

**STRATEGIC PLANNING AND ITS RELATIONSHIP WITH THE PERFORMANCE  
OF SMALL AND MEDIUM-SIZED ENTERPRISES IN GAUTENG**

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**DECLARATION**

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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**STATEMENT 1**

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## **ABSTRACT**

Small and medium sized enterprises (SMEs) are the mainstay of economies and societies of many countries around the world. These enterprises are critical to the economy because of the way in which they contribute to the Gross Domestic Product, export revenue generation, innovation, the provision of goods and services that large enterprises depend upon, and the creation of employment opportunities, social stability and improvement of economic welfare. SMEs operate within the economic environment characterised by volatility, dynamism and competitive markets that may seriously threaten their survival. In South Africa, the operating environment for SMEs is constantly changing in the face of a volatile economic environment and a highly competitive market. For SMEs to weather the storm of such volatility and competitive climate, they need to engage in strategic planning processes.

While strategic planning research in large organisations has been studied extensively, little attention has been paid to strategic planning of small and medium sized enterprises. Strategic planning has not significantly filtered down to the SME sector. SMEs which practice strategic planning have plans, which are unstructured, less comprehensive and sporadic.

There is little evidence of empirical research that has sought to evaluate strategic planning within the sphere of small business research. Therefore, despite the widespread recognition of the importance and significant contributions of SMEs, research on these small businesses remains scarce. There is need for more systematic research aimed at revealing the true nature of strategic planning in SMEs. Despite the contributions of a number of researchers in the field, there is still no universal agreement as to the impact of particular types of planning on SME performance. The study analyses the relationship between strategic planning and the performance of SMEs. It is unique in that rather than using the traditional objective performance measures, subjective measures are used to measure the performance of SMEs.

The objective of this study was to establish the relationship between strategic planning and the performance of SMEs measured by perceptual measures of business performance. It also sought to ascertain the relationship between strategic planning and the plans of the business, as well as determining the relationship between business performance and its plans. Another objective was to examine the extent to which SMEs in South Africa have adopted the

strategic planning practices. Finally, this study sought to determine if there are differences in strategic planning practices with regard to demographic variables, namely gender, age, and position occupied in the business. A quantitative method was used. Surveys were conducted with 415250 SMEs, which were identified by convenience sampling method. Data from owners/managers of these SMEs was collected using self-administered structured questionnaires. Factor, correlation and regression analyses were conducted and the findings were discussed.

The main components of strategic planning include environmental scanning, business mission and vision, formality of strategic planning, employee participation in the strategic planning process, source of information about the environment, strategy implementation incentives, monitoring, evaluation and control, and time horizon of strategic planning. The finding of this study shows that there is a positive causal relationship between strategic planning and the performance of SMEs measured by perceptual measures of business performance. It was also found that there is a mixed relationship between strategic planning and future plans of the SMEs. An additional finding is that business performance has a positive relationship with the plans of the business. The results also indicate that the majority of SMEs practice strategic planning. Finally, the results reveal that the gender, age and occupation of the respondent do not influence the strategic planning practices in SMEs. The only strategic component that depends on the occupation of the respondent is the use of mission and vision statements. Given that today's business environments for SMEs are characterised by high levels of competition, uncertainty and turbulence, it is recommended that SMEs should adopt more strategic planning practices so that they can make informed decisions. In order to ensure their success and sustainability, SMEs should scan the environment more frequently and seriously than they currently do.

**Key words:** Strategic planning, Planning, Business performance, Performance measures, Gauteng, Small and medium enterprises.

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## **CHAPTER 1 - INTRODUCTION AND PROBLEM ORIENTATION**

### **1.1 INTRODUCTION AND BACKGROUND TO THE STUDY**

The study seeks to establish the relationship between strategic planning and business performance of small and medium enterprises (SMEs) in South Africa. The operating environment for SMEs in South Africa is highly competitive and dynamic. In order to remain competitive, SMEs need to practice strategic planning. The study, therefore, seeks to ascertain if the practice of strategic planning enhances the performance of these enterprises. To this end, the study seeks to establish the relationship between different components of strategic planning and perceptual measures of business performance of SMEs.

SMEs are the mainstay of economies and societies of many countries around the world. Over the years, research has indicated that these enterprises are critical to the economy because of the way in which they contribute to the Gross Domestic Product (GDP) and their ability to provide goods and services, which large enterprises depend upon (Visagie 1997:661; Vinberg 2006:13; Agupusi 2007:2; Padalka 2007:5). In many countries, SMEs play a significant role in local communities by providing employment opportunities, social stability and economic welfare (Massey 2003:3).

SMEs operate within the economic environment characterised by volatility, dynamism and competitive markets that may seriously threaten their survival (O'Regan & Ghobadian 2002:663; Hernandez, Dewhurst, Pritchard & Barber 2004:691). In South Africa, the operating environment for SMEs is constantly changing in the face of a volatile economic environment and a highly competitive market. For SMEs to weather the storm of such volatility and competitive climate, Dansoh (2005:113) is of the view that SMEs need to engage in a strategic planning process.

According to Jennings and Disney (2006:598), stable environments appear to require less planning activity, whereas unstable and competitive environments require increased planning capability and comprehensiveness, as well as greater planning flexibility. Studies have suggested that SMEs can use strategic planning as a weapon to cushion them from the unstable business environment in order to ensure their survival and growth (McNamara 1997:1; Bellamy 2002:1; Kraus, Harms & Schwarz 2006:334).

The need for strategic planning is even more pronounced in emerging economies like South Africa where the business environment is unstable, business cycles alter and competition is tightening. In this regard, Dansoh (2005:163) posits that strategic planning enables SMEs to be forward looking and vigilant to be able to cope with these circumstances.

French (2009:9) defines strategic planning as a process of setting objectives, analysing the situation, developing concepts to deal with the situation as well as achieving and implementing its objectives. Raczynski (2008:27) states that strategic planning is about looking at where an organisation wants to go in the future and putting together the resources, assets and the personnel to get there. In addition to analysing where the organisation wishes to be in future, strategic planning involves determining what outside forces may influence the vision. These include the actions of competitors, technical breakthroughs, and threats from changes in the world environment (Raczynski 2008:27). According to O'Regan and Ghobadian (2002:664), the purpose of strategic planning is to enable a business to gain a sustainable edge over its competitors.

Several theorists and practitioners have argued for the need of strategic planning. A major claim of such arguments is that strategic planning creates a viable link between an organisation's objectives, goals and resources. Desai (2000:686) states that strategic plans are based on careful environmental analysis, together with knowledge of organisational objectives and goals. Furthermore, Schraeder (2002:8) believes that strategic planning provides an operational framework, which allows an organisation to enjoy competitive advantages, and improved performance.

Small and medium enterprises, which engage in strategic planning, are more likely to be those that achieve higher sales growth, high returns on assets, higher margins on profit, higher employee growth, achieve international growth, and are less likely to fail (O'Regan&Ghobadian 2002:664; Wang, Walker & Redmond 2007:3).

Despite the apparent benefits of strategic planning, a study by Bellamy (2002:1) revealed that the strategic planning behaviour by SMEs has been characterised as "unstructured, irregular, reactive, vague, inadequately defined and generally short-range". Although findings generally

support the argument that on balance there are greater advantages to strategic planning than not planning, strategic planning in the majority of SMEs remains rare or non-existent. Stonehouse and Pemberton (2002:4) postulate that SMEs tend to orientate towards short-term operational rather than long-term strategic issues, and decision making tends to be reactive rather than proactive in nature.

On the other hand, critics of strategic planning have argued on several fronts. For example, Desai (2000:686) accuses strategic planning of stifling creativity by eliminating true vision and synthesis from the process of change. Kraus *et al.* (2006:3) maintain the view that the strategic planning process is by nature costly and that it makes more sense for SMEs to use the limited time resources available for operational or sales activities, or research and development, rather than for the strategy-formulation process.

In support of this view, McDonald (1998:456) argues that too much reliance on the strategic planning process can result in the formulation of highly inappropriate, and even counterproductive strategies. Another risk for SMEs, which engage in the strategic planning process, is that the inaccurate information gathered may lead an SME to make wrong market and investment decisions (McDonald 1998:456).

Dooris (2003:27) also criticises the strategic planning process for involving too much paperwork, being structured, formalised and discouraging creativity. According to Raps (2005:141), the success rate of implementing strategic plans requires much more time and energy than formulating it.

When it comes to the relationship between strategic planning and performance, studies, which have been conducted mainly focus on large enterprises. In their study on the largest Turkish firms, Glaister, Dincer, Tatoglu, Demirbag, and Zaim (2007:381) found a strong relationship between formal planning practices and firm performance. The study also observed that contextual factors such as the nature of ownership and shareholding, and whether firms operate in developed or developing economies, play a role in the planning-performance relationship. Earlier studies suggested that no relationship exists between formal strategic planning and performance (Bresser & Bishop 1983:588).

Different views exist on how to measure business performance. Several business performance studies have tended to use a variety of measures, which can be classified as objective or subjective (Falshaw, Glaister&Tatoglu 2005:16). While objective measures include financial records, namely profit, turnover, return on investment, return on capital employed, and inventory turnover, subjective measures are about the managers' perceptions of business performance (Phillips, Davies &Moutinho 1999:281).

Chong (2008:2) criticises objective measures for being inaccessible, confidential, incomplete and inaccurate. In his view, profit figures are subject to manipulations, which make comparisons among different sectors difficult. In a similar vein, Chow and Van der Stede (2006:2) argue that objective measures are unreliable because they are too aggregated and backward looking. Managers are, therefore, unable to understand the root causes of performance problems and make cross-functional decisions. A study by Tang and Zhang (2005:4) reveals that objective performance data are influenced by industry specific factors and hence, are inappropriate for cross-industry comparison.

In addition, Tang and Zhang (2005:4) state that more researchers rely on subjective measures because of the difficulty in obtaining objective performance data. Tapinos, Dyson and Meadows (2005:375) explain that perceptual measures may lack reality but are useful because they form the basis for behaviour. Falshaw *et al.* (2005:16) argues that objective measures are flawed and unsuitable for research purposes.

Having been justified by several writers (Falshaw *et al.* 2005:16; Tapinos *et al.* 2005:37; Chow & Van der Stede 2006:2; Chong 2008:2), the subjective measures of business performance will be used this study. In other words, instead of looking into the objective measures of business performance the study will rely on the perceptions of the owners/ managers on those measures and thus, the business performance.

In the light of the above, it is evident that there is a strong argument from the literature that SMEs need to engage in strategic planning if they are to maintain their position as key economic players. Advocates of strategic planning by SMEs believe that it cushions SMEs from highly unstable business environments characterised by the heightened pace of

technological change, increased government regulations, volatile business cycles, tightening of competition, and inflationary pressures which reduce their capital.

Against this background, it is important to investigate the strategic planning behaviour of SMEs in South Africa, and if they do engage in strategic planning, whether they derive any benefits as a result.

## **1.2 PROBLEM STATEMENT**

While strategic planning research in large organisations has been studied extensively, little attention has been paid to strategic planning of small and medium sized enterprises (O'Regan&Ghobadian 2002:663). Lobontiu (2002:11) argues that strategic planning has not significantly filtered down to the SME sector and that those, which engage in the strategic planning exercise, have plans that are unstructured, less comprehensive and sporadic.

There is little evidence of empirical research that has sought to evaluate strategic planning within the sphere of small business research (French *et al.* 2004:765). Furthermore, Sum, Jukow and Chen (2004:321), also agree that despite the widespread recognition of the importance and significant contributions of SMEs, research on these small businesses remains scarce.

Phillips (2000:547) has suggested the need for more systematic research aimed at revealing the true nature of strategic planning in SMEs. Despite the contributions of a number of researchers in the field, there is still no universal agreement as to the impact of particular types of planning on SME performance.

There is no evidence of research conducted in the Gauteng province of South Africa that has determined the impact of strategic planning practices of SMEs on their performance. This study attempts to contribute to the body of knowledge in this field.

### **1.3 HYPOTHESES AND THEORETICAL OBJECTIVES OF THE STUDY**

The study seeks to determine the relationship between strategic planning and business performance.

#### **1.3.1 Hypotheses**

The following hypotheses have been formulated:

- H<sub>1</sub>*: Strategic planning exhibits a positive relationship with SME performance, measured by perceptual measures of performance.
- H<sub>2</sub>*: Strategic planning exhibits a significant predictive relationship with SME performance, measured by perceptual business performance measures.
- H<sub>3</sub>*: Strategic planning exhibits a positive relationship with the future plans of the business.
- H<sub>4</sub>*: Strategic planning exhibits a significant predictive relationship with the future plans of business.
- H<sub>5</sub>*: SME performance, measured by perceptual performance indicators, exhibits a positive relationship with the future plans of the business.
- H<sub>6</sub>*: SME business performance exhibits a significant predictive relationship with the future plans of the business.

#### **1.3.2 The primary objective**

The primary objective of the study is to establish the relationship between strategic planning and the performance of SMEs in South Africa.

#### **1.3.3 Theoretical objectives**

In determining the above hypotheses, the following theoretical objectives are formulated:

- To conduct a literature review on SMEs in general, and their role in the global and South African economy
- To conduct a review of literature on the challenges faced by SMEs as well as the support mechanisms they need for their development
- To conduct a literature review on the strategic planning process, strategic planning tools, techniques and performance outcomes in SMEs
- To conduct a literature review on the relationship between business performance and strategic planning.

### **1.3.4 Empirical objectives**

The following empirical objectives are formulated to determine the hypotheses mentioned above:

- To ascertain the dimensions of the strategic planning process adopted by SMEs
- To establish whether there are any significant differences among respondents according to gender, age and the position occupied in the SME and the strategic planning practices
- To establish the relationship between strategic planning practices and business performance
- To evaluate the relationship between strategic planning practice and future plans of the business
- To examine the relationship between SME performance and future plans of the business.

## **1.4 RESEARCH METHODOLOGY**

A quantitative research study was used in this study. The target population was restricted to SMEs operating in the Gauteng Province. 415 SMEs were identified by means of convenience sampling. Descriptive statistics such as the mean, standard deviations and frequency distributions were used to analyse the composition of the sample. Correlation coefficient was calculated in order to determine the relationships between variables. Factor analysis was conducted to reduce the number of variables involved in the study. To ascertain whether there is a statistically significant relationship between strategic planning and business performance, a multiple regression analysis was employed. The Statistical Package for Social Sciences (SPSS) Version 20.0 for Windows was used in the analysis of the data. Chapter five of this study is dedicated to describe the methodology in detail.

## **1.5 ETHICAL ISSUES**

The researcher ensured that the following principles were adhered to. First, the anonymity of respondents was preserved. Secondly, respondents were informed that participation in

the study was voluntary. Thirdly, all respondents were treated with respect, and finally efforts were made to make sure that the respondents were protected from discomfort and harm.

## **1.6 SIGNIFICANCE OF THE STUDY**

The study is valuable to SMEs in that it extends the knowledge of strategic planning practices, techniques and processes, which can result in enterprise growth and competitiveness. The results of the proposed research study should assist managers in understanding the strategic path through which strategic planning can assist a business achieve a future desired position. In particular, the proposed study suggests the mechanism used by managers to adopt strategic planning in order to gain competitive advantage. In essence, this research, combined with the results of the previous studies, serves as a tool for small businesses to improve the effectiveness of strategic planning and their sustainability.

## **1.7 DEFINITION OF KEY TERMS**

**SMEs:** Various countries, regional economic groupings and multilateral institutions use different methods to define SMEs. Generally, criteria such as the number of employees, total net assets, sales, investment levels and the maximum loan size are used to define SMEs. However, the commonly used criterion is the number of employees. In most countries, SMEs are businesses employing a maximum of 250 full time employees.

**Gauteng:** A province of South Africa, containing the cities of Pretoria, Johannesburg and Vereeniging.

**Business performance:** An indicator that measures the business' efficiency and effectiveness in achieving the goals, or the business' ability to produce results in relation to set targets. It has also been defined as how well the business satisfies the needs of employees, customers and other stakeholders.

**Performance measures:** These are indicators of business performance. Generally, organisations can use the objective and the subjective measures to measure their performance. The objective business performance measures are the financial and quantitative performance indicators, while subjective measures are qualitative and non-financial, and are



generally based on the perceptions of respondents about the performance of the business. Examples of financial measures include return on investment, return on assets employed, return on sales, and growth in revenues, cash flow, and market share of number of employees. Scholars have encouraged the use of these non-financial measures because they are subjective in nature. The components of subjective measures are ethical behavior, customer satisfaction and retention, employee motivation and retention, volume of sales, market share, quality of products/service, business image, delivery performance, process improvement, throughput time, quality, machine flexibility and inventory levels.

**Planning:** It is a formalised method of achieving a desired result by employing a system of decisions. The main objective is to think about the future and taking actions, in order to achieve the desired future state (Pevzner 2006:4).

**Strategy:** An integrative action plan that specifies the set goals, decisions, action programmes priorities in resources allocation, as well as the mission and vision of the business. A strategy shows the business an organisation is in or wants to be in, how the business assesses the environment to achieve competitive advantages, tasks of personnel and the contributions the business will make to meet the needs of its stakeholders (Pevzner 2006:5).

**Strategic planning:** It is a complex and participative management technique of scanning the environment and the formulation of mission, vision and strategies in order to improve the performance of the organisation and hence, its competitiveness in the market. It involves making decisions, anticipating changes and making necessary adjustments needed to respond to uncertainties in the environment. It is about competitive advantage. It is regarded as a necessary condition to gain a sustainable edge over rivals because, through strategic planning, an organisation is well informed about its internal and external environments, and is therefore, able to devise relevant strategies to achieve its goals. The key aspects of strategic planning include the long term view of an organisation, defining the line of business, and ensuring a strategic 'fit' or 'balance' between the business and its environment.

## **1.8 CHAPTER CLASSIFICATION**

**CHAPTER 2** focuses on a review of literature with a particular focus on SMEs. The chapter provides an overview of SMEs definition in the South African context, SMEs role in the economy, key challenges facing SMEs, as well as measures to support SMEs.

**CHAPTER 3** provides a further review of literature on the strategic planning process. Strategic planning process activities such as defining a mission, setting objectives, external analysis, internal analysis, developing alternative strategies, strategic selection, implementation and control, will be discussed. These activities are examined in order to evaluate the extent of strategic planning in SMEs.

**CHAPTER 4** provides a further literature review on the effect strategic planning has on the success of a business enterprise.

**CHAPTER 5** discusses the design and method of research utilised in the study. The sample and data collection method is discussed. The method of data analysis and statistical technique is also outlined.

**CHAPTER 6** deals with the presentation, interpretation and analysis of the research findings.

**CHAPTER 7** provides conclusions and recommendations emanating from the study. Limitations and implications for further research are also highlighted. The chapter also demonstrates whether, and how, the objectives of the study were met.

## **1.9 CONCLUSION**

This chapter introduced the problem statement of the study. The research objectives, scope, hypotheses to be tested as well as the methodology were discussed. The chapter concluded with a discussion on the value of the study. The next chapter focuses on a review of literature on SMEs. Strategic planning is therefore, regarded as an important business tool which SMEs may utilise in order to be competitive. Today's business environment is now dynamic. Consumers are more demanding due to constant changes in their tastes and preferences, and because of globalisation, there are more players in the business world, leading to intense competition. Many changes are taking place at a very fast rate in the political, economic, social, technology and regulatory fronts. These changes pose serious challenges to sustainability of SMEs. These enterprises may cushion themselves from these threats if they utilise strategic planning. By practicing strategic planning, SMEs are able to improve their performance because they are in a better position to understand their business environments

and hence, adapt their strategies to suit the environment. The next chapter presents the literature review on SMEs, their characteristics, roles, challenges and the policy interventions that may be used to promote these enterprises.

## CHAPTER 2 – SMALL AND MEDIUM ENTERPRISES

### 2.1 INTRODUCTION

The previous chapter provided the introduction and background to the study. It also highlighted the problem statement, research objectives, scope of the study and the research methodology employed in this study. This chapter seeks to discuss the main issues concerning SMEs in general. The main aspects to be discussed include the definitions of SMEs, characteristics of SMEs, debate about SME support policies, the contributions made by SMEs, various constraints faced by SMEs and finally, the policy recommendations to support the SME sector. The first section discusses the various definitions of SMEs while the second section describes their characteristics and the debate about SME support policies. The succeeding section provides the key contributions made by the small business sector. It is followed by a discussion on the constraints faced by SMEs. The final section provides the recommendations about policy intervention strategies to minimise the constraints, with a view to enhance their growth.

Over the years, SMEs have played a significant role in the growth and development of the global economy as well as that of South Africa. In order to effectively play this role, there is a serious need to devise policy interventions that address various challenges confronting SMEs. There is consensus among researchers and policy makers that SMEs play a crucial role in driving economic growth in both developed and developing countries. They argue that besides creating job opportunities, the sector is innovative and it significantly contributes to the gross national product of an economy. For that reason, there is a general view that intervention policy measures should be put in place to minimise the challenges facing this sector so that it can realise its potential.

However, some policymakers and practitioners are doubtful about the role of these SMEs. They argue that the SME sector is characterised by high failure rates and therefore, one cannot be very confident about the contribution made by this sector (Beck, Kunt & Levine 2005:1). The absence of substantial evidence to support the notion that SMEs significantly contribute to economic contribution has led some policy makers to have low confidence in the role of these enterprises (Beck *et al.* 2005:1; Gibson & Van der Vaart 2008:3). Thus, while there is a general view that the SME sector makes a significant contribution to the growth and

development of the economy, others are skeptical about the view. Before discussing the characteristics and the role of SMEs, the following section presents definitions of these enterprises.

## **2.2 SME DEFINITIONS**

SMEs are defined differently across various industries, sectors, regional economic groupings and countries. According to Ayyagari, Demirguc-Kunt and Maksimovic (2011:6) the term SME encompasses a diversity of definitions and measures that vary across countries and sources reporting SME statistics. Gibson and Van der Vaart (2008:4) argue that the absence of a uniform definition of SMEs amongst different countries, has caused problems in the design, implementation, coordination and evaluation of SME- related policies. The authors posit that SME definitions are so diverse that a small enterprise in one economy may be considered a medium sized business in another economy and big in another one. Furthermore, the absence of a universally agreed SME definition poses challenges to international development agencies when they want to provide credit, finance and other forms of assistance (Asasen, Asasen & Chuangcham 2003:18).

To define SMEs, various countries, regional economic groupings and multilateral institutions have adopted several different methods. This section presents these SME definitions. Ayyagari *et al.* (2011:6) contend that generally, the number of employees, total net assets, sales and investment levels are used as criteria to define SMEs. In their study of the contribution of small enterprises' contribution to employment in 99 countries, Ayyagari *et al.* (2011:6) used 250 permanent full-time employees as the cut-off for defining SMEs. A cross-country analysis by Ardic, Mylenko and Saltane (2011:8) also used employment as the criterion to define SMEs. Table 2.1 shows the various criteria used by the 13 selected countries in defining SMEs.

