CEO of a larger firm would do. This could be due to ether a lack of resources or the fact that the owner is used to running his business in a very hands-on manner. A final conclusion could be that owner-managers surveyed do not see the relevance of a long-term strategic plan, especially when they operate in environments that are dynamic and constantly changing.

In terms of strategic planning leading to improved financial and competitive performance, the research conducted appeared to be contrary to the literature as well as previous research done on the topic. The results indicated that there was a negative correlation between strategic planning and financial performance amongst the owners that were surveyed. The literature also shows that there are positive links between strategic planning and improved competitiveness, and in this case it appeared that there was a slight negative correlation. The reasons for his may be due to one of the limitations cited earlier, that owners may be more likely to inflate their financial and competitive success especially if there is no proof required. Another reason is that they prefer short-term flexibility to formal plans. One of the limitations was that the sample only included firms that were still in operation and therefore it would be expected that the majority would be financially profitable. The conclusion on the second hypothesis therefore is rather more inconclusive and further research may be required.

6.3 Recommendations

The research is aimed at owners and managers of small to medium sized enterprises in South Africa as well as any researchers interested in SMEs and strategy.

The research indicated that owners and managers of small organisations in South Africa, as with most of the world, do not have formalised strategic planning frameworks in place. Even though most respondents suggested that they were still financially successful and competitive, it is still a very good idea to have some sort of formal planning process in place. Some of the benefits for the organisation are:

- All employees in the organisation, not only the owner, will be aware of the direction and ambitions of the organisation. This will lead to informed and motivated employees.
- Staff who deal with the market and customers on a day-to-day basis may have valuable information that could improve the strategy of the organisation. A formal strategic planning process allows all staff to add value to the strategy and vision of the organisation. This also helps to improve buy-in from employees.
- Should something happen to the owner, a detailed strategic plan helps the successors to continue running the organisation.
- The strategic planning framework does not need to be long-term in orientation. If the organisation operates in a dynamic environment, a planning session could cover anything from a month to a year. As long as the plan is reviewed and changed accordingly the time frame is not important.
- Using outside consultants to help with the strategic planning process where resources and knowledge are lacking could add value to a small organisation.

6.4 Suggestions for further research

The research conducted has been a starting point to determine the strategy practices of SMEs in South Africa and has taken a broad approach to the question. The research has also revealed some interesting questions with regards to further research.

The main limitation of the study has been that only organisations still in business were researched. A great deal could be learnt by looking at small businesses that have failed to try to determine if a lack of strategic planning was one of the reasons for the failure.

Further research could also be conducted in the South African context on the reasons for SMEs being in business and the propensity of strategic planning. The research conducted touched on the topic briefly but there is enough scope to conduct a thorough research project.

Another research topic that might add some interest would be to look at the previous employment of owners of small businesses. It would be interesting to determine if those employees with no previous management experience were more or less likely to have formal strategic planning processes in place than those who had been managers previously. It might also be worthwhile looking at those owners who have come out of corporate environments and comparing them to those from a small business environment in order to determine any correlation to strategic planning.

The time frame on the study was limited to the last three years. Research into firms and data over a longer period may be more beneficial, particularly from a financial and competitive performance perspective. It would give a better overall look at the performance relative to strategic planning.

Strategic planning is just one of the many steps involved in strategy. Similar research on strategy implementation and measurement could add valuable insight into the South African SME and possibly help reduce the failure rate.

Research into SMEs reluctance to make use of outside consultants would add value to the consulting industry and SMEs.

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Appendix A

Research instrument

In which province is your head office located?

- [ ] Gauteng
- [ ] Western Cape
- [ ] KZN
- [ ] North West
- [ ] Mpumalanga
- [ ] OFS
- [ ] Limpopo
- [ ] Northern Cape
- [ ] Eastern Cape

How many permanent staff do you employ?