**Table 2.1: Criteria for defining SMEs in selected countries**

Countries	Maximum number of employees	Maximum Sales (USD)	Maximum Loan Size (USD)
Bangladesh	150	-	-
Botswana	100	698 301	-
Canada	499	43 700 000	4 374 069
<b>South Africa</b>	<b>200</b>	<b>588 235</b>	-
Kuwait	-	-	868 703
Morocco	-	6 205 707	124 114
Oman	99	5 201 561	-
Taiwan, China	200	2 420 099	-
United Kingdom	250	35 500 000	-
Uruguay	100	3 323 292	-
Zambia	50	49 543	-
Zimbabwe	20	-	50 000

Source: Ardic *et al.* (2011:21)

The European countries adopted a definition that was agreed upon at the Bolton Committee of 1971 (Tonge 2001:5; Abor & Quartey2010:219), which defines an SME by using both the ‘economic’ and ‘statistical’ classifications. According to the economic definition, an enterprise is classified as small if it has a relatively small share of the market, and is managed by owners or part-time owners in a personalised way and not through the medium of a formalised management structure. The statistical definition states three criteria that need to be met for an enterprise to be regarded as small. The first is to quantify the size of the small enterprise and its contribution to economic aggregates such as GDP, employment, exports and innovation. The second is to consider the extent to which the small enterprise has changed its economic contribution overtime. Thirdly, comparisons are made between SMEs in one country, with those of other countries. The SME definitions are shown in Table 2.2.

**Table 2.2: EU SME definitions**

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining & quarrying	25 employees or less
Retailing	Turnover of £50 000 or less
Miscellaneous	Turnover of £50 000 or less
Services	Turnover of £50 000 or less
Motor trades	Turnover of £100 000 or less
Wholesale trades	Turnover of £200 000 or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

Source: Tonge (2001:5)

Table 2.2 illustrates that SMEs have varied definitions because they belong to different sectors. The table also illustrates that different criteria are used to judge the smallness of an enterprise in different sectors. For example, the manufacturing, mining and quarrying sectors consider the number of employees; the services sector uses the sales turnover criterion, while the catering sector considers the ownership. With regard to road transport, physical assets such as number of vehicles, are considered (Tonge 2001:6). Napier, Serger and Hansson (2004:53) opine that SMEs are defined according to the geographical region in which they are found. The authors argue that while one region may consider all of the parameters to classify SMEs, such as number of employees, turnover, total assets, invested capital and net assets, another region may consider a few of the parameters.

Gibson and Van der Vaart (2008:4) provide different SMEs definitions that have been adopted by different multilateral institutions. Table 2.3 illustrates these definitions.

**Table 2.3: SME definitions used by multilateral institutions**

<b>Institution</b>	<b>Maximum No. of Employees</b>	<b>Max Revenues or Turn over(\$)</b>	<b>Maximum Assets (\$)</b>
World Bank	300	15000 000	15000 000
MIF – IADB	100	3000 000	(none)
African Development Bank	50	(none)	(none)
UNDP	200	(none)	(none)
Asian Development Bank	No official definition. Uses only definitions of individual national governments		

Source: Gibson and Van der Vaart (2008:4)

Table 2.3 shows disparities in defining SMEs by the World Bank, Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB), United Nations Development Programme (UNDP), African Development Bank and Asian Development Bank. For example, the World Bank’s SME definition includes enterprises that are three times larger, by turnover or assets, than the largest SME, according to MIF definition. According to the World Bank definition, an SME is an enterprise employing fulltime staff not exceeding three hundred, with an annual turnover of United States Dollars (USD) of 1.5 million and a

maximum asset value of USD 1.5 million. On the other hand, the UNDP defines an SME considering only the number of employees (maximum of two hundred) but assets and annual turnover are not considered. The MIF definition holds that an enterprise employing one hundred fulltime employees, with an annual turnover of USD 300 000, is classified as an SME. This shows that various institutions define SMEs differently. Therefore, it can be noted that amongst the multilateral institutions, no agreement exists as to what constitutes an SME.

Furthermore, Gibson and Van der Vaart (2008:5) showed the official definitions of SMEs used by different geographically and economically diverse countries. Each country is first listed by its rank in the average gross national income per capita (PC-GNI), and then by its rank according to the maximum employment of an SME, according to the national government as depicted in Table 2.4.

**Table 2.4: Official national definitions of SMEs**

Country by PC – GNI	Maximum No. of Employees
Norway	100
Switzerland	250
Australia	200
Brazil	100
Belarus	250
Thailand	200
Peru	200
Moldova	250
Egypt	50
Nicaragua	100
Pakistan	50
Vietnam	300
Bangladesh	100
Ghana	100
Tanzania	20
Malawi	50
Vietnam	200
Belarus	250
Moldova	205
Switzerland	250
Australia	200



Country by PC – GNI	Maximum No. of Employees
Morocco	200
Peru	200
Thailand	200
Bangladesh	100
Brazil	100
Ghana	100
Nicaragua	100
Norway	100
Egypt	50
Malawi	50
Pakistan	50
Tanzania	20

Source: Gibson and Van der Vaart (2008:5)

From Table 2.4, it can be seen that small enterprise by the standards of a developed country could be a medium or big business in a developing country (Gibson & Van der Vaart 2008:5). This view is consistent with Meier (1993:2), who states that a big enterprise, by a developing country standard, may be considered small. For example, the largest Vietnamese SMEs are three times the size of the largest SME in Norway. Similarly, the UNDP and World Bank SME definitions would include the majority of Ghana's big manufacturers as small businesses.

In spite of the fact that Egypt's PC-GNI is approximately three times as large as Ghana's, what is officially an SME in Egypt may not exceed half the size of the upper limit in Ghana (Gibson & Van der Vaart 2008:5). This further demonstrates the absence of an international consensus on what constitutes an SME. The main concern of Gibson and Van der Vaart (2008:5) is that these disparities among SME definitions complicate the SME dialogue, and consequently, donor and government resources may be misplaced. In this respect, Ardic *et al.* (2011:8) advocate for the harmonisation of SME definitions so that policy makers are better able to have more accurate monitoring of the SMEs, in line with the agreed definitions.

The South African government's general definition for SME is any business with fewer than 200 employees, where fewer than fifty workers are deemed small, and between 50 and 200, medium sized. In addition, the SME has an annual turnover of R5 million, and the SME

owners are involved directly in the daily management issues. The National Small Business Amendment Act (29 of 2004) defines or classifies SMEs by considering the sector or sub-sector to which they belong. Table 2.5 below provides these classifications.

**Table 2.5: South African SME classifications**

<b>Sector or sub-sector in accordance with the Standard Industrial Classification</b>	<b>Size or Class</b>	<b>Total full-time equivalent of paid employees Less than:</b>	<b>Total annual Turnover Less than:</b>	<b>Total gross Asset value (fixed property excluded) Less than:</b>
<b>Agriculture</b>	Medium	100	R4.00 m	R4.00 m
	Small	50	R2.00 m	R2.00 m
	Very small	10	R0.40 m	R0.40 m
	Micro	5	R0.15 m	R0.10 m
<b>Mining and quarrying</b>	Medium	200	R300.00 m	R18.00 m
	Small	50	R7.50 m	R4.50 m
	Very small	20	R3.00 m	R1.80 m
	Micro	5	R0.15 m	R0.10 m
<b>Manufacturing</b>	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R3.75 m
	Very small	20	R4.00 m	R1.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Electricity, gas and water</b>	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R3.75 m
	Very small	20	R4.00 m	R1.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Construction</b>	Medium	200	R20.00 m	R4.00 m
	Small	50	R5.00 m	R1.00 m
	Very small	20	R2.00 m	R0.40 m
	Micro	5	R0.15 m	R0.10 m
<b>Retail and motor trade and repair services</b>	Medium	100	R30.00 m	R5.00 m
	Small	50	R15.00 m	R2.50 m
	Very small	10	R3.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Wholesale trade, commercial agents and allied services</b>	Medium	100	R50.00 m	R8.00 m
	Small	10	R25.00 m	R4.00 m
	Very small	20	R5.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Catering, accommodation and other trade</b>	Medium	100	R10.00 m	R8.00 m
	Small	50	R5.00 m	R4.00 m
	Very small	10	R1.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Transport, storage and communications</b>	Medium	100	R20.00 m	R5.00 m
	Small	50	R10.00 m	R2.50 m
	Very small	10	R2.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
<b>Finance and business services</b>	Medium	100	R20.00 m	R4.00 m
	Small	50	R10.00 m	R2.00 m
	Very small	10	R2.00 m	R0.40 m
	Micro	5	R0.15 m	R0.10 m
<b>Community, social and personal services</b>	Medium	100	R10.00 m	R5.00 m
	Small	50	R5.00 m	R2.50 m
	Very small	10	R1.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m

Source: National Small Business Amendment Act (29 of 2004)

From the various definitions above, it can be noted that there is a considerable degree of diversity and conflict among official definitions in different countries. Official national definitions vary too greatly from definitions used by international donor organisations. These disparities have a potential to distort the formulation and implementation of SME policy, resulting in misapplication of resources. Major multilateral development institutions should have coherent SME definitions to ensure uniformity in the formulation, implementation and evaluation of policies of the sector. SMEs have unique characteristics that make them different from their large organisation counterparts.

### **2.3 CHARACTERISTICS OF SMES**

Both SMEs and large enterprises share similar characteristics with regard to organisational and behavioural attributes (Kayanula & Quartely 2000:12; Vinberg 2006:9). Nonetheless, as compared to large enterprises, SMEs

- have shortcomings in the preparation and utilization of business plans
- are more flexible and can easily adapt to dynamic market conditions
- more often employ unskilled and inexperienced personnel who do not meet the requirements of large enterprises
- lack technological expertise and are slow to seize opportunities arising from the availability of cheap technology
- are mostly managed by their owners who have lack management skills
- have short- to medium-term plan orientation rather than long-term growth
- lack networking skills
- are not willing to share business information with colleagues
- are reluctant to spend on information technology
- show a strong drive for independence
- rely more on personal relationships between management and employees, as well as between management and customers.

Tonge (2001:9) notes that three distinguishing characteristics differentiate SMEs from large enterprises. These are environmental uncertainty, innovation and evolution. With regard to environmental uncertainty, Tonge (2001:9) states that SMEs are more prone to rapid changes in the environment, as compared to large enterprises. This could be explained by resource

constraints, lack of experience in dealing with dynamic environments, and lack of knowledge in planning for the changes. As far as the introduction of new technology is concerned, Tonge (2001:9) posits that SMEs are more innovative than large businesses because of their size and flexible structures. Furthermore, because of their size and flexible structures SMEs are more likely to be in a state of change as they move from one stage to another, as compared to the large enterprises. The discussion about the characteristics of SMEs indicates that they are a unique sector, which needs unique policies that help these enterprises to grow. However, there is no consensus among policy makers about whether or not to put more attention on promoting SMEs rather than investing resources in large enterprises.

#### **2.4. THE ARGUMENTS FOR AND AGAINST PRO-SME POLICIES**

Worldwide, the attention of policy makers and practitioners has shifted from large enterprises being the major contributors of economic growth and job creation, to a general recognition of SMEs being the backbone of economies. Therefore, some policy makers and academics have advocated for intervention policy measures to promote the further growth of this sector (Eeden, Viviers & Venter 2003:13; Mahadea & Pillay 2008:431).

However, others have raised questions about this view, calling into question the exaggerated ability of SMEs to be main contributors to job creation, economic growth and poverty alleviation. These opposing views between advocates of SMEs and those who are skeptical about SMEs have resulted in a complex and an ongoing, unresolved debate. This debate about the role of SMEs is attributed to a diversified number of theories and empirical research approaches used by economics, sociology and business management researchers (Luetkenhorst 2004:1).

Beck, Kunt and Levine (2005:45) criticise the notion that SMEs are more efficient than larger enterprises in job creation, innovation creation and pace of growth due to lack of substantial data to support them. Becket *al.* (2005:45), in their cross-country study with a sample of 45 developed and developing countries, found out that the positive association between SME contribution and economic growth is not statistically robust, and no evidence was found to substantiate the view that SMEs alleviate poverty or decrease income inequality.

Four arguments have been put forward by those who are critical about policies that promote channeling of huge amounts of financial resources by governments and the international community as aid to subsidise SMEs (Beck *et al.* 2005:1). The first argument put forward by the skeptics is that SMEs are neither labour intensive, nor better job creators. If the SMEs are not significant job creators, then the skeptics see no point of investing heavily in this sector. Some studies that were conducted in different economies also confirm that SMEs are not significant job creators. For example, a study of constraints facing South African SMEs by Chandra, Moorthy, Nganou, Rajaratnam and Schaefer (2001:15) found that there was a 7 percent aggregate net employment loss in SMEs between 1997 and 1999. Chandra *et al.* (2001:15) therefore, raised doubts over the SMEs' potential to create sustained employment and incomes over a long-term. Mueller, Van Stel and Storey (2008:25) report a similar finding. They reviewed the contribution made by SMEs in Scotland and Wales, and found that there was a negative relationship between SME formation and employment growth.

Secondly, skeptics argue that large enterprises provide more stable and high quality jobs than smaller ones, hence are more efficient in reducing poverty than SMEs. The argument is supported in Reinecke's (2002:9) literature review on the impact of the policy environment on the creation and improvement of jobs within small enterprises. Reinecke (2002:9) points out that unlike large enterprises, jobs in small enterprises are less productive, less secure and lowly remunerated. The author, therefore, questioned the ability of SMEs to pay salaries that are sufficient to move employees above the poverty datum line. The author further argues that SMEs can be helpful in assisting several poor people to become less poor, but their weakness is the failure to provide quality employment. Several workers are working for SMEs, not because of choice, but because there are no other job alternatives (Reinecke 2002:9).

A third skeptical view argues that the more SMEs are supported financially, the more inefficient they become. Therefore, according to Beck *et al.* (2005:2), promoting SMEs through subsidies has a negative effect on the efficiency of the economy.

These SME skeptics hold that rather than using financial resources to promote SMEs, the governments should ensure that they create an enabling business environment. Therefore, the skeptics advise policy makers to address problems facing both small and large businesses,

which include entry and exit barriers, effective contract regulations, as well as friendly environmental laws. The view upheld by skeptics is that rather than spending taxpayer or foundation resources on special package schemes for SMEs, the government must ensure an attractive and friendly environment for business to operate (Beck *et al.*2005:2).

A study of Chinese small family businesses by Poutziouris, Wang and Chan (2002:388) found that there is a high business failure rate amongst these Chinese enterprises and hence, questioned the rationale of pro-SME policies. Their skeptical view was also based on two arguments. First, they argued that the majority of SMEs operate in the services sector, and their contributions to the revitalisation of the infrastructure and enhancement of the competitiveness of the economy, are limited. The second argument is that the high levels of entry and exist in SME markets make it difficult for policy makers to keep reliable data about their long-term contribution to the economy. This complies with Hori (2004:3) who studied the SME sector in Japan, and found that the SME closure rate has been in excess of the start-up rate between 1989 and1991. If the closure rate of SMEs were greater than the start-up rate, one would therefore, question the ability of the sector to sustain itself and hence, contribute to job creation, poverty alleviation and economic growth.

Advocates of pro-SME policy have argued on several grounds.Beck *et al* (2005:2) provide the main three arguments for pro-SME policy.First SMEs are believed to enhance competition and entrepreneurship, resulting in efficiency, innovation and growth in productivity. Secondly, if supported by financial, international donor agencies and government, SMEs can boost economic growth and development because they are more productive than large enterprises. Lastly, SMEs are labour-intensive, therefore subsidising SMEs, boosts economic and employment growth in SMEs more than in large enterprises.

Muhammad, Char, Yasoa and Hassan (2010:66) conducted a study about SMEs in Malaysia and found that the sector plays a vital role in the economic development and growth, as well as the rapid industrial expansion of the Malaysian economy and hence, the need to support them.The view to support SME sector has been backed by Harvie (2004:5) who notes that SMEs are strategic players in the individual, regional and global economies due to their contribution to employment, innovation and export income generation. They are also

regarded as a source of future successful large enterprises and a source of both domestic and global competition.

In the same vein, Luetkenhorst (2004:1) asserts that SMEs are the emerging private sector in developing countries, and thus form the base for private sector-led growth. Their opinion is that SMEs are an important agent of structural change, therefore supporting SMEs reduces marginalisation and income disparities and consequently economic development. This is in line with Tambunan (2008:148) who posits that SMEs are a main player in economies, as they are a generator of primary or secondary sources of income for many low-income or poor farm households in rural areas.

In support of positive SME contribution, Manan (2007:1) asserts that besides being crucial in upgrading skills of owners, managers and their employees, SMEs do strengthen linkages in economic activities, transfer technology expertise and compliment the role that large and multinational corporations play. Similarly, Cobweb Information (2007:1) postulates that economies with a high proportion of SMEs will be more resilient to external shocks and are likely to be positioned to have more enterprises that will grow into larger enterprises.

Cobweb Information (2007:1), therefore promotes the view that stimulating new start-ups and growth of more SMEs helps developing nations to grow a huge and strong middle class. According to Ozigbo and Ezeaku (2009:4), SMEs are important players in economic development because of their role in rural development and industrialisation. Therefore, the authors argue that an entrepreneurial energy of vibrant SMEs is needed if a country is to achieve national economic development.

#### **2.4.1 Key contributions of SMEs**

There are different views among scholars and policy makers about the dynamic contribution of SMEs. According to Tambunan (2008:149), Audretsch, Vander Horst, Kwaak & Thurik (2009:19) and the International Finance Corporation of the World Bank Group (2010:2), SMEs make a significant contribution to poverty reduction as they create employment opportunities. Altenburg, Eckhart and Rompuy (2006:12) and Kurokawa, Tembo and Te Velde (2008:3) assert that if the challenges confronting SMEs are addressed, they have a huge

potential to be key players in generating productivity and competitiveness of the national production systems.

While some also argue that SMEs generate exports earnings (Zhao 2010:69; Ishengoma & Kappel 2008:11), others stress the SMEs' role in innovation and entrepreneurship (Moreau 2010:1; Subramanian, Mathirajan & Krishanaswamy 2010:7). The other scholars such as Keskin, Senturk, Sungur and Kiris (2010:183) state that SMEs are important due to their significant contribution to meeting the socio-economic objectives of employment, output, export promotion and fostering entrepreneurship. The authors further argue that in developed countries, SMEs contribute about 55 percent of GDP and about 65 percent of total employment, while in middle-income countries they contribute approximately 70 percent of GDP and 95 percent of total employment. In low-income countries, the authors mention that SMEs contribute about 60 percent of GDP and over 70 percent of total employment. To ascertain the contribution of SMEs to the economy, this section discusses the SME sector's role in key economic aggregates mentioned above: employment, Gross Domestic Product (GDP), innovation, exports and others.

#### **2.4.1.1 SMEs and employment creation**

Research over the years has provided evidence of SMEs' ability to create jobs in different countries. Across-country study of a sample of 47 745 firms in 99 countries by Ayyagari *et al.* (2011:2) found that SMEs are the biggest contributors to employment across the countries. The results of the study reveal that in the medium income countries, SMEs employ an average of 66.76 percent of the total permanent, full-time employment in the country.

Providing evidence for Indonesia, Tambunan (2011:69) reports that SMEs have been a major player in employment creation in the country because they account for 99.98 percent of all enterprises and employ 96.2 percent of the total workforce. The author goes further to state that the majority of these SMEs are scattered throughout the country, including rural villages where they play a crucial role in developing the talents of villagers, especially women entrepreneurs. Policy makers should, therefore, prioritise the capacity building of these enterprises in order to develop their job creation and women empowerment potential, further (Tambunan 2011:79).



Similar sentiments are also expressed by Ardicet *al.* (2011:2) whose cross-country analysis of SMEs reports that one way of recovering from the financial crisis of 2008-9 is to create employment opportunities through the creation and growth of SMEs. The author argues that the creation and growth of SMEs should be a critical item on the policy agenda of policy makers because of abundance of substantial evidence that shows that SMEs are significant employment contributors.

In South Africa, Owusu-Ampomah (2010:56) reports that the small business sector has consistently contributed about 40 percent to employment between 2000 and 2006. In a similar vein, Kongolo (2010:2288) asserts that despite facing serious managerial, finance, bureaucratic, and marketing challenges, South African SMEs still play an important role in the economy by providing almost 60 percent of employment in the country.

The role of SMEs in employment creation is also well documented in other countries. For example, Kongolo (2010:2289) reports that SMEs are a major force to the rapid economic development of China through their contribution to employment. The author also presents evidence about the job creation contribution by SMEs in other countries, such as USA and New Zealand. In the US economy, SMEs are regarded as a major force in driving the economy because they provide jobs for half of the nation's workforce. The New Zealand government also recognises SMEs, which account for 96 percent of all enterprises, as major players in the economic transformation of the country, due to their role in job creation (Kongolo 2010:2289-2290).

In Pakistan, Qureshi and Herani (2011:37) estimate that the SME sector, along with the agricultural sector, provide 90 percent jobs. This infers that the sector makes a substantial contribution to the economy through the creation of these employment opportunities and eventually, they help to develop human resources skills, poverty alleviation, and improve the living standards and hence, the quality of life of citizens. Similarly, Kwiatkowska's (2010:13) study of Polish SME sectors shares in total employment between 2003 and 2007 found that the sector employed more people than the large organisations because during that period, the SME sector accounted for 69–71 percent of total employment. While Malaysian SMEs employ over 56 percent of the country's workforce, their United Kingdom counterparts employ about 48 percent of the country's total workforce (Eei, Husain & Mustaffa 2012:15).

Taken together, these facts suggest that SMEs are a major force in social and economic transformations of countries due to their critical role in creating employment opportunities. By employing people, especially the poor, women and the youth, SMEs contribute to the redistribution of income, poverty reduction and improvement in living standards. SMEs are also important to the economy due to their contribution to production of products and services.

#### **2.4.1.2 SMEs and productivity contribution**

A great deal of evidence has also been provided to support the view that SMEs play a crucial role in the production of goods and services in various countries. Studies conducted in different countries, regional economic groupings and international institutions have supported this role of SMEs. For example, a study by Eei *et al.*(2012:15) of Malaysian SMEs found that these enterprises' contribution to the total GDP has been steadily growing over the past 10 years and now stands at 31.2percent. The authors also state that SMEs in the UK contribute to 49 percent of the country's total output. Aslund (2012:158) also reports the same pattern about SMEs in developed OECD economies;that these enterprises generate about 60 percent of GDP. This huge contribution is attributable to the high level of economic development in these countries. A developed modern economy requires a large number of SMEs in order to have high competition and efficiency, as well as a variety of economic activities, as needed by a such an economy (Aslund 2012:158).Altenburget *al.*(2006:12) state that SMEs make a significant contribution to the productivity and national competitiveness of production systems in an economy and as a result, increase the growth of GDP. Abor and Quartey (2010:223) analysed SMEs in both Ghana and South Africa, and found that SMEs make a huge contribution to a country in Gross Domestic Product (GDP) by manufacturing goods and through the provision of services to both consumers and other enterprises.The results further reveal that SMEs in Ghana contribute about 70 percent of the country's GDP and in South Africa the SME sector contribute between 52 and 57 percent of the GDP. These percentages are significant enough for one to argue that SMEs are key players in contributing to the productivity of different economies.

The evidence provided by Tambunan (2011:70),within Southeast Asia or Association of Southern Asian Nations (ASEAN) countries, indicate that SMEs in these countries generate

GDP ranging between 38 and 76 percent. The author further notes that Indonesia SMEs' contribution to GDP is around 55 percent. A study by Kongolo (2010:2289) found that SMEs are also the main driver to the fastest growing economy of China as they contribute 40 percent to the national GDP. Similarly the SME sector respectively create more than half of the private non-farm GDP and contribute about 51 percent of GDP in USA and South Africa (Kongolo 2010:2290). In Pakistan, SMEs are recognised as critical to the national economy due to their immense contribution to national output, which is estimated to be 30 percent of GDP. Kwiatkowska's (2010:16) study of Polish SMEs reveals findings that despite facing several obstacles such as insufficient funds, lack of management skills and low credit worthiness, the SMEs' shares in the country's GDP between 2003 and 2007 exceeded 47 percent.

A cross-country analysis of SMEs by Ardic *et al.* (2011:3) confirms the notion that SMEs are key players in world economies due to their contribution to the national output. The authors, therefore, advocate for the removal of barriers that constrain SMEs from performing this important role. New Zealand's Ministry of Economic Development (2009:19) reported that the SME contribution to total value-added output in 2007 slightly increased to 40.7 percent up from 38.6 percent in 2006. In an analysis of small firm growth in developing countries, Nichter and Goldmark (2009:1454) show that the contribution of the SME sector varies across countries. For example, they found that in the Dominican Republic, Kenya and Pakistan, SMEs respectively contribute 31 percent, 13 percent and 11 percent of overall GDPs in their countries. Nichter and Goldmark (2009:1454) argue that official statistics reported about SME participation undermine their real contribution as they deflate the SMEs' contribution to GDP. They maintain that SMEs in Kenya, for example, actually contribute 40 percent to the country's GDP, rather than 13 percent that was reported earlier on.

Besides the evidence provided for specific countries about SME contribution to productivity, studies that were conducted in particular economic groupings also confirm these findings. In the EU countries, Audretsch *et al.* (2009:41) indicate that SMEs achieved about 4 percent growth rate in value added and approximately 2 percent growth rate in labour productivity as compared to 3.8 percent and 3 percent in large enterprises respectively. The studies conducted by international institutions also support the important role of SMEs in the production of products and services. A study of 130 countries by United Nations Development Programme

(UNDP) (2007:2) shows that the contributions to GDP by SMEs in high-income, middle-income and lower-income countries were 45 percent, 50 percent and 20 percent respectively. This indicates that SMEs contribution to the national output is more strong middle and low-income countries, as compared to high-income countries.

The UNDP's (2007:3) study of Malaysian SMEs identified that in 2003, SMEs in the manufacturing, services and agriculture sectors contributed 43 percent and 47 percent in output and value added respectively. Similar findings are reported in a study of the Ugandan economy undertaken by Ishengoma and Kappel (2008:1) in which they found that SMEs play a crucial role in the country's national output (20 percent). Biancie and Parrilli (2002:8) have contributed to this body of knowledge through a comparative analysis of Latin America and the European Union SMEs. The results confirm the view that regards SMEs as key contributors to national output. They also indicated that in the EU during the period between 1998 and 2000, SMEs had a labour productivity growth of 2.1 percent compared to 2.8 percent of larger enterprises. Leano (2006:23) supports this viewpoint and states that SMEs have a crucial role in the development of the Philippine economy, because they account for 32 percent of the country's GDP.

A study by Beck *et al.* (2005:4) analysed a sample of SMEs in 45 developed and developing countries and found a strong and positive association between the importance of SMEs and per capita growth of GDP, although the data failed to establish whether there is a causal relationship between the two factors. Therefore, substantial evidence exists to support the positive impact of SMEs on GDP (Audretsch *et al.* 2009:40). Besides their contribution to the production of goods and services, SMEs also play a significant role in innovation and entrepreneurial activities.

#### **2.4.1.3 SME role on innovation and entrepreneurship**

Previous evidence has shown that even though SMEs account for a limited contribution to research and development, they significantly contribute to innovative activities by introducing new products and adapting existing products to the needs of their customers (Harvie 2004:17). In both developing and developed countries, Luetkenhorst (2004:2) reports that SMEs contribute most innovation in immature and unconcentrated industries like Information and Communication Technology (ICT). This implies that SMEs are well

positioned to meet the needs of customers because of the application of new technologies that help them to introduce new products.

Subrahmanya *et al.* (2010: 13) probed the importance of technological innovation for SME in India and found that some SMEs are innovative whilst others are still lagging behind. They also ascertained that innovative SMEs registered higher growth relative to non-innovators in terms of sales turnover, employment and investment. The study concluded that innovation contributes to firm growth. Similarly Paskaleva and Shapira (2006:124) report that Japan, Taiwan and South Korea, who are highly ranked by the World Economic forum's country technology index rankings, are now well advanced in terms of economic development due to innovation. They further state that SMEs in these countries have achieved technological development because of their flexibility, ICT knowledge, entrepreneurial spirit, and creativity, as well as the use of customised modes of manufacturing.

This is consistent with the finding for most developed countries especially in Western Europe where the Performance and Innovative Unit (PIU) (2001:3) reports that cross-nationally, between 30 percent and 60 percent of all SMEs are innovative, and research and development intensive. The report further asserts that because of their innovativeness, SMEs are able to employ more workers and offer numerous stable opportunities for their workers. Harvie (2004:17) has suggested that besides being innovative in product designs and processes, investment in innovative activities has been rising at a faster rate in SMEs than that for large enterprises.

Isaksen and Smith (1997:2) state that SMEs possess a number of advantages compared to their large counterparts in terms of innovation. First, they are fast in responding to the dynamic changing market requirements. Secondly, they can quickly seize new opportunities because of their flat organisational structures which make decision making fast. Thirdly, they have efficient and informal internal communication networks that afford them a fast response to internal problems and quickly adapt to external environment changes. This shows that SMEs significantly contribute to innovation and entrepreneurship activities in different economies, as they are innovative and quick to make decisions. In addition, as the following discussion shows, SMEs also play a crucial role of generating export sales.

#### **2.4.1.4 SMEs and export contribution**

Over the years, SMEs have made an increasingly important contribution to export revenues in both developing and developed countries. A paper presented by the OECD (2004:12) at the second OECD conference of ministers responsible for SMEs on promoting entrepreneurship and innovative SMEs in a global economy, reports that SMEs generate considerable export revenues. The paper also reports that while export revenue generated by some African countries is generally low, SMEs in selected East Asia and OECD countries perform very well in the exports of manufactured products.

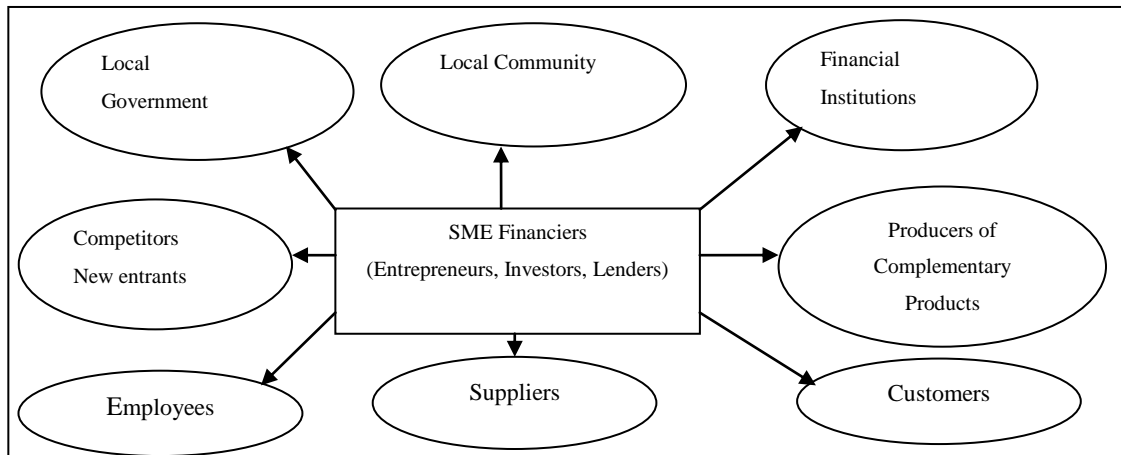
Another study of the SMEs in East Asia by Harvie (2004:8), found that SMEs in these countries are competitive, as they generally contribute about 35 percent of direct exports and 50 percent of indirect exports. This demonstrates that SMEs in Asia are significantly internationalised and contributing to export revenue generation. In the similar vein, Zhao (2010:69) explored the involvement of Chinese SMEs in international trade under the financial crisis. The results revealed that China's rapid economic growth and development has been necessitated by enormous contribution of SMEs in export activities. The results also showed that SME exports accounted for 68 percent of the total exports with an average annual growth rate of 14.77 percent and this is contributing to the growth and integration of the Chinese economy with the world economy.

However, some developing countries still lag behind as far as participation in international trade is concerned. Altenburger *et al.* (2006:27) note that only a few SMEs in developing countries export regularly. These SMEs mainly focus on their home markets, as they regard export markets as additional and secondary markets that can be used only when their home markets are poorly performing. Various intervention initiatives should therefore, be devised in order to promote the export competitiveness of SMEs (OECD 2004:12). Through export activities (Ishengoma & Kappel 2008:11), SMEs will increase their financial base that will ensure investments in modern plants and machinery. Consequently, the quality of products as well as capacity utilisation improves. An improved product quality and a rise in productivity levels may enhance the competitiveness of SMEs in export business.

#### **2.4.1.5 Other SME contributions**

Several other studies indicate additional important contributions by SMEs, such as maintaining social cohesion and environmental stability (Owusu-Ampomah 2010:56), reducing rural-urban migration, ensuring an even regional development as well as better utilisation of indigenous resources (Ozigbo & Ezeaku 2009:4), providing livelihood for the marginalised groups, especially women and the young, and strengthening linkages in the supply chain activities (Tambunan 2008:148).

While Pansiri and Temtime (2006:251) state that SMEs play a significant role in reducing poverty, Hussain (2000:3) asserts that SMEs are instruments to enhance the participation of the poor in the process of economic development. According to Harvie (2004:5), SMES are not only a source of future successful large enterprises, but they are also a source of competition in both domestic and international markets. Altenburger *et al.* (2006:47) are of the view that SMEs play a vital role in building human capital and in providing basic goods and services. The authors further mention that the jobs that SMEs create provide people with opportunities to develop their skills and to facilitate their career development. Such opportunities according to Altenburger *et al.* (2006:47), are an incentive to invest in education and essential for raising productivity, income levels and improving working conditions and hence, living standards of people. Furthermore, the provision of basic goods and services by SMEs, such as nearby small-scale manufacturers and retail shops, as well as small transport services, provides an opportunity to people to procure basic products and services that are necessary for a healthy and decent life (Altenburg *et al.* 2006:47). According to the Small Enterprise Assistance Funds (SEAF) (2003:17), various stakeholders benefit from an investment in the SME sector. Figure 2.1 is a depiction of these stakeholders.



**Figure 2.1 Stakeholders benefiting from SMEs**

Source: SEAF (2003:17)

As shown in Figure 2.1, investing in the SME sector would benefit the following stakeholders:

- Employees who receive salaries, wages and training and consequently improve their living standards.
- Customers who are supplied with more and better quality goods and services that might not previously been available. Customers also benefit from surplus of goods in the market in that; there will be wide product choices and low prices.
- Producers of complementary goods or services may realise an increased demand for their own products, and hence higher sales and profits.
- Suppliers may see an increased demand for their goods; and hence, increase in sales and profits. A network of new suppliers may come into being.
- Competitors may see a reduction in the demand for their product, but this is not a loss from the viewpoint of society as a whole, but rather a shift in surplus to consumers. Competitors may gain from the network gains resulting from the bigger market or improved suppliers.
- New entrants to the industry may develop because of the network effect.
- Local communities may be impacted in several ways. There may be environmental gains (or losses), new physical infrastructure may become available, or existing infrastructure may become more congested, and a new social infrastructure may



develop. In addition, as most SMEs grow they become socially responsible citizens by donating to local schools or improving the purity of the community's water supply.

- Local governments may benefit from the value of profit or value-added tax revenues generated by the SME as well as import duties paid for imported goods.
- Financial institutions such as local banks, pension funds, and insurance companies may benefit from SME investment, mostly through loan applications and insurance policy purchases. Increased wages and better practices by SMEs may also result in increased purchases of insurance, both at the corporate and individual level.

From the above discussion it can be noted that SMEs play an important role, not only in the South African economy, but in other developing and developed countries as well. These enterprises contribute significantly in key economic aggregates, namely employment, GDP, innovation and exports. Therefore, the sector needs support, as it is a key contributor to economic and social development of people. Even though SMEs contribute significantly to the growth and development of the economy, they face serious challenges, which constrain their potential to grow. These challenges are discussed in the following section.

## **2.5. THE CONSTRAINTS TO SME DEVELOPMENT**

The section above has presented some encouraging data concerning the significant role of SMEs in innovation, productivity, entrepreneurship, export earnings and job creation in South Africa and other economies. It was also shown that if these SMEs are supported, they have a huge potential to transform into large enterprises. These SMEs however, encounter varied and numerous challenges, which besides limiting their important role, do also threaten their survival and growth. It is estimated that the SME failure rate in South Africa falls between 70 percent and 80 percent, and as a result, over a period of between 1997 and 2000 the government lost more than R68 million (Eeden *et al.* 2003:13; Brink, Cant & Ligthelm 2003:2).

The challenges facing SMEs emanate both from the external and internal environments (Brink *et al.* 2003:3). This section will discuss some of the serious problems on which policy makers could focus.

### **2.5.1 The internal environment factors**

The internal environment factors that threaten the survival of SMEs include the problems of access to finance, shortcomings in management skills, and lack of technology skills.

#### **2.5.1.1 Access to finance**

The availability and accessibility of finance is crucial for the growth and survival of SMEs in both developed and developing countries (Abereijo & Fayomi 2005:219; Abdullah & Manan 2007:3). Abdullah and Manan (2007:3) examined the adequacy of financial facilities for SMEs in Malaysia. The results provide evidence that SMEs, as opposed to large enterprises, heavily rely on banks to undertake productive investments and to acquire latest technology in order to ensure their expansion and competitiveness. The access to finance is a major constraint to the growth of SMEs because the banks on which they rely, are reluctant to provide credit as they are classified as risky customers.

A study by Brick *et al.* (2003:15) on the constraints facing SMEs in South Africa indicated that finance is not easily accessible and available to SMEs. This problem is not peculiar to South Africa but to several other countries as well. In China, Garcia-Fontes (2005:1) also confirm that credit constraints are a serious challenge. This problem seems to be of major concern across the globe. There are varied reasons to explain the reluctance by financial institutions to lend money to the SME sector. Abereijo and Fayoni's (2005:219) study of SME financing in Nigeria found that the main reasons for the reluctance of banks to provide credit to SMEs include high transaction costs of lending SMEs, inability to provide collateral security and inability to provide proper accounting records, financial statements and business plans.

The main reason for SMEs to have limited access to finance in South Africa is due to their inability to provide collateral security (Eeden *et al.* 2003:22). Similar problems are also reported in a survey carried out by the World Bank to investigate the investment climate in China, Garcia-Fontes (2005:2-3). The study reveals that Chinese SMEs hardly access credit because of lack of appropriate collateral security to support their ability to repay, poor credit reputation, lack of transparent and audited financial records, high rating requirements for small business loans, lack of credit rating assessments for SMEs, weak connection to authorities, and the tendency of banks to favour large businesses who apply for large loans.

Familiar problems are also encountered in Ghana as confirmed by Mensah's (2004:8) study of SME financing schemes in Ghana. The study attributed the limited access to credit to stringent credit requirements, high SME default rates and risks associated with the sector and high cost of borrowing and interest rates rigidities. Bari, Cheema and Haque (2005:29) find similar evidence for Pakistan when they report that lack of access to equity markets, coupled with the credit and lease finance costs, has reinforced the financial constraints faced by SMEs. The lack of financial resources would imply that SMEs have limited resources to finance their business operations.

Without adequate finance, SMEs find it difficult to sustain their success and survival (Mensah 2004:1; Abereijo & Fayoi 2005:219; Ishengoma & Kappel 2008:11). This is because they need loans to finance their operations, especially during early years of inception. Ishengoma and Kappel (2008:11) note that the availability of finance enables SMEs to increase their capacity utilisation, productivity and competitiveness of their products. Abdullah and Manan (2007:3) concur that limited capital inhibits SMEs from developing new products, conducting research and development (R&D), investing in information and communication technology (ICT) and pursuing business opportunities. What Abdullah and Manan (2007:3) imply, is that lack of accessibility to bank's finance impedes SMEs from growing and developing, and this makes them vulnerable to failure. The lack of management skills is another serious problem that limits the growth of SMEs.

#### **2.5.1.2 Lack of management skills**

The lack of management skills is one of the obstacles that impede SMEs from growth and development. Studies by Mahadea and Pillay (2008:434) on SME challenges in South Africa found that inability to attract and find suitable staff, restrictive labour laws, poor staff planning and training, low labour productivity and lack of management experience, were the major constraints mentioned by the respondents. This lack of human resources and management skills seriously threaten the sustainability and competitiveness of SMEs in the competitive environment.

Studying the challenges and problems facing small and medium sized construction contractors in Swaziland, Twala and Mvubu (2008:95) present evidence that contractors lack

academic qualification, have no prior technical and managerial skills or experience. The results also show that these small contractors do not employ qualified workers as they are considered expensive, and those employed are incompetent as they lack skills to properly manage projects, and knowledge to understand contractual obligations. Furthermore the results indicate that poor management skills lead to poor performance and hence, failure to receive payments. Consequently, these small contractors are involved in long-term conflicts with their debtors, which lead to their collapse.

Kayanula and Quartey's (2000:15) analysis of the SMEs in Ghana and Malawi confirms the problem of poor management skills and reveals that there is a skills gap among the SME sector in both countries. Bari *et al.* (2005:53), who report that SMEs in Pakistan lack skills, education, vocational training and experience to manage their businesses, also corroborate this. Mahadea and Pillay (2008:434) assert that an entrepreneur or manager, who is well educated, trained, experienced and skilled in various management functional areas, performs better than the one who does not have these attributes. This is because a qualified, trained and experienced owner or manager is skillful in managing the resources of an enterprise. High qualifications and experience positively influence the performance of an individual and hence, the success of an enterprise.

Pansiri and Temtime's (2008:252) study of the managerial skills of SMEs operating in Botswana support the importance of management skills. The main objective of the study was to identify perceived critical managerial factors affecting the performance of SMEs. The results showed that lack of strategic management skills, lack of experienced employees and lack of and inaccessibility of low-cost training facilities were the most mentioned perceived managerial problems that inhibit the success of SMEs. The study also shows that poor management skills limit an enterprise's ability to gather, process and analyse environmental data that is necessary in today's turbulent markets. On the other hand, they may constrain an enterprise's ability to manage its scarce resources such as financial, human or material as well as its operations and distribution activities. Moreover, lack of managerial skills may constrain business expansion or may result in failure. As Pansiri and Temtime (2008:252) have argued that over 70 percent of start-up enterprises fail in the first 18 months while less than 2 percent expand their business in Botswana because of poor management. Besides poor

management skills, some SMEs are also limited in their innovation and technology application activities.

### **2.5.1.3 Innovation and technology**

The adoption of information and communication as well as innovation activities is a source of competitive advantage (Mahadea & Pillay 2008:434). The South African SME Blueprint Strategy and Policy (2005:58) finds evidence for SMEs in the South African SME chemicals sector to the effect that while some are embracing information and communication technologies (ICTs) and particularly e-business, many other SMEs are still cautious about conducting transactions on-line. The reasons for this include lack of technical and management skills, lack of appropriate e-business solutions, high cost of acquiring ICT equipment, security and privacy concerns as well as complex regulatory frameworks for e-business (Mahadea & Pillay 2008:434). It shows that the usage of ICT transactions among SMEs is limited because of security concerns. Kartiwe and Mac Gregor (2007:46) performed a cross-country comparison on the ICT adoption barriers in SMEs in developed and developing countries and found that there is a limited use of e-commerce transactions by SMEs in a developing country as compared to the ICT usage in a developed country. The common problems mentioned include, the difficulty to obtain funds to implement e-commerce, lack of knowledge, the unsuitability of e-commerce to the SMEs products/services, as well as lack of perceived advantages of e-commerce implementation.

Ozigbo and Ezeaku (2009:16) examined the adoption of information and communication technologies by SMEs in Africa. The findings revealed that with the exception of Morocco, Mauritius, South Africa and Tunisia, there is lack of functional and reliable basic physical and information technology infrastructure in the rest of the countries in Africa. The results further show that lack of ICT infrastructure constrains the competitiveness of SMEs in Africa. Therefore, due to cost constrains, lack of knowledge, perceived inapplicability of technology to SMEs and poor infrastructure, there is limited use of ICT by SMEs in developing countries especially in Africa. The Canadian International Development Agency (CIDA) (2003:5) in its Country Planning Development Framework for Egypt confirms this viewpoint. It indicated that SMEs use outdated or obsolete technology and equipment and production is organised haphazardly. Consequently, they produce poor quality products and realise low production levels, and at times excess, quantities. This limits their ability to

satisfy new needs of customers and access to large markets. Failure to meet customer needs may adversely affect their competitiveness, and this in turn seriously constrains their survival and success. The preceding discussion indicates that various problems emanating from the internal environment of SMEs do limit their sustainability and growth. Many challenges that original from the external environment also confront the SME sector.

## **2.5.2 External environment**

SME management has no control of external forces that manifest themselves in the political, economic, socio-demographic, technological and international spheres. The major problems that threaten the survival in this environment include tax regimes and other regulatory compliances, harsh economic conditions, HIV/AIDS, crime and corruption, as well as technology dynamism (Brink *et al.*, 2003:3).