- [ ] Less than 10
- [ ] More than 10 less than 25
- [ ] More than 25 less than 50
- [ ] More than 50 less than 100
- [ ] More than 100 less than 200
- [ ] More than 200

What was your gross turnover in the last financial year?

- [ ] Less than R1M
- [ ] More the R1M less than R5M
- [ ] More than R5M less than R20M
- [ ] More than R20M less than R50M
- [ ] More than R50M

What is your main operation? Please select one

- [ ] Services
- [ ] Engineering
- [ ] Manufacturing
- [ ] Construction
- [ ] Tourism
- [ ] Other

How long have you been in business?

- [ ] Less than 5 Years
- [ ] 6-10 Years
- [ ] 11-15 Years
- [ ] over 15 Years

What position do you occupy in your FIRM? Please select one

- [ ] Shareholder
- [ ] Owner-Director
- [ ] Senior Management
- [ ] Middle management
- [ ] Other

What is your highest level of formal education? Please select one

- [ ] PhD
- [ ] Master's Degree
- [ ] Graduate Degree
- [ ] Matric
- [ ] Other

If you have a degree or higher, please select the major subject of your degree

- [ ] Business Management
- [ ] Economics
- [ ] Engineering
- [ ] Social Sciences
- [ ] Other

If other please specify

_____

Are you a subsidiary of a larger firm?

- [ ] Yes
- [ ] No

If you answered Yes to the question above, do you follow their strategy planning process?

- [ ] Yes
- [ ] No

Strategic Planning

Please rank in order of importance to you as an owner-manager of your firm the following. With 1 being the most important and 6 being the least important.

- [ ] Overseeing day-to-day operations of the firm
- [ ] Creating new and improved products and services
- [ ] Monitoring the performance of staff
- [ ] Scanning the environment in which we operate in order to assess opportunities and threats
- [ ] Analysing competitors and the industry
- [ ] Customer relationship management

Please rank the following in order of the amount of time you spend on each task. With 1 being the majority of time and 6 being the least amount of time.

- [ ] Managing employees day-to-day functions
- [ ] Planning for future growth and revenue opportunities
- [ ] Dealing with day-to-day operations of the firm
- [ ] Reviewing the direction and performance of the firm
- [ ] Legislative and regulatory requirements
- [ ] Dealing with customers

Strategy Planning Process

Please select the number which best represents the strategy planning and implementation process within your business.
The following scale applies to all items

Strongly disagree 1 2 3 4 5 6 7 Strongly agree
Neutral

Typically we only know the content of our business strategy after we have engaged in some trial and error activities

1 2 3 4 5 6 7

Our business strategy is carefully planned and well understood before any competitive actions are undertaken

1 2 3 4 5 6 7

Formal strategic plans form the basis of our long-term actions

1 2 3 4 5 6 7

Our main reason for being in business is to maximise the firms profit and/or growth

1 2 3 4 5 6 7

Our strategy planning process is based upon a formalised framework such as a SWOT analysis or Porters industry analysis

1 2 3 4 5 6 7

Our business strategy is not formally planned in advance but instead evolves as new opportunities and threats present themselves to us

1 2 3 4 5 6 7

Our business continuously monitors and changes our strategic plans in order to best serve our customers

1 2 3 4 5 6 7

Our competitive business strategy is typically the result of a formal business planning process

1 2 3 4 5 6 7

Our business functions best when we can operate on a day-to-day basis with no formal planning in place

1 2 3 4 5 6 7

Planning and strategy formulation is undertaken solely by the owner-manager

1 2 3 4 5 6 7

Planning and strategy formulation is undertaken by all senior management

1 2 3 4 5 6 7

The use of outside consultants is important when it comes to strategy planning in our organisation

1 2 3 4 5 6 7

In my organisation the vision and mission are well known by all employees

1 2 3 4 5 6 7

<u>Industry Environment</u>

Please select the extent to which you agree or disagree with each statement as it pertains to your industry.
The following scale applies to all items