### **2.5.2.1 Taxation**

The complicated, inefficient and high tax rates and customs duties increase the operational costs of SMEs. The tax regimes are disabling to SMEs business and artificially promote large-scale firms (Mahadea & Pillay 2008:436). In a study of environmental conditions for SME development in a South African province of Kwazulu Natal, Mahadea and Pillay (2008:436) show that the annual cost of tax compliance for the SME is around 3 percent of turnover, as compared to between 0.1 percent to 0.5 percent for a large enterprise, thereby confirming the view that the tax regime in South Africa is biased against SMEs. A study by Altenburg and Drachenfels (2006:393) confirms that tax burdens on SMEs are excessive and are seen as a disincentive for them to operate formally.

The study further states that tax burdens have negative effects on the economy because in an effort to evade tax, SMEs will continue operating in the informal sector where there is low productivity. Due to tax evasion, the government will have to collect more taxes from formal enterprises. Ishengoma and Kappel (2008:11) studied the business constraints to SMEs in Uganda. The findings show that tax rates are high and reduce the internal sources of SME finance. The results also revealed that high taxes discourage SMEs from expanding their businesses and becoming formal so that they are not visible to tax officials. A lot of restrictive regulation and laws imposed by governments in countries where SMEs are operating is another impediment to their growth.

### 2.5.2.2 Regulation and Laws

Besides tax burdens, high start-up costs, cumbersome licensing and registration procedures also impose excessive and unnecessary burden to SMEs. The Organisation for Economic Co-operation and Development (OECD) (2003:1) examined SMEs in the OECD countries and found that businesses complained about the amount and complexity of government formalities and paperwork involved to register and operate a business. They had to spend a lot of time and devote significant resources to activities such as filling out forms and applying for licenses and permits.

The World Bank's DoingBusiness (2005:3) provides empirical cross-country evidence that unnecessary and cumbersome business regulation is associated with lower labour productivity. They also present findings that businesses in poor countries face much larger regulatory burdens than those in rich countries. For example, in 2005 it would take 153 days to start a business in Maputo but two days in Toronto. It would also take 21 procedures to register a commercial property in Abuja but three procedures in Helsinki. This complies with an analysis of SME constraints in Ghana and Malawi by Kayanula and Quartey (2000:15), which revealed that in Malawi there are prohibitive laws like the Business Licensing Act, the Electricity Act, the Control of Goods Act and the Export Incentives Act that have heavily inhibited SME development.

For Ghana, Kayanula and Quartey (2000:15) provide some evidence that SMEs are constrained by cumbersome procedures to register and commence the business. OECD (2003:1) argues that cumbersome procedures obstruct the innovativeness of enterprises. This is because too much bureaucratic company registering procedures will be a disincentive for new business start-ups. The World Bank (2005:3) furthermore provides empirical findings that poor countries with excessive procedures are often poor in enforcing property rights and in fighting crime. Consistent with this line of argument, Bari *et al.* (2005:45) posit that law and order problems such as political conflicts and crime and violence weaken property rights and as a result investor's decision to invest. A study by Eeden *et al.* (2003:15) of problems encountered by SMEs in South Africa, found that one of the most perceived problems was crime. Mahadea and Pillay (2008:437) confirmed this in a study, which reported that over half of South Africa's SMEs have been victims of crime, while about a quarter were not willing to

expand or employ more employees for fear of losing their profits through crime. This confirms the view that crime is serious in South Africa, and this hinders entrepreneurial viability and competitiveness. Consequently, business development and economic growth is slowed down (Mahadea & Pillay 2008:437). In addition to restrictive regulations, SMEs also face constraints in accessing domestic and international markets.

### **2.5.2.3 Marketing factors**

In accessing domestic markets, South African SMEs are inhibited by factors such as poor location, poor marketing skills, lack of marketing research skills, poor analysis of the market, low quality product/service, failure to understand and forecast future customer trends and needs, and inability to prepare marketing plans (Brink *et al.* 2003:4; Eeden *et al.* 2003:15).

Kayanula and Quartey (2000:14) who found that the market share of SMEs in Malawi and Ghana SMEs is limited because of lack of skills in accessing vital information about the market also corroborate this. Ugwu's (2009:30) study of small poultry producers in Nigeria reports problems of limited access to commercial poultry markets by rural poultry farmers caused by poor state of roads, especially during the rainy season.

Ugwu (2009:30) further presents evidence that small poultry producers and marketing agents in Enugu and Lagos States of Nigeria have limited information on feed formulation and manufacture, product processing and packaging, marketing strategies, product packaging, handling and storage, as well as quality standards. This deficiency is attributable to lack of training to the small poultry producers.

With regards to international markets, SMEs who have been previously isolated from international competition now face fierce competition from international competitors as a result of easing up of trade restrictions. Kayanula and Quartey (2000:14) report that SMEs in Ghana complained of the influx of many imported cheap substitute products for their goods into the country. This finding complies with results of a study of SME challenges in South Africa by Chandra *et al.* (2001:55). One of the findings of the study was the cumbersome customs clearance procedures at the borders and airports when they export their products to international markets.



The findings in Viviers and Soontiens' (1998:10) study also revealed that prohibitive costs, bureaucratic procedures for cargo clearances, high interest rates and unfavourable exchange controls are some of obstacles faced by South African SME export marketers. Crick, Obaidi and Chaudhry (1998:189) also report that export obstacles such as high cost of capital to finance their exports, competition in foreign markets, lack of market information, import restrictions and high tariffs are serious impediments that inhibit the export growth and competitiveness of Saudi-Arabian exporters of non-oil products. These challenges do severely limit the viability of their export activities; thereby, restricting the expansion of their businesses. The following section discusses the input constraints that SMEs also face.

#### **2.5.2.4 Input constraints**

The unavailability and high costs of inputs is another serious constraint that inhibits the success of SME business in many countries, especially developing nations. A baseline study of small and medium scale poultry production in Enugu and Lagos States of Nigeria undertaken by Ugwu (2009:30) confirms this problem. The results of this study show that SME poultry producers face severe shortages of day old chicks and high cost of feeds and vaccines, and this negatively impact on poultry production. Malawi and Ghana also encounter this problem, as reported by Kayanula and Quartey (2000:13), who assert that high costs of raw materials, is seriously limiting the productive capacity of SMEs in these countries.

The problem of high costs and unavailability of inputs is also prevalent in Pakistan as the results in a study by Bari *et al.* (2005:46) show that there is low SME investment and growth in the country due to these problems. The study also reports that the shortage of inputs is mainly attributable to a lack of a network of reliable suppliers. Bari *et al.* (2005:46) further posit that high costs and unavailability of inputs translates into low capacity utilisation. This also means that due to low productive capacity, these SMEs are unable to meet customer needs. Consequently, revenue generation is weakened and this negatively impacts on the survival, growth and competitiveness of SMEs. The other challenge confronting SMEs is the poor state of the infrastructure. The following section discusses how this problem inhibits the operation of SMEs.

### **2.5.2.5 Infrastructure constraints**

An inefficient and highcostof infrastructure is another serious constraint that affects the business success of SMEs.The study by Bari *et al.* (2005:31-32) confirms this, and reports that frequent power cuts, high cost of power, poor roads and high transport costs in Pakistan are a serious hindrance to the competitiveness of SMEs. Similar inefficiencies also characterise Nigeria’s transport infrastructure as Ugwu (2009:30) shows that due to the poor state of the roads– most of them are not passable during the rainy season–marketers find it difficult to access markets.

In addition, Ugwu (2009:30) also notes that electricity linking small poultry producers is irregular in supply and this affects production,asthey need electricity to heat up the birds and to run the mill for chicken feeds.Several farmers are; therefore, afraid of taking the risk, thereby jeopardising the development of not only the poultry subsector, but all other small businesses as well (Ugwu 2009:30).

### **2.5.2.6 Otherconstraints**

Further constraints mentioned by other researchers include, uncertainty about government policies and volatility of the exchange rate (Ishengoma & Kappel 2008:10); general perception among people of regarding SMEs as second-tier enterprises (Kanamori, Lim & Yang 2007:19); failure by SMEs to engage in strategic planning as more attention is paid to operational plans (Pansiri & Temtime 2006:252); lack of access to relevant business information and poor communication skills (Tambunan 2008:150); limited access to foreign funds and foreign direct investment thereby reducing SMEs’ ability to upgrade their technology and managerial know-how (Hussain 2000:3).

Furthermore, the Canadian International Development Agency (CIDA) (2003:6), in its Country Planning Development Framework for Egypt, identified that in addition to problems discussed above, SMEs are also constrained by poorly developed marketing channels, few linkages between enterprises, lack of coordination between government departments on SME policy, and lack of legislations that address the needs of women entrepreneurs.

From the foregoing discussion, it can be seen that SMEs in South Africa and in other countries especially developing countries face a variety of constraints. The specific

constraints differ by country, but several are related. It appears that access to finance, management skills and input availability remain as the greatest threats to the survival, growth and competitiveness of the majority of SMEs. It is also clear that these constraints dampen investment in SME. These constraints not only discourage the commercial activities of SMEs, but also undermine their competitiveness and sustainability. Their general contribution to economic development is also weakened. Therefore, interventions are needed to ensure SME sustainability and development.

Table 2.6 below outlines a summary of constraints faced by SMEs

**Table 2.6. Summary of SME constraints**

<b>HUMAN RESOURCES PROBLEMS</b>	<b>FINANCIAL PROBLEMS</b>
Poor labour laws Poor staff training Low productivity Poor staff planning Inability to attract and find suitable staff Lack of information to access suitable staff	High start-up costs Complicated and inefficient tax regimes High tax and customs rates Lack of access to short, medium and long-term working capital Limited access to start-up capital Inability to prepare financial plans and statements Poor accounting, cost and financial budgeting and management skills Lack of inventory management skills Poor bookkeeping skills Financial indiscipline
<b>MANAGEMENT SKILLS PROBLEMS</b>	<b>POLICY, REGULATIONS AND LAWS CONSTRAINTS</b>
Poor education Lack of management experience and training Lack of appreciation of management fundamentals Inability to prepare business plans and utilize strategic planning Problems to adjust management practices as the environment changes and as business grows Lack of management consulting and business advisory services Lack of commitment Unwillingness to learn and share	Multiple procedures to apply, register and operate a business Prohibitive laws Crime and corruption Poor coordination between government departments on SME policy Absence or limited legislations to promote women entrepreneurs Weak support institutions Overall neglect of SMEs

<b>MARKETING PROBLEMS</b>	<b>INPUT CONSTRAINTS</b>
Poor location Lack of access to domestic and international markets Poor marketing research skills Poor product and service quality Inability to prepare and utilise marketing and strategic marketing plans Poor product packaging, handling and storage Unrealistic and poor marketing strategies Fierce competition from international competitors due to globalisation Exchange rate volatility Import and export restrictions Lack of access to differentiated markets Local currency uncompetitiveness	Limited or unavailability of inputs, for example raw materials High input costs Unreliable suppliers Lack of supplier networks
<b>PRODUCTION AND TECHNOLOGY PROBLEMS</b>	<b>INFRASTRUCTURE CONSTRAINTS</b>
Low ICT adoption rate Lack of quality control systems Poor ICT knowledge Outdated or obsolete technology and equipment Low productivity Poor product quality Inability to prepare production plans Lack of technical and consulting services	High costs of transport and communication Inadequate provision of public infrastructure and services Poor state of transport and communication networks

Source: Own source

The constraints outlined in this section seriously inhibit the growth of SMEs. Therefore, policy interventions are needed to support these enterprises so that they can fully realise their potential. The benefits of supporting SMEs and various support measures to promote SMEs are discussed in the following section.

## **2.6. SUPPORT POLICIES FOR SMES**

To prosper, SMEs need to overcome the constraints that impede their growth and development. New intervention programmes, institutions and policy institutions should be put in place to overcome the constraints and stimulate the growth of the sector.

### **2.6.1 Benefits for supporting SMEs**

According to Asasen *et al.* (2003:1), supporting the development of SMEs offers benefits that include:

- Increased productivity levels of goods and services for both local and foreign markets

- SMEs are able to generate more export revenues
- SMEs become more competitive at regional and global levels.
- SMEs develop an entrepreneurial culture that results in job creation, social and economic development
- Reduction in rural – urban migration as some SMEs will operate in rural areas. This will lessen the demand pressures on the urban infrastructure that is already congested
- Sustenance of job opportunities, social cohesion and decentralised development, thereby alleviating inequitable economic and regional development
- Reduction of poverty through employment opportunities and the provision of affordable products and services.

Qureshi and Herani (2011:32) argue that the development of SMEs is necessary because they assist in regional and local development through the acceleration of rural industrialisation by linking them with the urban areas. The authors also state that SMEs redistribute wealth, contribute significantly to export revenues due to the low-cost and labour intensive nature of products they deal with, use indigenous raw materials, assist to cultivate a self-help and entrepreneurial culture, and this results in sustainability and self-sufficiency. Sharing the same view, Kongolo (2010:2288) asserts that as a response to the economic downturn of 2009, it is necessary to support SMEs in order to enhance their job creation potential as the large enterprises encounter serious viability challenges, and as a result are continuously shedding jobs and a lot of workers are being retrenched. Therefore, a flourishing and growing economy (Kongolo 2010:2288) is the one that has a booming SME sector. There are varied objectives for supporting the SME sector.

### **2.6.2 Objectives for SME support policies**

According to Luetkenhorst (2004:5), various policies should be designed to support SMEs in order to achieve the following objectives:

- To create an enabling and conducive environment for SME growth
- To minimise SME failures due to limited access to resources
- To achieve an equitable development of SMEs operating in both rural and urban areas

- To achieve long-term political and social stability as a result of equal distribution of income.

The White Paper of the South African Department of Trade and Industry (DTI 1995) on a National Strategy for the Development and Promotion of Small Business states specific objectives that apply to the South African context:

- To create national, regional and local policy frameworks in order to facilitate the development of SMEs
- To create sustainable job opportunities coupled with the upgrading of human resource skills and a strengthened use of appropriate modern technologies
- To stimulate economic growth
- To strengthen the synergy between SMEs and other economic players through networks so that they do not work in isolation
- To enhance the capacity of SMEs for them to adapt to the challenges posed by the dynamic environment.

A number of support mechanisms have been suggested in the literature to support SMEs.

### **2.6.3 Traditional support measures for SMEs**

The traditional, supply-side measures for SME development policies emphasise the internal shortcomings of an enterprise such as lack of managerial and marketing skills, lack of education and technical skills, low productivity, limited capital, low levels of investment and lack of integration into clusters, networks and value chains. These traditional policies; therefore, promote the view that the government has a crucial role to play in providing a wide range of services to compensate for these shortcomings. In other words, government institutions are expected to provide comprehensive support to SMEs in order to stimulate their growth and their contribution to national and regional economic development.

According to Luetkenhorst (2004:5), the support measures can be divided into six groups. The first group of policies involves to the promotion of collaborative working relationships of enterprises and focus on the creation of networks, value chains and subcontracting relationships. Secondly, the support measures involve the assistance of start-ups and

established SMEs to adopt information technology in their business activities, as well as building capacity for them to be innovative. The third category refers to marketing assistance to SMEs. Financial assistance covers the fourth form of policy measures and involves not only public financial support but private financial services as well. The fifth category refers to the managerial and human resources capacity building that seek to improve the skills of owners, managers and personnel of SMEs. The final group involves the role of government institutions in promoting SME development (Luetkenhorst 2004:5). The following section presents the use of associations and cooperative mechanisms to support SMEs.

### **2.6.3.1 Association and cooperation mechanisms**

In order to prosper, SMEs should form or build on existing clusters, networks and value chains (Asasenet *al.*, 2003:34; Luetkenhorst 2004:7). Harvie (2004:17) emphasises that those enterprises, which develop and maintain cooperative relationships with others tend to perform better than those who do not. This complies with a view of the paper presented by Lall (2000:7), which reports that strategic partnerships with rivals and close collaborations, is a source of competitive advantage.

Owusu-Ampomah (2010:56) concurs that the key problem facing SMEs is not necessarily their size but rather their isolation from other players on the field of play. SMEs need to participate in business clusters and networks in order to cooperate with other players in order to share useful information and to improve their operational efficiency and competitiveness (Ishengoma & Kappel 2008:12). Luetkenhorst (2004:7) notes that networks can be either horizontal or vertical.

While horizontal linkages consist of SME clusters and networks, vertical linkages are found in local or international value chains. Asasen *et al.* (2003:34) provide both the narrow and broader definitions of a cluster. The narrow definition views a cluster as an agglomeration of culturally homogeneous business that co-operatively or competitively operates in a geographically specific location producing goods and services for the same industry or sector. According to the broader definition, a cluster of enterprises is a group of inter-connected enterprises and associated institutions, operating in a geographically proximate location, linked by commonalities and complementarities. Studying China's development strategies in the context of a national innovation system, Kanamori *et al.* (2007:8) point out that the main

constrain to SME growth is not size *per se* but their inability to access a wide range of resources that large enterprises are able to access. The authors suggest that participation in clustering activities has several benefits.

First, business clusters and networks enhance an increased cooperation between SMEs through the employment of common marketing and distribution channels as well as learning from each other in aspects regarding markets, products and process improvements. Secondly, due to economies of scale and scope enterprises, they are also able to access more resources such as raw materials and technology. They are also able to use a common pool of skilled workers and shared use of common capital. Thirdly, collaboration through producer associations may help to open up new markets thereby increasing the market share of SMEs. Lastly, participating in a cluster leads to greater specialisation by SMEs. Each enterprise can concentrate on its core business and outsource others, thereby creating division of labour among enterprises, leading to efficiency and effectiveness in production (Luetkenhorst 2004:7).

Similarly, networks denote interactions amongst enterprises cutting across the value chain and national borders or geographical divides (Luetkenhorst 2004:7). Hussain (2000:7) and Harvie (2004:17) suggest that networking activities through joint ventures and/or strategic alliances may help SMEs to develop because they allow accelerated learning through the exchange of information that will increase knowledge about markets, suppliers, customers and competitors. Furthermore, enterprises can share risks, costs and access to markets, and this helps them to be price-competitive and hence, an increased market penetration and market powers. Networks can facilitate the re-configuration of SME relations with suppliers, thereby strengthening the supply-chain network.

Several success stories of enterprise clusters have been reported. Examples include a cluster of leather shoe producing firms in the Sinos Valley in Brazil, the surgical instrument firms in Sailkot of Pakistan, and the computer enterprises in Silicon Valley of California in the USA (Owusu-Ampomah 2010:57). Owusu-Ampomah (2010:62) reports that the low level of networks and inter-enterprise cooperation amongst SMEs in the city of Durban, South Africa, accounts for the relatively poor performance of the small clothing manufacturing enterprises in Durban. The study recommends the promotion of networks, inter-enterprise



cooperation and joint action; ICT uptake may be a necessary condition for small enterprise success and growth.

Luetkenhorst (2004:8) reports that through networking activities the small cheese producers in Nicaragua were able to produce various types of quality cheese, and productivity increased by 25 percent. He also reports similar findings in the Ludhiana area in India, where the United Nations Industrial Development Organisation (UNIDO) implemented a knitwear cluster between 1997 and 2001. About 150 enterprises benefited by expanding their markets both domestically and abroad, sales increased due to joint participation in trade fairs, and more training programmes were designed. This led to training of 400 people, of which 300 were women and the project created many job opportunities.

However, Hussain (2000:7) argues that these industry linkages are associated with risks and costs. These include increased reliance on partners, difficulties in coordinating operations as the networked and clustered group grows, hampered decision-making due to bureaucratic procedures, and the hidden agendas of some network colleagues. Besides networks and clusters, Luetkenhorst (2004:9) recommends the participation of SMEs in global value chains because they generate opportunities such as upgrading of technology, enhancing of technical and management skills, and better access to markets.

In a similar vein, Ishengoma and Kappel (2008:12) support these cooperative activities because apart from lowering SMEs' transaction costs, they increase the sources of finance and therefore SMEs are able to upgrade their assets and improve their productivity and sales, which leads to their growth. Besides the cooperative activities, the use of technical assistance is also useful in assisting the SMEs to grow.

### **2.6.3.2 Technical assistance**

The use of information and computer technology (ICT) is crucial to SMEs as the experience of many countries indicated that limited use of ICT inhibit their growth and performance. A survey by the United Nations Development Programme (UNDP) (2007:31) in Malaysia indicated that several SMEs are not participating enough in e-commerce. The survey attributed the limited participation in e-commerce to; lack of information and computer

technology personnel, high-perceived costs to set-up and maintain ICT infrastructure, and lack of trust on the confidentiality of e-transactions.

Ozigbo and Ezeaku (2009:9) studied the adoption of information and communication technologies to the development of SMEs in Africa. The results revealed that a strong and positive relationship exists between the levels of investments made on ICT and the levels of SME growth. The findings also indicated that as an enterprise increases its investments in ICTs, it would record an increase on the level of its growth. The study suggested specific measures to increase ICT diffusion capabilities. First, the study recommends the increase in awareness of best technology, assisting SMEs to train their employees and aiding them to commercialise new technologies. Secondly, it suggested the assistance of SMEs to implement new technologies through technical assistance and promotion of closer linkages between technology development and SME users. Thirdly, the study recommended the use of forums and other exchange opportunities that SMEs need. The fourth suggestion was the improvement of facilities, physical infrastructure and the available new technology, software and other related resources.

In a similar vein, Blueprint Strategy and Policy (2005:45) recommends four policy intervention strategies; carrying out education campaign programmes to educate SMEs about the potential benefits of e-commerce, financing start-ups and research and development, promoting business information and telecommunication technologies in SMEs, and creating collaborative relationships between governments, private sector and research institutions. UNDP Malaysia (2007:31) and Blueprint Strategy and Policy (2005:45) both emphasise that participation in e-commerce may enable SMEs to open up more markets, increase sales and reduce transaction costs and consequently, their growth.

Sarosa's (2007:18) study of information technology adoption within the Indonesian SMEs confirms this. The study revealed that SMEs that utilised technology of various forms such as computers, e-mails, automation machinery and others, posted impressive business results. Sales greatly increased due to an improved product quality and the ability to supply ordered goods on time. This was as a result of the use of improved machinery and advances in product design. Besides assisting SMEs on Intellectual Property Rights(IPR) matters, the setting up of technology incubators is also crucial to help the sector to be innovative

(Blueprint Strategy and Policy 2005:47). UNDP Malaysia(2007:27) states that the role of technology incubators are; to develop and nurture SMEs into prosperous technopreneurs, to assist start-ups with hands-on and technical training skills in technology to improve production processes, product design and packaging as well as quality control. They also provide advisory services to SMEs on technology, quality, management, financial, marketing, intellectual property rights, business plan assistance, facilitating registration and tax consultancy. Assisting SMEs with marketing skills is another policy intervention measure that would help them to grow.