Strongly disagree 1 2 3 4 5 6 7 Strongly agree
Neutral

The failure rate of firms in my industry is high

1 2 3 4 5 6 7

Competitive intensity in my industry is high

1 2 3 4 5 6 7

My firm services a niche sector of the larger market

1 2 3 4 5 6 7

Customer loyalty is low in my industry

1 2 3 4 5 6 7

The need to change strategic direction quickly and often is a common thread in my industry

1 2 3 4 5 6 7

Changes in government regulations affect the industry constantly

1 2 3 4 5 6 7

Opportunities arise constantly in the industry

1 2 3 4 5 6 7

Threat of new entrants to the market is constant

1 2 3 4 5 6 7

I would describe my industry as being dynamic

1 2 3 4 5 6 7

I would describe my industry as being fairly static

1 2 3 4 5 6 7

<u>Business performance</u>

Please rank in order of importance the following business performance indicators to your business.
With 1 being the most important indicator and 7 being the least important

	Profit to Sales Ratio
	Sales Growth Rate
	Operating Profit
	Market Share
	Market Development
	New Product Development
	Net Profit after tax

Please select the extent to which you agree or disagree with each statement as it pertains to your firm's performance.
The following scale applies to all items

Strongly disagree 1 2 3 4 5 6 7 Strongly agree
Neutral

My firm is extremely profitable from a purely financial perspective
1 2 3 4 5 6 7

My firm has made an overall net operating profit over the last 3 years
1 2 3 4 5 6 7

The market share of our firm has improved over the last 3 years
1 2 3 4 5 6 7

There is a direct relation between our formal strategic planning and our improved competitiveness
1 2 3 4 5 6 7

Our sales growth has increased over the last 3 years in line with our planned expectations
1 2 3 4 5 6 7

Our staff turnover has increased over the last 3 years
1 2 3 4 5 6 7

Strategic imperatives form part of the management and staff performance reviews
1 2 3 4 5 6 7

Our level of staff performance has improved over the last 3 years
1 2 3 4 5 6 7

APPENDIX B

Research letter

The Graduate School of Business Administration

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To Whom It May Concern

This is to confirm that the MBA students at WITS Business School are required to carry out a Research Study on a topic of their choice that will serve as part of their Thesis which they need to complete in order to graduate and receive their Master in Business Administration certificate.

It is envisaged that the Research Report studies will be published in the Wits internal journal for further study by other students who might be interested in carrying through this study.

The purpose of the MBA Thesis is for students to develop a strong belief about a particular topic or subject, officially declare that belief on that subject within the beginning of the thesis, describe the process by which is intend to prove this belief, carry out that process, and finally describe the results of the process and write a conclusions.

We would appreciate any cooperation that you may be willing to give to our students in preparing their report, please note that any information received will only be used for academic purpose.

Your assistance will be truly appreciated.

Yours sincerely



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APPENDIX C

Consistency matrix

Research problem: Analyse and evaluate the strategy process in small to medium enterprises in South Africa					
Sub –problem	**Literature Review**	**Research questions**	**Source of data**	**Type of data**	**Analysis**
SMEs have no formal strategic plans in place	*(Baird et al., 1994; Wang et al., 2007; Wiklund & Shepherd, 2005)*	*Do SMEs have a formal planning framework in place when it comes to strategic planning*	*Online survey questionnaire*	*Quantitative data*	*Descriptive statistics* *Diagnostics test* *Regression analysis (Urban & Mothusiwa, 2014)*

SMEs with strategic plans perform better than those with out	*(Robinson Jr & Pearce Ii, 1983; Robinson & Pearce, 1984; Wiklund & Shepherd, 2005)*	*Does formal strategic planning improve the performance of SMEs relative to those firms who have no strategic planning processes*	*Online survey questionnaire*	*Quantitative data*	*Descriptive statistics* *Diagnostics test* *Regression analysis (Urban & Mothusiwa, 2014*