### **2.6.3.3 Marketing assistance**

The lack of marketing information, limited access to markets, poor product quality, poor reputation and restrictive international trade regulations are marketing constraints that inhibit the growth and performance of SMEs (Bari *et al.*2005:33, Ishengoma & Kappel 2008:22). Garcia-Fontes (2005:5) reports an outcome of a survey by World Bank Investment Climate for China, and recommend that joint marketing associations and co-operatives may help the SME sector in this country to access marketing information. The idea is to enhance linkages and networks in the marketing of products and services.

The results Ishengoma and Kappel's (2008:22) study of the growth constraints of SMEs in Uganda indicate that marketing information is one of the factors that hinder the growth potential of SMEs. The study recommends that SMEs produce quality products as well as undertake joint marketing strategies, as this will enable them to expand and penetrate differentiated market segments. A study by Chandra *et al.* (2001:52) on constraints to growth and employment in South Africa explored the SME sector in the country and found that limited market access is one of the problems facing the sector. The study also recommends that in order to promote and boost SME business, the government needs to design enabling procurement policies that enable SMEs to be suppliers of various products and services to the government.

Garcia-Fontes (2005:5) suggests that governments should assist SMEs to internationalise so that they can access large markets, absorb knowledge from abroad through supplier linkages and international customer feedback. This can be achieved through the promotion of trade fairs, exploratory tours, export insurance assistance schemes, and the training SME importers

and exporters. Through participation in trade exhibitions, SMEs can expose their products to wide markets and hence, increase sales. Export insurance assistance schemes may also act as an incentive for risk-adverse SME exporters to increase their participation in export business (Garcia-Fontes 2005:5).

SEAF (2001:12) explored the development impact of SME investments in central, eastern and Latin American countries, and suggested that the setting up of venture capital support services, accompanied by technical assistance, will go a long way in developing the business of SMEs. The results of a study by Chandra *et al.* (2001:54) reveal that despite the efforts by the South African government to promote SME exports through many initiatives, no more than 13 percent of enterprises were aware of the export promotion support programmes. The study; therefore, recommended that more awareness export programmes need to be carried out to educate SMEs about support initiatives that are available. Such renewed efforts (Chandra *et al.*, 2001:54), coupled with workshops and extensive advertising through national media, would create awareness and increase interest to export.

All of the above recommendations are expected to expand SME markets, increase their sales, increase their internal sources of finance and productivity levels and as a result, their growth. (Ishengoma & Kappel 2008:12). Besides marketing assistance, SMEs also need financial assistance to finance their operations.

#### **2.6.3.4 Financial assistance**

The availability and accessibility of finance is crucial to the growth and performance of SMEs (Abdullah & Manan 2007:3). Previous empirical studies have indicated that limited access to finance inhibits small businesses' growth and development (Kauffmann 2005:1; Garcia-Fontes 2005:2; Ishengoma & Kappel 2008:11). This is in line with a study by Abdullah and Manan (2007:5) on small businesses in the Klang Valley of Malaysia that found that access to finance was a serious problem affecting the success of this sector. The study recommends channeling of funds such as loans, grants and equity financing to SMEs at each stage of their lifespan.

This is confirmed by Kauffmann (2005:2), who reports an outcome of a study by the African Development Bank and the OECD Development Centre for Africa. The results show that

SMEs are inhibited by limited access to finance. The study suggested that micro-credit institutions and small commercial banks or rural banks should be set up in order to cater for the local needs of SMEs. It also supported earlier studies that showed the importance of finance to SME business growth and development.

Ishengoma and Kappel (2008:22) studied the business constraints and growth potential of small manufacturing enterprises in Uganda. One of the key objectives was to assess the extent to which the growth of SMEs is associated with business constraints. The findings indicate that lack of finance negatively affected the growth of SMEs. The study also suggests that to perform better, SMEs need adequate access to finance. Furthermore, it indicates that high taxes limit the performance and development potential of SMEs. They reduce their internal sources of finance and discourage them from expanding and joining the formal sector.

In this regard, Garcia-Fontes (2005:6) advocates for the implementation of tax exemptions and special guarantee funds that are oriented to SMEs so that they can secure loans without collateral security. The availability of funds enables SMEs to access new technologies, increase productivity levels and expand to international markets. Measures that simplify documentation and processing requirements, and credit disbursement procedures should be put in place (Bariet *al.* 2005:58).

Furthermore, Bari *et al.* (2005:58) advises the use of software that makes loan processing easy, fast and consistent across the banks. Kauffmann (2008:3) states that in order to develop SMEs, loans need to be channelled to SMEs through some intermediaries such as Non-governmental Organisations (NGOs) and federations of SMEs to expedite loan application and cut down costs. In order to expand the revenue base, Kauffmann (2008:3) suggests that besides government and donor agencies, governments may set up incentives that would encourage remittances by nationals working abroad. The other method to promote SMEs is to simplify the regulatory procedures.

### **2.6.3.5 Simplification of regulatory procedures**

Alterburg and Von Drachenfels (2006:401) advocate that the simplification of the company registration procedures is necessary as it facilitates easy registration of new start up

enterprises. This view is supported by a cross-country study by the World Bank's Doing Business (2005:4), whose results indicate that the easiness to register a company is associated with more economic growth. The study suggested that simplifying regulatory procedures would encourage SME investments and promote economic growth. The view is also supported by a study by OECD (2003:1-2) which recommends a 'smart tape' rather than 'red tape' because the former facilitates easy and quick company registration, whereas the latter makes the registration very long and tedious.

It shows that countries need to put in place procedures that promote easy and fast company registration. Altenburg, Eckhart *et al.* (2006:63) also call for simplified company registration and operations regulations as it may stimulate the entry and exit of enterprises and reduce artificial barriers to growth. The author's further mention that simplifying regulations leads to increased productivity levels as more SMEs are encouraged to formalise their activities and as a result, the country realises more economic growth.

Ozigbo and Ezeaku (2009:11) and Altenburg and Von Drachenfels (2006:402) emphasise the measures that need to be taken to expedite the processing of permits and licenses by setting up one-stop facilities for processing all permits, increasing the accountability of civil servants, and exposing bureaucracies to competition. According to the OECD (2004:18), an SME-friendly legal, regulatory and administrative environment is the one where property rights are recognised, contracts are enforced, business-licensing requirements are minimal, applications easy, labour regulations are balanced and flexible, and rule of law is applied equally to both men and women. Poor management skills among SMEs are a serious threat to their survival, policies should therefore, be put in place to train SME owners and managers how to manage their businesses.

#### **2.6.3.6 Managerial capacity building**

Poor management is adversely affecting the ability of SMEs to survive and grow. Although it is difficult to determine what constitutes poor management, Pansiri and Temtime (2008:252) are of the view that all problems of SMEs that involve marketing, financial, personnel, operations and distribution are essentially all managerial problems. They further mention that the success of SMEs in the dynamic environment depends largely of management's ability to scan the environment in order to understand the behavior and trends in the environment. In a

review of SME financing schemes in Ghana, Mensah (2004:14) mentions that training of the SME sector is crucial. The author suggests that the training programmes would include accounting, business management, preparation of business plans, financial statement analysis, personnel management, marketing and counselling of business owners.

A study by Tambunan (2008:158) suggested that every effort should be made to develop SME managerial skills through human resources training programmes such as, in production techniques, general management, management quality systems and quality control methods. Harvie's (2004:16) study of the capacity building of SMEs in East Asia found that poor management and a shortage and cost of skills in information technology are a major hindrance to business growth. The study recommended the need to set up mechanisms for self-learning and ongoing training and enhancement of human resources. It also suggested staff training in IT skills, as this would enable more efficient management of business, workload sharing, and development of more market opportunities. Similarly, Pansiri and Temtime (2008:253) noted that the performance of SMEs is closely related to the ability of an enterprise to recruit and retain competent personnel. They suggested that attraction, development, promotion, delegation and right deployment of personnel are critical success factors for SMEs. The government can also play a significant role in supporting the growth of SMEs.

#### **2.6.3.7 The role of government**

The government has an important role to play in the capacity building of SMEs. Harvie (2004:18) asserts that even though the choice of intervention strategies to develop SMEs is determined by the stage of economic development of each country, there are some general strategies that apply to all economies. The first is the role that the government plays to establish a level playing field that helps SMEs to compete on a more equal basis. The second one requires the government to carefully use scarce public resources and design a clear, coordinated strategy for SME development. Thirdly, governments may encourage private provision of financial and non-financial services to SMEs, as well as developing private markets for services suitable for SMEs. In a study of SME development in central Asian countries, Hubner (2000:15) pointed out that in order to develop at an accelerated pace, SMEs need to have a perspective of security, prosperity, certainty and stability. The author also suggests that SMEs need stable monetary, fiscal and regulatory policies for them to

formulate and implement investment and saving plans. A stable and efficient environment is useful to reduce uncertainty in SME business, as they can invest more with confidence and hence, stimulate their growth as well as national and regional economies. Therefore, Hubner (2000:15) is of the view that a stable economic climate should be the priority of governments. Other proponents of SME support policy (Meier 1993:29, Asasen *et al.* 2003:1; Luetkenhorst 2004:5; Bari *et al.* 2005:57; Leano 2006:5) propose that:

- Policies should be put in place to help SME access global markets so that they are able to serve new and large niche markets, as it will enable them to exploit economies of scale, spread risk and upgrade their technological capacity
- Governments need to provide good infrastructure, access to short- and long-term credit at concessionary rates, advisory assistance, knowledge about marketing of products, export assistance schemes
- An efficient tax assessment system should be simplified, as well as reengineering refund and drawback processes, in order to expedite applications.
- Sector – specific training for SME workforce should be set up, for example setting up government-sponsored sector-specific incubators that provide SMEs with credit, access to technology, vocational and management training as well as consulting facilities
- Assisting SMEs to undertake research in product development by establishing Research and Development (R&D) centres or strategic alliances with universities to facilitate technology roll-out for SMEs
- Encouraging mergers and acquisitions amongst SMEs for them to transform and restructure their enterprises in order to create stronger enterprises that can compete globally
- Encouraging an entrepreneurial culture by training all tertiary education learners throughout the country.

While government assistance is important in promoting SMEs growth, some scholars argue that for SMEs to be efficient, there should be minimal government intervention. Rather than government assistance, market-led support measures are regarded as critical to the development of the SME sector.



## **2.7 MARKET-LED SUPPORT MEASURES**

Proponents of the 'New Minimalist Approach' to SME development (Steel & Phillips 2002:1; Altenburg & Von Drachenfels 2006:387) propose that the government should play a minimum role in the promotion of SMEs. They argue that selective public interventions to support SMEs will distort the market and create inefficiency in the SME sector.

Altenburg and Drachenfels' (2006:397) criticism of the traditional government-driven and subsidy-based SME-sector support programmes are based on the grounds that the programmes:

- use taxpayer money with no or limited accountability, therefore funds are used inefficiently
- distort the market and hamper the emergence of commercially viable service providers because of highly subsidised rates
- public service providers lack business orientation and hence, service delivery is often not tailored to needs of enterprises
- place too much emphasis on the direct support of SMEs, instead of cutting red tape and ensuring property rights
- lack wide outreach to all SMEs in need of support.

Gibb (2006:263) suggests that the key to both sustainability and success of SMEs is a market-led support policy that focuses on profit making in the provision of SME services. Promoting the view that the New Minimalist Approach is capable to unleash the growth of the SME sector, Altenburg and Drachenfels (2006:389-390) propose four controversial policy recommendations to SME development.

The first one is an effective property rights policy that provides title deeds to small enterprises, as this may increase their collateral security, thereby encouraging investment and results in economic growth. The second policy recommendation is the simplification of unnecessary and cumbersome procedures and regulations, as this will reduce registration costs and time, and an incentive to be formal. The third one is the improvement of SMEs' access to credit where the microfinance need to operate on a commercially viable basis and government's role is only to provide improved framework conditions rather than providing

funds. The last policy is to develop competitive markets for non-financial business services that are left for private sector providers, based on the assumption that SMEs are willing to pay for the services.

However, the New Minimalistic Approach to SME development has been criticised for being simplistic and lacking empirical evidence backing. Nonetheless, it takes credit for identifying costs of cumbersome and unfair regulations and weak property rights, as well as prompting a debate on the role of government in the development of SMEs (Altenburg & Drachenfels 2006:407).

A study by Gibb (2006:263) about the design of effective support systems for SME development in China found that an application of a stricter market-led support mechanism to the SME sector would not stimulate the sector's growth. The study recommends that there should be a paradigm shift from market-led approach to SME development to a social networking model. The study further recommends a stakeholder relationship model, where effective relationships with other stakeholders is the key to sustainability and success of SMEs.

According to Gibb (2006:271) the relationships within the model can be categorised into direct transactional, indirect transactional, imposed and voluntary relationships. Direct relationships are relations with customers and suppliers and imperative for SME survival. Indirect transactional relationships are relationships with suppliers of financial services such as banks, accountants, lawyers and intermediaries, who facilitate the process of reaching customers. Imposed relationships involve compliance to rules and regulations set by the government and local authorities. Lastly, voluntary relations involve relationships relating to social networks with other SME peers and with suppliers of commercial and non-commercial services.

## **2.8. CONCLUSION**

This chapter reviewed various definitions of SMEs. It also discussed the characteristics, contributions of SMEs to economic development, constraints to SME development as well as the recommendations for SMEs success. In the process, a number of issues useful to SME owners/managers and policy makers were raised.

First, in reviewing SME definitions, this study identified that there is no single, universal and uniformly acceptable definition of SMEs. Different countries and institutions use several measures or indications to come up with the definition of SMEs. The most commonly used definition is the one that considers number of employees employed by the SME. However, the problem with this definition is that it is arbitrary and the cut-off points used by various official sources it is not clear. The definition of SMEs within the context of South Africa was also discussed.

Secondly, the study identified that SMEs are of strategic importance, not only to the South African economy but also across the globe. They have become a main player in economic growth and development, especially as a key provider of job opportunities and hence, a main source of income and livelihoods for many people. These enterprises also make a significant contribution to productivity enhancement and as a result, the growth of GDP and high standards of living for several households. SMEs have also been noted to be an engine room for the growth and development of innovation and technology, equitable development, exports, human capital and public revenues.

Thirdly, constraints on SMEs are many and varied. These problems hinder the success and growth, and even account for the high mortality rates of SMEs, especially in developing countries. These challenges can be divided into internal and external constraints. External obstacles facing SMEs stem from general business environment such as poor infrastructure, cumbersome licensing and registration procedures, inefficient tax regimes and limited access to credit. Internal constraints are due to lack of management and technical skills. The obstacles limit the competitiveness of SMEs, and in turn impede their survival and success.

Finally, there is no single strategy to enhance the development of SMEs. A combination of both the traditional and the market-led approaches can, if properly executed, lead to a prosperous SME sector. According to the traditional approach to SME development, the role of government is crucial. It is expected to ensure policy measures that include easy access to finance, improved transport and communications infrastructure, facilitate training of SME staff, removing import restrictions and export promotion programmes. The market-led strategy promotes the minimalist approach, where the government plays only a facilitation role.

This approach argues that as much as policy makers have noted that economic growth and development hinge on a vibrant SME sector, they also need to realise that key to SME success is a friendly and enabling entrepreneurial business environment in the local, regional and global economies. In other words, a favourable environment for SMEs is a necessary and sufficient condition for SME development. Policies should therefore, focus on removing SME barriers to survival and growth, rather than on providing preferential treatment to them.

This can be achieved through the simplification of the regulatory environment, removal of trade barriers, facilitating clusters and networks, and infrastructure development. Therefore, SME owners and their governments need to work together to ensure a conducive environment and an improved access to markets, information, technology, human capital and finance. All these intervention strategies are necessary to help SMEs grow and compete globally, thereby increasing their strategic role to local, regional and global economic prosperity. The focus of the following chapter is to provide an overview of the strategic planning process.

## CHAPTER 3 – THE STRATEGIC PLANNING PROCESS

### 3.1. INTRODUCTION

The previous chapter examined the varied definitions of SMEs. It also described the characteristics of SMEs. The contributions made by SMEs to economic development as well as the constraints their development were highlighted. The chapter concluded with the recommendations for their development of SMEs. The purpose of this chapter is to present the literature review of the strategic planning process in general. First, the background of strategic planning will be discussed. From this discussion of the history of strategic planning, several definitions of strategic planning will also be reviewed and includes the several schools of thought that are related to strategic planning. This will be followed by considering a debate on strategic planning, and a discussion of the characteristics, success factors and the strategic concept. Lastly, the strategic planning process will be outlined. This section will be divided into subsections in order to discuss the stages involved. First the mission, vision and value statements will be presented, followed by a discussion on objectives formulation in the second subsection. Thirdly, environmental scanning that involves internal, external and industry analyses will be covered. A discussion of strategy evaluation and choice will be presented in section four. The proceeding subsections five and six, will discuss the implementation of chosen strategies as well as evaluation and control of implemented strategies respectively.

Academics and practitioners have treated the notion that the practice of strategic planning improves business performance of SMEs with mixed feelings. Advocates of strategic planning process endorse its usefulness (French *et al.* 2004:765; Kraus *et al.* 2006:334; Veskaisri 2007:55; Efendioglu & Karabulut 2010:3). They argue that strategic planning cushions businesses, as they are able to adapt to the rapidly changing business environment. Their viewpoint is that due to environmental scanning activities, enterprises can devise and implement suitable strategies. This enables them to create competitive advantages through organisational efficiency improvement, thereby leading to superior performance. However, others have treated the effectiveness of strategic planning process with skepticism (Phillips 1996:9; Falshaw *et al.* 2006:9). They criticise the strategic planning process because of its procedural rigidities, which are not required in today's turbulent environment.

### **3.2 BACKGROUND OF STRATEGIC PLANNING**

According to Ungerer, Pretorious and Herholdt (2007: 2), strategy refers to “the art of the general”, whereby military commanders used it to plan for war campaigns. It was useful because it served as a technique to deceive enemies and to guide commanders how to move and deploy the troops in order to win the war. Due to the complexity of the warfare, the armies had to deal with many uncertainties and imponderables and this necessitated the use of strategy in these wars. Therefore, the art of strategy was called the art of the “calculated risk” (Ungerer *et al.* 2007:3). Young (2001:2) concurs and states that because of its success in the military context, strategic planning later on filtered down to the business sector in the 1960s and 1970s, as businesses explored better ways to plan for their long-term needs to achieve competitive advantages. Over the years, the military strategy has served as the model for profit making and non-profit making enterprises seeking success and sustainability (Ungerer *et al.* 2007:4)

Vaughn (2005:8) mentions that strategic planning practice gained prominence in business as it was regarded as a technique that helps businesses to consider both their internal and external environments in order to achieve a fit between these environments and the strategies. This suggests that institutions, be they political, social, religious, military or business, need to practice strategic planning in order to survive in today’s changing environment.

### **3.3 DEFINITION OF STRATEGIC PLANNING**

Numerous and varied definitions of strategic planning have been suggested in the literature. According to O’Regan *et al.* (2002:418), strategic planning is a process by which an organisation interprets, predicts and responds to the dynamic environment. The authors proceed to state that strategic planning assists an organisation to use its resources effectively within a dynamic business environment in order to meet the needs of customers as well as other stakeholders. Huang (2005:51) defines strategic planning as a complex and participative management technique of scanning the environment and the formulation of mission, vision and strategies in order to improve the performance of the organisation, and hence its competitiveness in the market. Besides formulating broad and flexible objectives, strategic planning also involves devising strategies and policies in order to achieve organisational goals (Stonehouse & Pemberton 2002:855).

In the same vein, Young (2001:9) points out that the main purpose of strategic planning is to provide strategic direction in the utilisation of resources in order to cope with environmental uncertainty. Odame (2007:10) states that strategic planning is the process of formulating broad and flexible long-term plans that takes a business to its envisioned future. Odame (2007:10) is of the opinion that strategic planning is a method of formulating and implementing long-term plans in a broad and flexible manner in order to achieve the aspirations of the organisation. Goncalves (2009:463) states strategic planning is a process of making decisions, anticipating changes, and making necessary adjustments needed to respond to uncertainties in the environment. Wang, Walker and Redmond (2007:4) encapsulate this when they posit that strategic planning is about competitive advantage. All definitions simply state strategic planning is a necessary condition to gain a sustainable edge over rivals. This is because through strategic planning, an organisation is well-informed about its internal and external environments and is therefore, able to devise relevant strategies to achieve its goals.

In their effort to identify the strategic planning practices, researchers have also highlighted its key components (Young 2001:10; Huang 2005:51; Pevzner 2006:51). Young (2001:10) suggests the five key aspects that strategic planning addresses are, where the business wants to be, how the business knows it is where it wanted to be, the present position of the business, means to get where it wants to be, and what changes will take place in business's environment. According to Dincer, Tatoglu and Glaister (2006:208), the key aspects of strategic planning include the formulation of a mission statement of the enterprise, establishing the objectives, crafting and implementing the strategies, monitoring and controlling the progress in strategy implementation. In other words, the enterprise plans for the future by envisioning how and what the future will be like, and then make decisions based on those perceptions of the future. Dincer *et al.* (2006:208) continue by pointing out that strategic planning incorporates an analysis of both the internal and external environments of the business in order to identify its strengths and weaknesses, as well as the opportunities and threats. The authors believe that an understanding of this relationship reduces the risk caused by a dynamic environment when businesses make decisions. O'Regan and Ghobadian (2002:418) have observed that key aspects of strategic planning include the long term view of an organisation, defining the line of business and ensuring a strategic 'fit' or 'balance' between the business and its environment. The notion suggests that a strategic fit helps an

organisation to capitalise on opportunities that arise, and to minimise the threats posed by the unstable market environment. In the same vein, Pevzner (2006:4) and Huang (2005:51) assert that in its strategic planning activities, an organisation should make decisions about the following aspects:

- The mission, vision or philosophy it will follow
- What it does best
- Its weaknesses and strengths
- Its customers and other stakeholders
- Its current performance
- If key interests are being satisfied
- Existence of opportunities or threats that it can exploit or avoid
- Who should be involved in making decisions
- The type of products or services it will offer
- Evaluation and control of performance
- Resources that are needed
- Strategies to achieve the objectives.

In a study of the strategic planning practices of construction companies in Ghana, Dansoh (2005:164) found that the common elements of strategic planning are, assessing the environment, goals, course of action, allocation of resources, long-term view and competitive advantage. What is apparent from this study is that by adopting a long-term perspective, an organisation is able to adapt to changes in the operating environment in a manner that increases the possibility of achieving the desired goals.

Geyer (2006:2) and Vaughn (2005:11) use a different approach to define strategic planning. They argue that when discussing what constitutes strategic planning, it is necessary to define what it is not. The authors assert that strategic planning is not a wish list where an enterprise lists everything it would like to achieve. The implication is that rather than having a wish list, what is crucial is a clear understanding of the purpose of the business and knowledge of the environment, as these result in the formulation and implementation of proper strategies to achieve the goals. In light of this view, Geyer (2006:3) describes strategic planning as a guide



map on what ought to be done, why should it be done, how it should be done and who will do it.

One of the earlier scholars of strategic planning, Mintzberg (1994:2-3) states that there are ten schools of thought associated with strategic planning. These schools of thought include the design, planning, positioning, and cognitive, entrepreneurial, learning, political, cultural, environmental, and configurational schools. The first three schools, namely the design, planning and positioning, emphasise teamwork and are prescriptive in nature as they provide details of the appropriate methods of making a strategy. The other seven schools of thought are descriptive in nature, since they take on thematic interpretations. Mintzberg (1994:3) describes the Cognitive School as one that focusses on deliberative processes, the Entrepreneurial School focusses on the vision of the business, and Learning School places emphasis on teamwork. These and the other schools of thought and their thematic views or processes, are summarised in Table 3.1.

**Table 3.1 Schools of thought on strategic planning**

School	View of Process
Design	Conceptual
Planning	Formal
Positioning	Analytical
Cognitive	Mental
Entrepreneurial	Visionary
Learning	Emergent
Political	Power
Cultural	Ideological
Environmental	Passive
Configurational	Episodic

Source: Mintzberg (1994:3)

### **3.4 THE BENEFITS OF THE STRATEGIC PLANNING PROCESS**

Advocates of strategic planning view it as the best management tool to achieve sustainable competitive advantages and to cushion organisations from highly unstable business environments (Dansoh 2005:163; Geyer 2006:3; Wilson & Eilertsen 2010:5). Wilson and Eilertsen (2010:5) investigated the benefits of strategic planning practices to business during the global financial crisis of between 2007 and 2009. Among the key findings were that

businesses that used strategic planning to make decisions had better opportunities to grow during and after the crisis. The results also show that strategic planners were more prepared for the economic crisis than the non-strategic planners were. The results suggest that businesses that utilise strategic planning tend to make better decisions compared to those that do not, and this cushions them from any uncertain future events.

Desai (2000:685) notes that businesses must undertake strategic planning because their environments are becoming increasingly complex and unstable. This shows that strategic planning practices would therefore help them to know where they are, where they are going and how to manage. In Desai's (2000:685) opinion, strategic planning creates a viable link between a business' mission, vision, goals, objectives, strategic choices and resources. A number of studies have been undertaken on the benefits of strategic planning (Paris 2003:6; Geyer 2006:3; Bynum 2007:3; Goncalves 2009:462). The studies reveal that strategic planning enables businesses to identify causes and solutions to problems, understand the operating environment, define the purpose of the business, and to clarify the ambitions, values and resources of a business. The more the business practices strategic planning, the more it is able to create stability in spite of a dynamic environment. According to Fraser and Stupak (2002:1205), strategic planning may encourage the clarification of business goals, systematic gathering of information, prioritisation of projects, teamwork, environmental responsiveness, communication of strategic intent to all stakeholders, and an improved performance. The authors are positive that the strategic planning process may strategically position a business by striking a balance between how it operates, and the requirements of the environment. Vaughn (2005:11) has argued that without strategic planning, a business is not clear about its mission, vision, goals and the means to achieve the goals. Strategic planning is hence, instrumental in helping the business to be focused in meeting the ever-changing needs of customers.

Joyner, Miller and Cage (2000:8) evaluated the strategic planning and leadership development process adopted by a school system. The aim of the research was to investigate the planning model utilised by the school, and benefits of implementing the process. The findings revealed that strategic planning served as an effective foundation for sustainable change with a view to improve continuous education in the school. Joyner *et al.* (2000:11) further assert that strategic planning increases effectiveness and collaboration, builds

leadership capacity, strengthens evaluation, empowers stakeholders, builds teamwork and develops expertise among employees who participate in the process.

The Arizona Department of Public Safety, Crime Victim Services (2006:3) also suggest that strategic planning is an important management tool because it is essential for customer support, is future-oriented, and leads to significant resource allocation decisions. In fact, businesses that fail to plan are said to be planning to fail. Strategic planning, as Desai (2000:686) has observed, provides alternative answers to questions that are critical in developing a strategic plan. These questions include: Who are we? Where are we? Where do we want to go? How do we get there? The premise posited by Desai (2000:686) is that plans based on careful analysis of mission, vision, objectives, environmental analysis and strategy evaluation and choice, could reduce the perceived uncertainty.

From the foregoing arguments, proponents of the strategic planning process sustain the view that strategic planning may not be regarded as panacea to business success, but if well managed, businesses are able to, clarify future direction, establish priorities, effectively respond to the dynamic business environment, improve their performance, build teamwork, commitment and expertise, meet stakeholder expectations as well as developing effective strategies, and consequently increase shareholder value (Government of Alberta 1997:2). While the benefits of practicing strategic planning are well documented, varied arguments are put forward to criticise strategic planning. The arguments are presented in the following section.

### **3.5 CRITICISM OF THE STRATEGIC PLANNING PROCESS**

A number of criticisms have been levelled at the use of strategic planning in businesses. Sceptics of strategic planning have argued on several fronts (Stonehouse & Pemberton 2002:854; Desai 2000:686; McDonald 1998:456; Mintzberg 1994). Management theorists such as Mintzberg (1994) believe that a structured strategic planning process is rigidly structured and thus, is rendered valueless in today's fast changing environment. Besides, Mintzberg (1994) believes that strategic planning has missed the mark by focusing on rigid procedures that constrain creativity.

The implication is that institutionalising and regulating innovation through a procedurally structured strategic planning process may constrain the business' creativity in responding to

the dynamic environment. Building upon Mintzberg (1994), McDonald (1998:456) accuses strategic planning of causing serious complications, such as excessive reliance on missions and visions and other similarly judgemental information, combined with a lack of factual market-segment profitability data, may lead to the formulation of inappropriate, and even destructive, strategies. According to this argument, reliance on people's visions, and other judgmentally derived information, will mislead businesses and therefore, devise wrong strategies, thereby destroying shareholder value.

In McDonald's (1998:456) opinion, a heavily structured strategic planning process more often than not will result in shareholder value destruction. According to Doan (2001:8), strategic planning is about formalisation that requires the decomposition of a process into clearly stated steps that are associated with rational analysis. Similarly, Desai (2000:686) claims that strategic planning has been faulted for imposing too many controls in the way the business is managed. Seen in this light, Desai (2000:686) argues that strategic planning may seem to promote the opposite of new management ethos of empowering managers to make decisions, rather than waiting for orders from the above.

Although Stonehouse and Pemberton (2002:854) are positive about the value of strategic planning to business survival and success, they remain skeptical about a highly systematised and deterministic process. In their view, the setting of long-term objectives is a necessary condition for the success and progression of a business but heavily structured planning is irrelevant for today's turbulent business environment. Therefore, there seems to be a general consensus among critics of strategic planning that in the era of relentless change, the process is useless. Days of environmental stability have since vanished. The global marketplace is now fiercely competitive and highly unstable, and hence the need to have quick and flexible approaches to customer needs, rather than rigid structure and controls promoted by the strategic planning process (Desai 2000:686).

The debate presented above shows that despite the criticism, organisations stand to benefit in several ways if they adopt strategic planning. In general, there is a general agreement on the importance of strategic planning, and any disadvantage it presents is dwarfed by the several benefits of long term focus and the formulation of best strategies to respond to the dynamic environment, hence the claim that strategic planning is what separates best performers from

poor performers (Pevner 2006:7; Wilson & Eilertsen 2010:13).The success of the strategic planning process is dependant of a number of factors and they are discussed in the following section.

### **3.6 SUCCESS FACTORS FOR A STRATEGIC PLANNING PROCESS**

The Arizona Department of Public Safety and Crime Victim Services (2006:4) and Joyner *et al.* (2000:11) have identified five factors that influence the degree of the success of strategic planning. First, the business should formulate realistic goals, objectives, and outcomes. This is necessary to ensure that resources are not overstretched and that performance is evaluated on realistic targets. Secondly, the process must be inclusive rather than exclusive. In other words, all stakeholders, from executives and managers to line staff, should participate in the process so that once it is completed it is acceptable to everyone. Thirdly, the process is required to be flexible in order to adjust quickly to the changes in the environment. Fourthly,it is a desire to continuously scan the environment to discover new, emerging and fresh ideas and information about the changing environment.

A continuous assessment of the environment enables the business to keep abreast with trends in the market place. Finally, there should be a shared vision of the desired future so that all efforts are directed towards a common goal, thereby increasing chances of success. A successful strategic planning process is the one that asks and provides answers to questions such as, Where are we now? Where do we want to be?How do we measure our progress? How do we get there? How do we track our progress? (Arizona Department of Public Safety and Crime Victim Services 2006:4).

For Zarkesh (2008:30), success factors for strategic planning encompass the following factors, namely creativity, limited reliance on past experiences because business environment changes and the future will not be like the past and involvement of employees in the process so that it gains commitment and support and it must be a learning process. According to Paris (2003:8) five ingredients,namely the right people, availability of reliable data and adequate preparation, a structured process, and adequate resources are important for an effective strategic planning process.

### **3.7 CHARACTERISTICS OF STRATEGIC PLANNING**

The principal characteristics of strategic planning, as highlighted by Paterson (2009:6) and Fraser and Stupak (2002:1212), are that it:

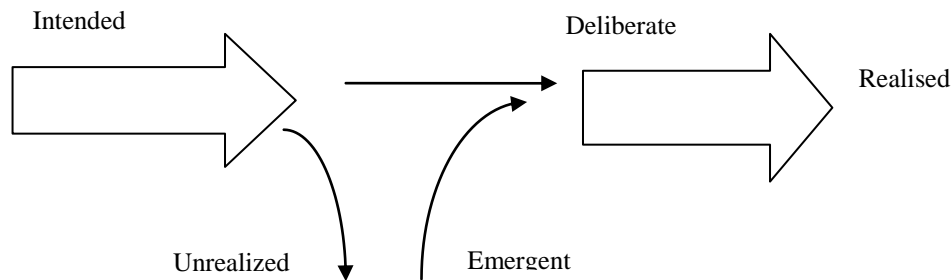
- Is a learning mechanism that assists businesses to understand clearly what they want to achieve, how and when to do it
- Is responsive and proactive rather than reactive
- Is a change process
- Uses a collaborative approach among the planners to ensure synergy
- Emphasises decision making that takes into account the availability of resources of the business and its capabilities
- Establishes goals of the business
- Discovers threats to business and opportunities, as well as solutions to problems
- Encourages the setting of realistic targets and objectives
- Makes decisions after careful evaluation of all the alternatives.

### **3.8 THE STRATEGY CONCEPT**

According to Ungerer *et al.* (2007:15), strategy is the collective pattern of behavior that is exhibited overtime by an organisation operating in a competitive market, whereby it differentiates itself in unique ways in order to survive. Other scholars such as Skrt and Antoncic (2004:108) as well as Tan and Platts (2005:137) view a strategy as a plan of actions designed to achieve desired business goals. The main objective of strategy in a competitive business environment is to achieve sustainable, superior and long-term profitability of the business (Ungerer *et al.* 2007:15).

When formulating a strategic planning process, businesses may use either the deliberate or the emergent approach (Henderson 2007:135). Whether to adopt a deliberate or emergent strategy approach appears to be a debatable topic among scholars. Studies by Aldehayyat and Al Khattab (2011:486) and Dincer *et al.* (2006:206) suggest that the strategy process in businesses is more deliberate than emergent. On the other hand, Henderson (2007:135) argues that the process is rather more emergent than deliberate because of the unpredictability of today's fast-changing business environment.

Hernandez *et al.* (2004:693) summarise in Figure 3.1, the strategies achieved when both deliberate and emergent means are combined together.



**Figure 3.1 Deliberate and emergent strategies.**

Source: Hernandez *et al.* (2004:693)

From Figure 3.1 it can be noted that in dynamic and competitive business environments, it may be necessary for a business to utilise both deliberate and emergent strategies, as the former can help the business to prepare for the future, and the latter compliments the former through its ability to respond to emergent situations. This will, in turn, position a business to achieve a sustainable competitive advantage.

### 3.9 THE STRATEGIC PLANNING PROCESS

Generally, strategic planning researchers seem to agree that the sequential steps in the strategy development process include formulation of mission, vision, values, goals and objectives, environmental analysis, strategy formulation, implementation and control (Falshaw *et al.* 2006:11). According to O'Regan and Ghobadian (2002:664), strategic planning can be considered from a content or process viewpoint. While content aspects relate to distinct elements of the strategic plan, which differ from one business to the other, the process relates to the approaches for the development of a strategic plan and its utilisation.

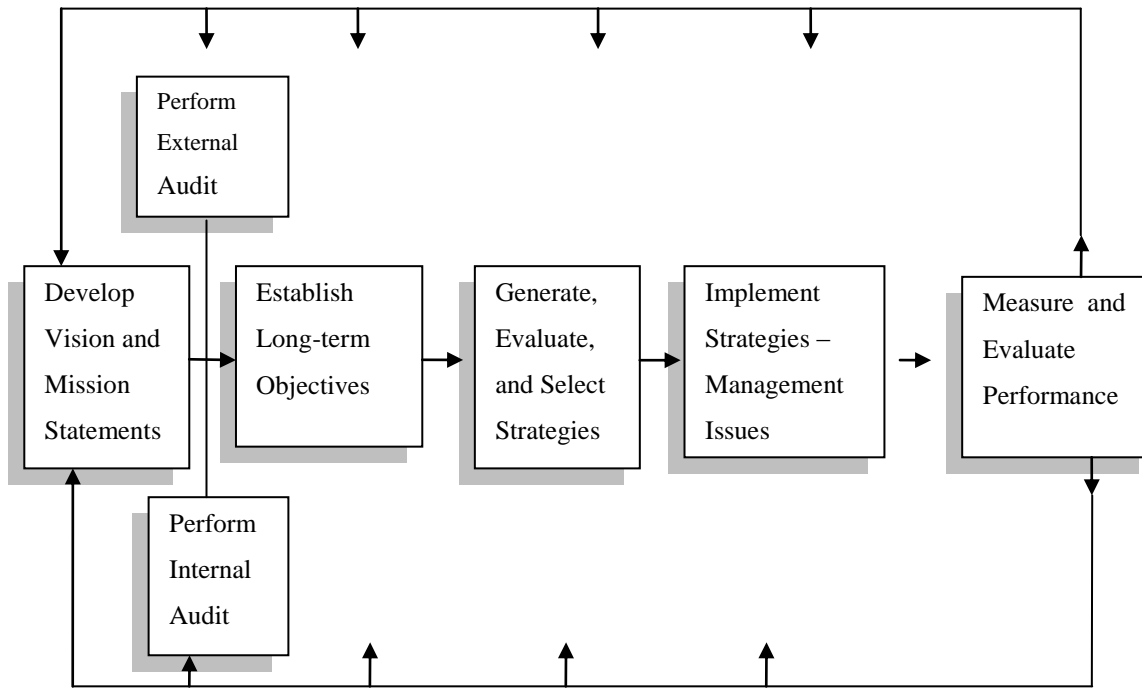
In a similar vein, Zarkesh (2008:34) notes that even though strategic planning is viewed as disciplined, it is a creative process that does not typically flow smoothly from one-step to the next. Instead, the process moves forward and backward for several times before arriving at the last decision. In this regard, Zarkesh (2008:34) offered three alternative sequences in the strategic planning process.

The first sequence is the **Situation-Target-Path**. Situation involves the evaluation of the current situation and how it came about, target includes the formulation of goals and objectives, which is referred as the ideal state, and the path is the route to the goals and objectives. The second alternative sequence is the **Draw-See-Think** where draw shows the ideal or desired image of the business, see represents the gap between today's situation and the desired situation and why such a gap exists, whereas think is the decision made about actions to be taken to close the gap between today's situation and the ideal state. Third, an alternative to the **Draw-See-Think** approach is the **See-Think-Draw**. See is to define today's situation, think is to define goals or objectives and draw is to map a route to achieve the goals and objectives.

Ungerer *et al.* (2007:19) view the strategic planning process as a continuous, open, input and feedback driven process, whereby there is a systematic interrelationship between the different stages in the process. The variables in the process are equally important and should not be treated in isolation. The authors state that there are six stages in the strategic planning process. First, the business needs to know about where it is and where it wants to be. Secondly, the business must have the options and choices at its disposal that can be used as a means to get to where it wants to be. The third stage is to come up with a clear strategic architecture to achieve the goals. The fourth one is to make sure that the strategy chosen to achieve the goals is robust and sustainable. Fifthly, is the implementation stage where the strategic plan is translated into action in order to realise tangible results. Finally, monitoring and feedback mechanisms must be in place in order to check on progress of execution of goals and to take action that is necessary to correct deviations from the required standards of performance. In summary, Ungerer *et al.* (2007:19) assert that the idea of strategic planning as a process means that the stages involved in the process are interlinked and none of the variables is significant on its own.

This section presents a review of literature on thesequence of steps involved in the strategic planning process. This study adopts the sequence of steps suggested by David (2003:14). The steps are illustrated on Figure 3.2.





**Figure 3.2 Strategic planning model**

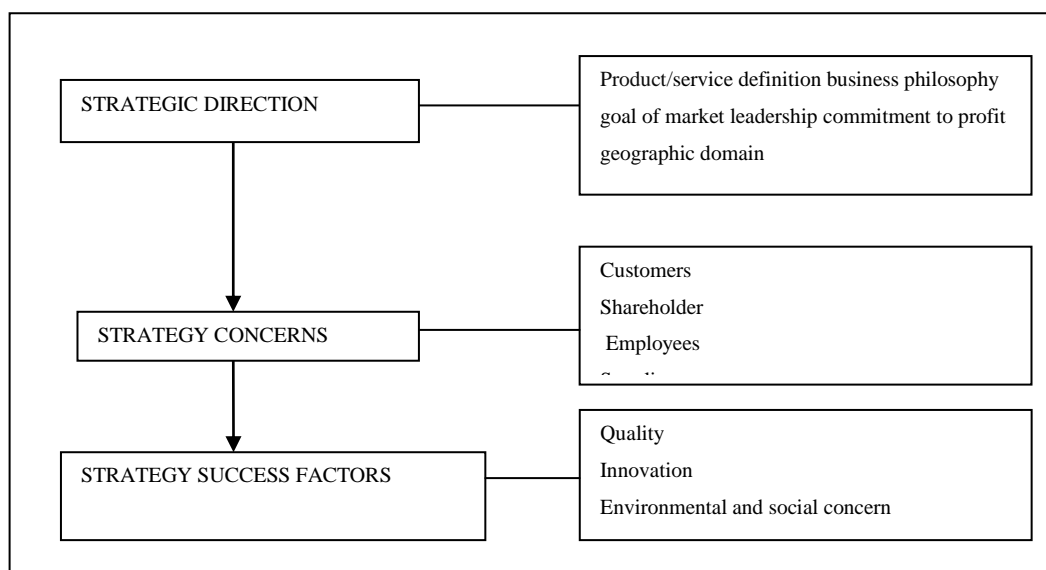
Source:David (2003:14)

### 3.9.1 Formulation of mission, vision and value statements

A mission statement is widely regarded by academics and strategic planning practitioners as the first step in the strategic planning process (Strong 1997:269). However, there is considerable diversity among the definitions of mission statements, and what constitutes them. Bart and Hupfer (2004:93) attribute this diversity to atendency by some researchers who come up with new typologies, and to differences in industry conditions, which need mission statements that are industry specific. The Arizona Department of Public Safety and Crime Victim Services (2006:21) assert that a mission is an invaluable tool that is part of the business’ identity and describes its customers and products or services and the ultimate rationale for the existence of the business. Bart (2001:19) indicate that a good mission statement is the one that shows aspects such as the reason why the business exists, the customers of the business, as well as the goals it seeks to achieve.

Besides establishing a common purpose among the staff, a mission statement guides the business on how to effectively use its resources (Pearce & Robinson 2000:27).Forbes and Seena (2006:409) state that a mission statement is crucial as it gives direction to the personnel of the business, guides decision making, motivates staff and facilitates evaluation

and control. According to Ungerer *et al.* (2007:172), the business mission indicates its purpose and has a dual aim; to ensure employee commitment and hence, a pulling force, and secondly, to create an understanding of the business domain in which the business would want to operate. Therefore, if the business domain is clear, it is easy to evaluate its success and to position itself in the industry. Ungerer *et al.* (2007:172) further contend that the mission statement also serves as guidance on the business boundaries so that everyone knows what the business does not do. Strong (1997:270) proposes that the mission should state the products and services to be supplied to satisfy customer needs, the customer groups that are targeted and the geographical regions where the business operates. The author proceeds to posit that a mission statement should also indicate the technology to be used in the production process, commitment to quality of products and services, the business' commitment to social responsibility and business' distinct competencies. An analysis of how top United Kingdom (UK) businesses define mission statements by Strong (1997:273), identified the three dimensions, namely strategic direction, strategy concerns and strategy success factors, that usually dominate contents of mission statements. Strategic direction includes products/services, business philosophy, commitment to profit and geographic domain whereas, stakeholder concerns encompass customers, shareholders, employees, and suppliers, and the strategy success factors include quality, innovation and environmental and social concern. These are summarised in Figure 3.3.



**Figure 3.3 Contents of mission statement**

Source: Strong (1997:273)

Bart and Hupfer (2004:94) studied mission statements in Canadian hospitals. The study identified that the most commonly mentioned components in the mission statements were the customers of the business and the products and/or services offered. The study found that the concern for suppliers was the least included in the mission statements. Besides mission components, business should state the philosophy of the organisation in an addendum to the mission statement (Smit *et al.* 2007:89). The components include, the values, ethics, and beliefs of the business, public image or social responsibility, employees and all other stakeholders and the business' distinctive competence. Smit *et al.* (2007:89) further suggest five requirements to be met for a mission statement to be a strategic tool. First, the mission statement should be a living document. Secondly, the mission statement must state clearly the key performance areas for the whole organisation. Thirdly, the formulation of a mission statement needs to be a participative process. Fourthly, the requirement is to make sure that the key performance areas are cascaded down to everyone in the business. Finally, everyone should strive to achieve the set objectives for his/her task, as this will imply that the whole organisation achieves the goals. A number of studies have examined the relationship between mission statement and business performance (Bart *et al.* 2001:19; Bart & Hupfer 2004:92; Hirota, Kubo, Miyajima, Hong & Patk 2010:1147).

Bart *et al.* (2001:19) analysed the impact of mission statements on firm performance using data from 83 large Canadian and US organisations. The findings show that mission statements do affect financial performance. In specific terms the results point out that commitment to mission statements, and the degree to which a business aligns its internal structure, policies and procedures with its mission, were found to have the most direct relationship with financial performance. Similar results were also found in Strong's (1997:309) study, whose findings from a study of the formulation of mission statements by UK organisations confirm a positive relationship between mission statements and firm performance. The study found three dimensions, *inter alia* strategic direction, stakeholder concerns and strategy success factors, which help amplify the comparative strength and organisational efficiency.

Forbes and Seena (2006:415) also provide strong evidence of the impact of mission statement on performance from a study of 18 not-for-profit hospitals. An overwhelming number of respondents in this study pointed out that they were both satisfied with the mission

statement, and been sufficiently influenced by it, to be committed. Similarly, Hirota *et al.* (2010:1134) concur that a mission statement matters. Their study of the effect of corporate mission and corporate policies on business outcomes in 128 large Japanese firms confirms the view that corporate mission and policies contribute to an improved performance.

However, Denton (2001: 309) is cautious. The author warns that mission statements may miss the point because most businesses get it wrong when they spend a lot of time developing mission statements and not enough time in implementing them. The author, therefore suggested that it might not be essential for the whole business to think about what they are supposed to be about, but what is essential is the process of continually monitoring and evolving this process.

Businesses should also recognise and acknowledge the interests of stakeholders in developing mission statements (Bart & Hupfer 2004:100). The authors view a stakeholder as any group or individual who can affect, or be affected, when the business achieves its objectives. Bart and Hupfer's (2004:100) study of mission statements in Canadian hospitals show that employees and the community were the most popularly included groups in the mission statements. According to Nimwegen, Bollen, Hassink and Thijssens (2010:65), a stakeholder is any group or individual who can affect, or be affected, when the business achieves its objectives.

Stakeholders in this study were classified as either being resource providers, such as employees and customers, or non-providers, such as the community and the environment. The results provide evidence that the most frequently addressed stakeholder group in the mission statement was customers, followed by employees, community and environment, respectively.

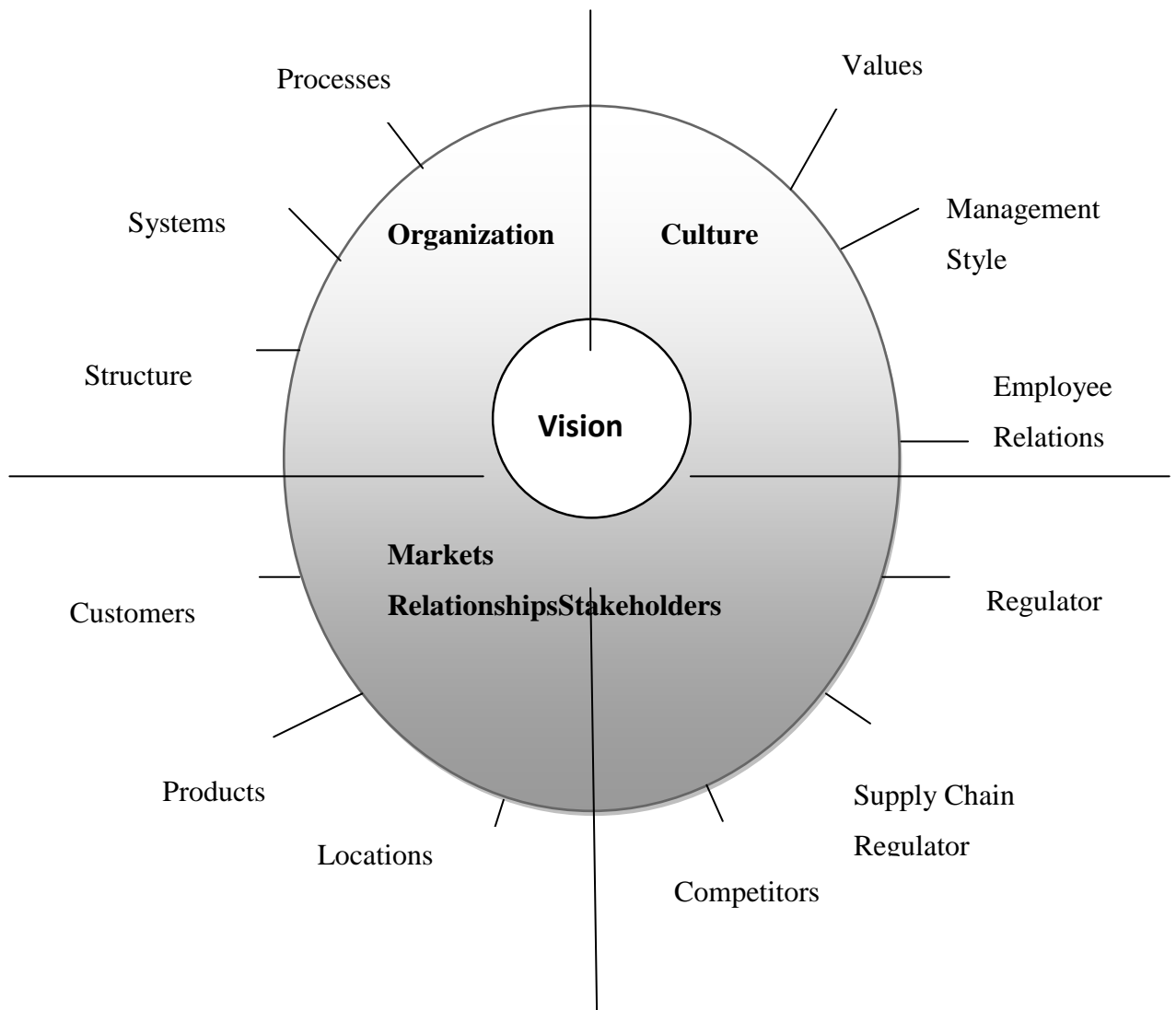
This complies with a study by Denton (2001:312) who opine that the key stakeholders for an organisation include customers who come first, employees and managers who come second, the community, which comes third, and the stockholders who come last. Similar results are also reported in studies by Strong (1997:281), and Biloslavo and Lynn (2007:777), which show that customers, employees, shareholders and suppliers are also frequent inclusions in mission statements.

Besides mission statements, a business should also develop a vision statement because it is considered part of the strategic process within businesses (David 2003:60). Furthermore, the author states that while a mission statement states the business of the organisation, a vision statement clarifies what it wants to become. Rossouw, Roux and Groenewald (2003:16)

mention that a vision is a statement that states where the business intends to go and what to do to get there. It means that a vision indicates the state of the business in future, for example what it will be and what products or services will it offer to the market.

Finkelstein, Harvey and Lawton (2008:5), on the other hand, stated that vision encapsulates the ideology or guiding philosophy of a business and it expresses the values, purpose and direction through the mission and business objectives. Kantabutra and Avery (2010:104) point out that vision is needed by a business to guide, remind of history of the company, inspire, and to control the business. According to Ungerer *et al.* (2007:171), a business vision must be shared and ensure everyone's commitment, be able to clarify the business' desired future, be fluid, sustainable, and nurtured in a constant process. Moreover, the authors state that a business vision should not be vague and should be a solution to the business' current problems. It should not only be fancy statements in the boardroom walls, but it should be in people's hearts and minds. The authors therefore recommend that a business mission should be emotional, inspirational, come from inspirational leadership, be detailed, and able to provoke magic thoughts.

The other business strategy researchers and practitioners who proposed the characteristics of powerful visions are Kantabutra and Avery (2010:39), and Foster and Akdere (2007:106), who also agree that powerful visions should be clear, challenging, inspiring, stable, action-oriented, responsive to competition, long-term, future-oriented, flexible and purposeful. With regard to vision content, Kantabutra (2008:325) states that an effective vision should take into account industry, customers, staff, products or services, sales and leadership imageries. Finkelstein *et al.* (2008:6) described a true vision as one that should be both inward looking by including the business culture and its internal systems, and outward looking by considering markets and stakeholder relationships. The argument is illustrated in Figure 3.4.



**Figure 3.4 Components of vision statement**

Source: Finkelstein *et al.* (2008:6)

The point of view that Finkelstein *et al.* (2008:6) took in their suggestion was that a business vision is defined in terms of its culture, internal organisational processes, markets and relationships with stakeholders. The internal organisational variables consist of the processes, systems and the organisational structure. The organisational culture component is comprised of variables such as values, management style and employee relationships. The shareholders component is concerned with stakeholders who influence the business such as regulators, suppliers and competitors. Lastly, the market relationships are concerned with the relationships between the business and its customers, the products it offers to the market and

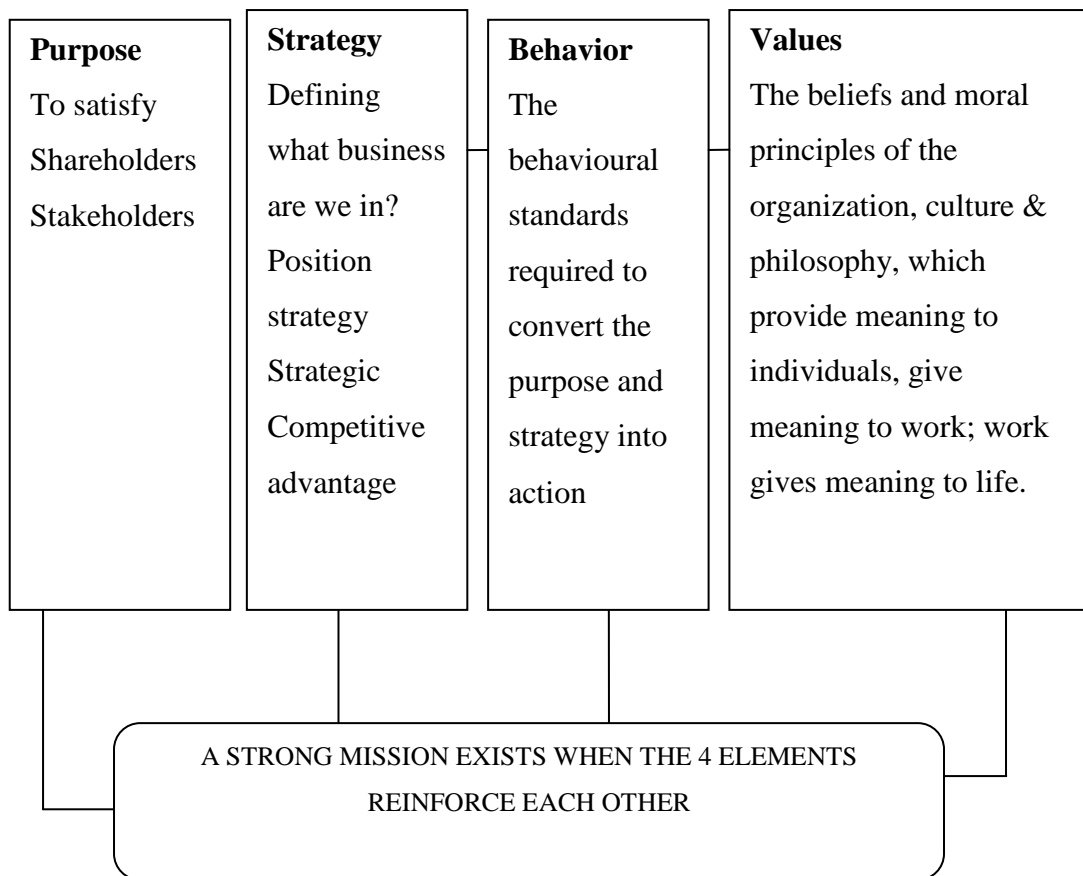
the geographical locations where it is operating. By including each of these features, a business develops an effective vision statement. Kantabutra and Avery (2010:37) explained that having a vision that meets the above-discussed characteristics and contents, is a necessary but not a sufficient condition to bring about higher performance outcomes. They then suggested what such vision might look like.

First, Kantabutra and Avery (2010: 37) state that managers should communicate the vision to employees, stakeholders and the general public in order to determine whether it is accepted or not. Next, they suggested that managers must motivate and empower employees to enable them to act consistently with the vision, to encourage commitment, and hence achieve desirable performance. The last opinion was to align business systems that include the recruiting system, reporting lines, incentives, teamwork issues as well as job design. This premise is in harmony with Kantabutra and Avery's (2010:44) discussion on vision implementation where they opine that vision development, vision content selection and vision implementation are all essential components of a vision that should be intertwined. This increases worker morale, effectiveness, and consequently high performance outcomes.

Some empirical evidence suggests that vision-driven businesses improve on their performance (Kantabutra 2010:37). In their study of the power of vision in apparel stores operating in Sydney and Bangkok, Kantabutra and Avery (2010:42) found that the shared vision characteristics and content have positive and direct effects on both customer and staff satisfaction, and hence business performance.

On the other hand, Wenstop and Myrmel (2006:673) state that a business should also develop a value statement, as it is necessary in making strategic decisions. They identified three different value categories. First is the created values category, which involves values provided by shareholders of the business organisation. The second category is the protected values that include the protection of health and safety of workers as well as environmental protection. Thirdly, are the core values that also include the code of conduct, ethics and anything that reflects the behavior, character and attitude reflected in the business organisation.

Strong (1997: 270) summarises the definition of mission, vision and values in Figure 3.5.



**Figure 3.5 Mission, vision and values.**

Source: Strong (1997:270)

After formulating the mission, vision and value statements, the business needs to formulate the objectives.

### **3.9.2 Formulation of objectives**

The first part of this section outlined the role of mission, vision and value statements in the strategic planning process. The review of literature on mission, vision and value statements identified that the three are crucial to the success of the organisation because they provide a general direction of the organisation. This subsection discusses the development of organisational objectives, a crucial stage in the strategic planning process because it is at this stage when the specific direction of the business is established. While a mission is a



statement of an organisation's business and strategies, business objectives translate the mission into specific performance targets (Thompson & Strickland 1993:4).

Certo and Peter (1995:64) define a business objective as a target toward which a business directs its efforts. David (2003:158) on the other hand explains that objectives are outcomes expected from pursuing particular strategies. Businesses usually set up two main types of objectives, which are the short term and long-term objectives. While a short-term objective indicates the outcomes to be achieved within a short term, a long-term objective is the one that a business intends to achieve within long periods of time (Thompson & Strickland 1993:4).

Thompson and Strickland (1993:5) also assert that businesses usually use two types of performance yardsticks; the financial objectives and strategic objectives. Financial objectives include measures such as cash flow, return on investment and earnings growth. Strategic objectives relate to the state of competition in the market, and cover performance yardsticks, including gains in market share, surpassing key competitors on product quality and customer care, enjoying lower operating costs than rivals, better reputation with customers, having a competitive edge in international markets, being a leader in technology and innovation and being better positioned to develop growth opportunities. Both objectives are essential to the business as they enable it to be stable, competitive and sustainable (Thompson & Strickland 1993:5).

According to Botten (2009:17) objectives perform five functions. First, they provide the framework for planning because they are the targets that are supposed to be attained. Secondly, they set responsibility to managers when they are assigned activities, projects and output required. Thirdly, objectives are used for the integration of the organisational activities in order to ensure synergy between all departments of the business. Fourthly, they serve as a motivator to employees to work hard to achieve the targets and perhaps receive bonuses. Fifthly, they are used to evaluate and control the performance of managers who had been assigned tasks and targets in their departments.

As regards the characteristics, Kaufman, Browne, Watkins and Leigh (2006:194) suggest that a well-written and effective objective should be SMARTER, as shown in Table 3.2.

**Table 3.2 Characteristics of good objectives**

S	This means the objective is written for a specific result, single topic or area of performance
M	The objective must be <u>measurable</u> , observable and therefore, assessable. Must answer these questions? How much?How many?How well?
A	This means the objective should be <u>audacious</u> as it challenges individuals, teams and the business to stretch that horizons and exceed expected outcomes
R	The objective must define the <u>result</u> to be achieved, must be written for a key result area, for example mega, macro and micro levels
T	This means each objective must have a target time for completion, which means that it must be <u>time bound</u> or refined
E	The objectives are <u>encompassing</u> , that is they are aligned and supportive of each other, are inclusive and linked
R	Objectives should be evaluated and <u>reviewed</u> to check relevance and progress towards the results

Source: Kaufman *et al.* (2006:194)

In a related vein, Botten (2009:17) view an effective objective as one that should be precise, a yardstick for performance, target specific and time bound. David (2003:158) argue that a clearly established objective offers several benefits. First, it provides direction to the business. Secondly, it ensures synergy among the business stakeholders. Thirdly, it is useful as it is used as a performance yardstick. Fourthly, clearly stated objectives reduce potential conflicts in the business, as everyone is aware of what the business wants to achieve. Finally, a clear objective serves as a guide for the level of performance standard that a business intends to maintain.

David (2003:159) criticises businesses, which do not manage by objectives because without an objective, a business lacks focus about what needs to be achieved. The author proceeded by suggesting four scenarios of not managing by objectives. The first one is managing by extrapolation, where a business keeps on doing the same things because things are working. The second scenario is managing by crisis, which means an organisation reacts to crisis, rather than being proactive. The third one is subjective management which is management of

a business in the way you personally think is the best. The final instance is managing by hope, where decisions are made in the hope that they will pay off because of luck. In setting the business goals, both the top-to-bottom and the bottom-to-top approaches should be used, as this ensures commitment at all levels because the ideas of both management and subordinates have been taken into account (Smit *et al.*2007:136).Having established the objectives, environmental scanning needs to be carried out to assess the business' environment.

### **3.9.3 Environmental scanning**

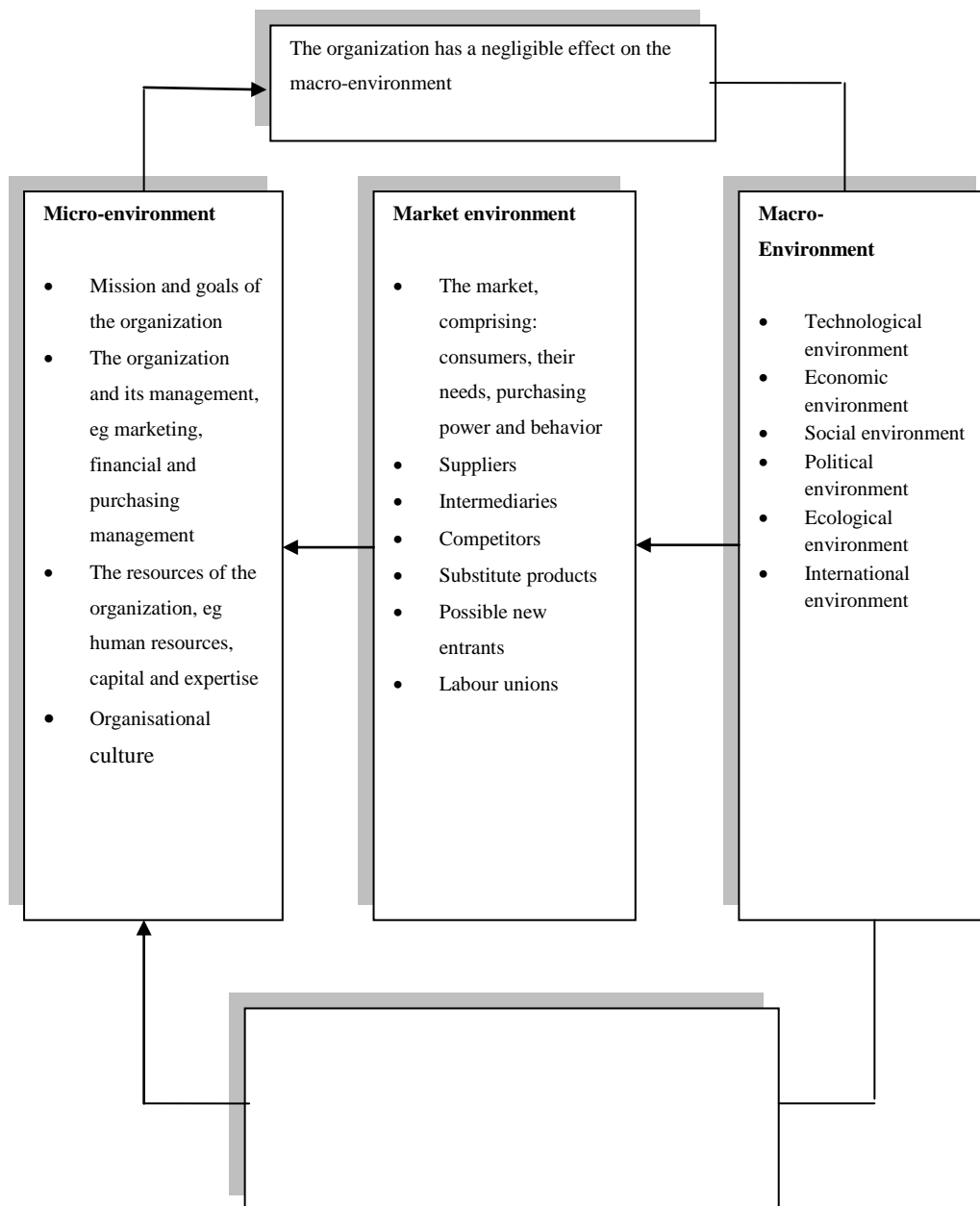
Today, businesses are confronted with dynamic, complex and uncertain operating environments. The complexity and dynamism often manifests in heightened pace of technological advancements, accelerated product life cycles, currency fluctuations, change in consumer needs, and increased competition. In order to be sustainable and competitive, there is need for businesses to study, understand and prepare for swift changes in the environment. Environmental scanning is a strategic management technique that can assist them to acquire information about the environment.

Researchers and practitioners have provided several and varied definitions of environmental scanning. Choo (2002:4) defines environmental scanning as an activity of acquiring information about the trends and developments in the external environment of the business in order to properly plan. Karami (2008:4) also remarks that environmental scanning is the monitoring and evaluating of information about the business' environment to make informed future decisions. In other words, scanning the environment involves assessing changes in the external environment in order to determine possible opportunities and threats, and the internal environment for strengths and weaknesses.

Businesses scan the environment in order to gather information that is necessary to detect political, economic, social and technological trends, so as to effectively respond in a way that improves the business' competitive advantage, avoid surprises, identify opportunities and threats, improve short and long-term planning, and establish goals and strategies (Choo 2008:4; Jorosi 2008:224:4).

There is a general consensus among researchers that businesses scan the environment in order to adapt to the dynamic and uncertain environment (May, Stewart, & Sweo 2000:404; Jorosi 2008:225; Botten 2009:38). In other words, it is necessary to scan the environment so that businesses may better deal with the changes in the environment in which they operate. In conducting an environmental assessment a business needs to review, evaluate and disseminate information from both the external and internal environments. For this reason, Hunger and Wheelen (2007:33) suggest that to gather all the information about factors that affect the business, a business needs to assess both the internal and external environments. An internal scanning of business identifies its strengths and weaknesses while the external assessment establishes the opportunities and threats. Smit *et al.* (2007:60) mention that the business environment consists of three different environments, namely the micro-environment, market environment and the macro-environment.

The micro-environment consists of the business itself and other aspects that have complete control, such as the mission and goals, departments in organisation, the culture of the organisation and organisational resources that include human, expertise and financial resources. The market or task environment includes the environment surrounding the business, which consists of consumers, suppliers, intermediaries, competitors, substitute products, possible new entrants and labour unions. The macro-environment consists of variables, which the business does not control, but instead these forces influence the way the business operates. These variables include the political, economic, social, technological, ecological and international factors (Smit *et al.* 2007:61). Figure 3.6 illustrates these three environments.



**Figure 3.6 The business environment**

Source: Smit *et al.* (2007:61)

Figure 3.6 shows the three environments that the business needs to scan in order to identify opportunities created, and threats, posed by these environments. According to Smit *et al.* (2007:61), businesses need to scan these three environments constantly because these environments are characterised by interrelatedness, increasing instability, environmental

uncertainty, complexity of the environment and environmental unpredictability. Therefore, it shows that the success of a business depends on its ability to scan the environment.

Karami (2008:10) also clarified that a business' external environment consists of two components, which are the societal and the task environment. The societal environment comprises of variables that indirectly affect the business and these include, the economic, technology, political, legal, socio-cultural and demographic factors. The task environment factors involve variables that have direct interaction and influence on the organisation, for example the operation of suppliers, customers and competitors (Jorosi 2008:225; Karami 2008:10).

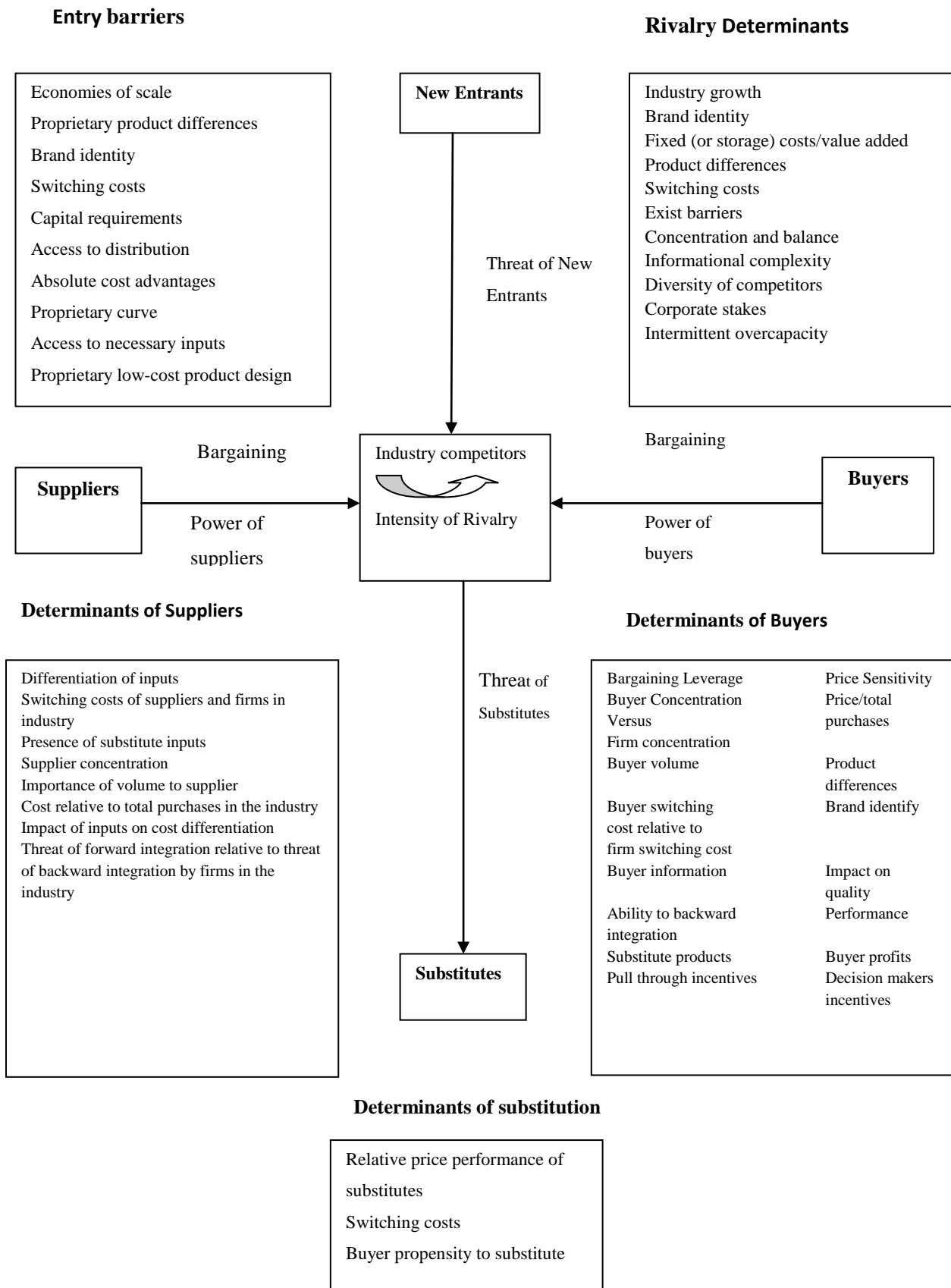
Organisations may assess the societal environment using an assessment technique called the PEST analysis (Popoola 2000:212; Botten 2009:38), which is an acronym standing for political, economic, social and technological forces. The political or regulator sector includes government regulations, procedures, policies, political stability and developments that can affect the viability of the business. Economic forces consist of business cycles, Gross National Product trends, inflation and interest rates, government budgets, unemployment and disposable income.

Socio-cultural variables encompass lifestyles, cultural trends, consumerism, attitude to work, crime rate and women empowerment aspects. Technology factors comprise of research and development, government spending on research, information technology infrastructure, innovation in materials and services, and rates of obsolescence. Furthermore, Botten (2009:39) suggests that an analysis of the political, economic, social, technology, environmental and legal factors (PESTEL) can alternately be used. The former separates legal from political and identifies ecological factors such as environment protection laws, energy consumption and emission issues, and the disposal of waste. The latter includes demographic, economic, environment, political, legal, informational, social and technological forces. While the PESTEL framework provides comprehensive information about the forces that affect the business, it is necessary to identify the forces that are regarded as key drivers of change (Johnson, Scholes & Whittington 2008:56).

These key drivers for change, according to Johnson *et al.* (2008:56), refer to the forces that have significant impact on the success and failure of the business. Therefore, the authors

suggest that a business needs to identify its key drivers for change in order to focus and address those important factors. This will help the business to have a clear sense of these factors in order to take correct decisions that take lead to effective action. Businesses operating in South Africa need to scan the environment constantly; because the country's readmission to international markets offers numerous opportunities as well as posing serious threats(Smit *et al.* 2007:73). This implies that the international market forces must also be scanned, as they affect the profitability of businesses.

In assessing the external environmental variables, a business needs to analyse various industry forces. Rossouw *et al.* (2003:45) mention that the industry environment is the situation confronting a business within its specific competitive area. Mindful of the strength of the five forces in determining the profitability potential in the industry, Rossouw *et al.* (2003:45) present Porter's five forces that shape competition in the industry. These comprise the threat of new entrants, the bargaining power of suppliers, the bargaining power of customers, the threat of substitute products and services and finally, the jockeying for position among current rivals. In this regard, Pearce and Robinson (2000:86) show the five forces driving industry competition, as illustrated in Figure 3.7.



**Figure 3.7 Porter's five forces**

Source: Pearce and Robinson (2000:86)



The Porter's model enables a business to identify five key aspects, the rivalry among current competitors, the threat of new entrants, the threat of substitute products or services, the bargaining power of buyers, and the bargaining power of suppliers (Johnson *et al.* 2008:61). The authors offer a detailed explanation of the five components of the model.

The threat of entry depends on the existence of entry barriers. Some of the barriers are the scale and experience, access to supply or distribution channels, expected retaliation, legislation or government action and lastly the ability to differentiate products or services. With regard to the threat of substitutes, a business need to pay attention to substitutes that offer performance advantages to customers and those that are produced by businesses earning high profits.

When it comes to the power of buyers, their bargaining power increases when there are few buyers, the switching costs to other suppliers is low and if the buyers may manage to easily access information about substitute products. On the other hand, the power of suppliers is high when there are few of them in the industry, when switching costs to other suppliers is high, and when suppliers threaten to cut their supplies. Lastly, competitive rivalry happens when the competitors are of equal size, when the industry growth rate is low, when fixed cost in an industry are high, when there are high exit barriers, and lastly when there is low differentiation in the industry. Johnson *et al.* (2008:66); therefore, recommend that businesses should use the five forces model to decide which industries they should invest in and which ones should they avoid or disinvest.

According to Ungerer *et al.* (2007:161) the five forces model is useful to the businesses as it helps them understand the power relationships within the industry, the nature of competition, and the identification of possible opportunities and threats. Pearce and Robinson (2006:86) affirm that the competitive forces reveal the strengths and weaknesses, business' position in the industry, and indicate areas where industry trends promise opportunities.

Botten (2009:38) made some modification to the five forces by adding the distribution channels to the bargaining power of buyers. This makes sense because distribution channels are an important player in the industry. A business achieves a competitive edge for having well-established synergetic relationships with intermediaries. In addition, intermediaries have strong influence in the business of organisations as they stock products of different competitors and are the ones who directly deal with end users.

Hunger and Wheleen (2006:82) also suggested modifications to the five forces model by adding a sixth force. This force consists of other stakeholders such as creditors, special interest groups, and government and local community organisations, as they also have an influence on the operations of organisations. Therefore, understanding the industry forces is important, as it informs the business about the competition in the industry and the opportunities and threats in that particular industry.

A number of studies have been conducted on the environmental scanning practices of businesses (Harris & Martin 2002:6; Jorosi 2008:224; Karami 2008:2), whereby different results are presented about the influence of the societal, task and industry factors on how the businesses operate. A study of strategy in high technology small and medium sized enterprises by Karami (2008:2), found out that both environments influence decisions of these enterprises. Specifically the factors were ranked in their order of influence as follows, technological changes, competitors, economic trends, socio-cultural trends, and finally political and legal forces. As regards the industry factors, the bargaining power of buyers was the most influential factor; rivalry among existing firms was the second; followed by the threat of substitute new products; threat of new entrants; and bargaining power of suppliers, respectively. Jorosi (2008:224) studied the environmental scanning practices of Botswana's small and medium sized manufacturing enterprises. The results indicate that businesses focus more on the task environmental factors, namely the customers, competitors and suppliers, than they do on societal factors.

The results in Jorosi's (2008:230) study could be explained by the fact that in today's competitive and turbulent markets, businesses need to scan the task environment in order to identify factors that directly influence their operations. In order to survive and succeed in today's competitive environment it could help businesses to first pay attention to factors that have an immediate effect on them. These findings are in concordance with the findings of an earlier study conducted by Harris and Martin (2002:6) of the environmental scanning in the Australian manufacturing sector.

The results show evidence that Australian managers are concerned with internal issues that directly affect their business, rather than with external issues. Promoting the same notion, a study of environmental scanning for competitive advantage by corporate banking managers

in Nigeria, Popoola (2000:213) found that the banks are most concerned with market and competitor sectors of the environment because they are the basis upon which they can maximise profits. In addition to the two factors, the study also found that technological factors also received attention from banks, perhaps due to the recognition that technology now dictates the way businesses are operating, especially in the banking sector.

Choo (2002:12) has also suggested the strategies or modes that are used by businesses to get information about the environment. The author identified four modes that can be used to seek information. The first mode is called the undirected viewing, whereby scanning is done in a broader sense to detect signals of change using several and varied information sources. The second mode is the conditioned viewing, which selects certain areas and types of information the business needs in order to assess its general impact on business. The third one is the informal search that involves actively searching detailed information in order to have a deeper understanding of a particular issue in an informal way, with a view to take action on the gathered information. The final mode is the formal search, which makes a planned effort to obtain specific information about a specific issue. The four scanning modes are shown in Table 3.3.

**Table 3.3 Modes of scanning**

Scanning Modes	Information Need	Information Use	Amount of Targeted Effort	Number Of Sources	Tactics
Undirected Viewing	General areas of interest; specific need to be revealed	Serendipitous discovery ' <b>Sensing</b> '	Minimal Medium	Many	Scan broadly a diversity of sources, taking advantage of what's easily accessible ' <b>Touring</b> '
Conditioned Viewing	Able to recognize topics of interest	Increase understanding ' <b>Sense making</b> '	Low	Few	Browse in pre-selected sources on pre-specified topics of interest ' <b>Tracking</b> '
Informal Search	Able to formulate queries	Increase knowledge within narrow limits ' <b>Learning</b> '	Medium	Few	Search is focussed on an issue or event, but a good-enough search is satisfactory ' <b>Satisfying</b> '
Formal Search	Able to specify targets	Formal use of information for planning, acting ' <b>Deciding</b> '	High	Many	Systematic gathering of information on a target, following some method or procedure ' <b>retrieving</b> '

Source: Choo (2002:12)

Jorosi (2008:226) identified three modes of environmental scanning. First, the simple scanning strategy that comprises three modes; irregular scanning where little scanning activity is performed. Secondly, the periodic scanning that is characterised by scanning at intervals and lastly, the continuous scanning, which involves the frequent searching of information. In a study of scanning behaviors of Botswana's manufacturing SMEs, Jorosi (2008:226) presents evidence that SMEs in that country are systematic scanners who frequently use the continuous scanning mode.

Sharma, Giri and Mangala (2006:6) mention that businesses get information about the environment from internal or external sources, as well as from personal or impersonal sources. While an internal source is within the business, an external source is from outside it. Personal sources imply direct communication with other people who are within or outside the business, and impersonal sources comprise of internal documents like internal reports and external documents such as newspapers and government reports. (Mayet *al.* 2000:407; Sharma *et al.* 2006:6).

The Sharma *et al.* (2006:6) study of the environment scanning behaviour in Indian textile companies found that these companies mainly rely on internal/formal source of information in their environmental scanning activities. Popoola (2000:214) found that scanning behavior of banking institutions in Nigeria show that colleagues are the most frequently used source of information, followed by customers, private files, newspapers, magazines and radio/television. The banks perceive customers, books/journals and private files as more reliable sources of information about the environmental changes, while on the other hand, government and radio/television are perceived as unreliable. These findings are in line with Jorosi's (2008:224) study that also shows that SMEs in Botswana tend to rely on personal sources more than on impersonal sources.

Empirical evidence also confirms the notion that environmental scanning improves business performance (Choo 2002:4; Sharma *et al.* 2006:5, Karami 2008:2). Using perceptual measures of performance, Karami (2008:12) examined perceptions of the chief executive officers' perceptions of the value of formal environment scanning on firm performance. The majority of respondents considered environmental scanning as an important factor in increasing business performance. The study concluded that increasing firm performance is

positively related to having a scanning system. Choo (2002:4) also contended that environmental scanning enables a business to identify threats and opportunities, gain competitive advantage and improve the strategic planning process. In a study of environmental scanning in Indian textile companies, Sharma *et al.* (2006:5) found that environmental scanning leads to effectiveness in managing business portfolios in the changing and turbulent environment.

Al-Rousan and Qawasmeh (2009:85) reveal that the second category of business environment has to do with internal factors within an organisation in several areas, such as management, organisational structure, culture, staff finance, production processes, research and development, and distribution channels. An internal environmental analysis is necessary, as it informs an organisation of its strengths and weaknesses (Rossouw *et al.* 2003:57). Al-Rousan and Qawasmeh (2009:85) highlight that an internal environmental assessment is conducted by using a technique called a SWOT analysis that stands for strengths, weaknesses, opportunities and threats. The discussion about internal analysis focuses on strengths and weaknesses, rather than opportunities and threats because the latter are constituents of the external environment.

According to Botten (2009:84), while strength is something a business is good at doing or a distinctive competence, a weakness is a shortage in resources that puts a business at a competitive disadvantage. The Arizona Department of Public Safety and Crime Victim Services (2006:10) propose the three steps that may be followed in conducting the SWOT analysis. First, the business must know where it has been by establishing if the needs of internal and external customers were met in the past, if the products and services were of high quality, if the business has been in growing, stagnating or in decline, what has been accomplished and what remains to be accomplished. Secondly, the business may need to know its present situation. To establish this current position the business needs to identify current activities or programmes, synergy between the programmes, the existence of current performance measurements, and the perceptions of customers and stakeholders about the business. The final aspect is the identification of the business' strengths and weaknesses. This involves determining strengths that the business can build on, identifying the business' weaknesses that need to be overcome, establishing the constraints that inhibit the business from meeting stakeholder expectations, ascertaining the changes in customer needs,

establishing the opportunities and threats created by changes in the environment and the preparedness of the business to respond to the changes.

In conducting the SWOT analysis, The Enterprise Foundation (1999:9) asserts that various sources of information are used, depending on the needs of the business; they consist of customers, shareholders, suppliers, bankers, research experts, competitors, colleagues and government. According to Al-Rousan and Qawasmeh (2009:85), the benefits of a SWOT analysis is that it informs the business about its current position and changes in the environment and as a result, enables the devising of suitable strategies to deal with the situation. The results in Al-Rousan and Qawasmeh's (2009:91) study of the impact of SWOT analysis on competitive advantage in the Jordanian banking industry show a positive relationship between SWOT analysis and competitive advantage. The study recommends that in order to improve their performance and sustainability, businesses need to develop new capabilities through SWOT analysis.

Besides the SWOT analysis, a business can use value chain analysis to analyse its internal environment (Hunger & Wheelen 2007:59). Value chain analysis involves assessing activities that add value from the stage when raw materials are sourced to the time when the finished product is distributed to the end-user (Hunger & Wheelen 2007:59). In summary, the benefits of value chain analysis as highlighted by Hunger and Wheelen (2007:59), include increasing knowledge of opportunities and constraints throughout the chain, identifying points of leverage to improve the position of the organisation, and helping to identify the types of intervention and services needed at different levels of the chain. Hitt, Ireland and Hoskisson (2007:89) indicate that the organisation's value chain consists of two main segments, the primary and support activities. The primary activities are those that involve the physical creation of a product, its sale and distribution to consumers, as well as its after-sales service. Support services are those activities that provide the assistance needed for primary activities to take place (Hitt *et al.* 2007:89).

According to Johnson *et al.* (2008:110) the components of primary activities are:

- Inbound logistics which are activities that are concerned with receiving, storing and distributing inputs such as raw materials, parts components from suppliers

- Operations which cover activities that convert inputs into final products or services and the activities include production, assembly, packaging, equipment maintenance, quality assurance and environment management
- Outbound logistics which are the activities which physically distribute the products to buyers and include warehousing of finished products, order processing, order picking and packing, shipping and vehicle delivery operations
- Marketing and sales services which deal with efforts by the business to create awareness among consumers about the existence of the products and activities, covered here are sales force efforts, advertising and promotion, market research and planning, as well as dealer support
- Services which encompass activities to enhance the value of a product or service, such as installation, spare parts delivery, maintenance and repair, technical assistance
- customer training, customer inquiries and complaints.

On other hand, Pearce and Robinson (2005:160) state that the support activities consist of the following components:

- General administration which involves aspects relating to the general management of the business, accounting and finance, legal and regulatory issues, safety and security in the business, and management information systems
- Human resources management which is concerned with the activities such as recruiting, managing, training, developing, compensation of employees in the organisation
- Research and development that covers activities such as new product development, process design improvements, designing of equipments, computer software development, and database management
- Procurement, which involves the acquiring of various resources and providing raw materials, supplies, services and outsourcing activities that are necessary to support the primary activities.

Pearce and Robinson (2005:166) assert that it is necessary to conduct a value chain analysis so that the business identifies costs that are associated with the value chain activities. Having

such knowledge could be a source of competitive advantage because managers gain very meaningful insights in the business' strategic resources, competencies and options.

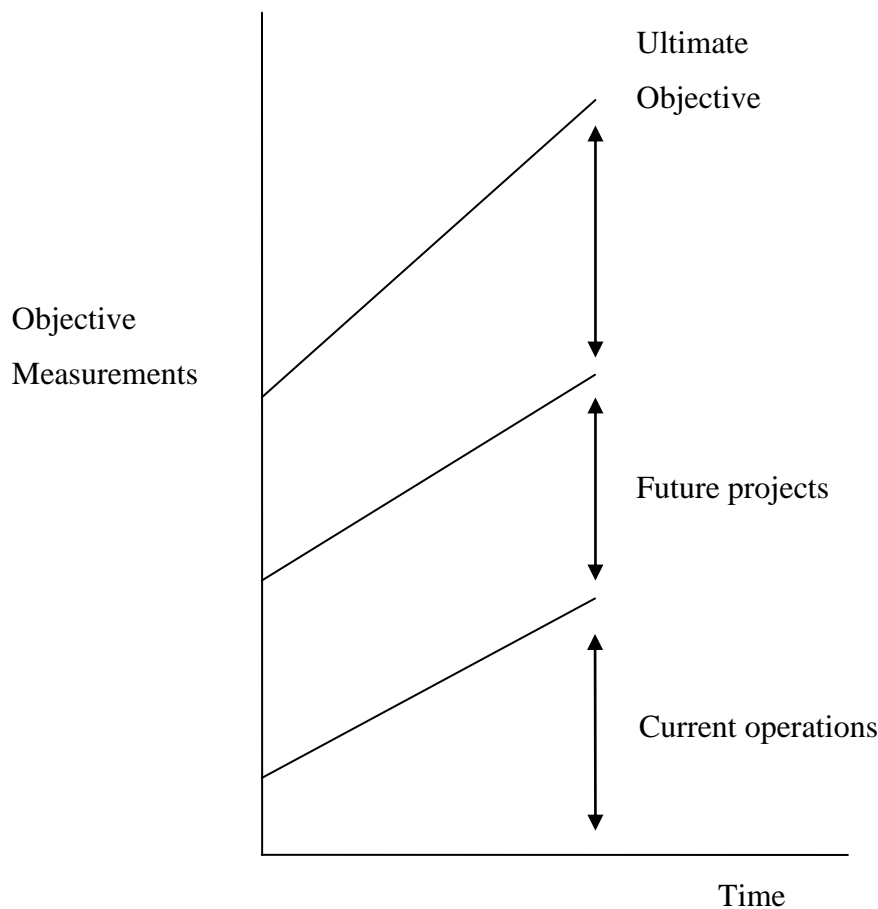
Hunger and Wheleen (1996:121) contend that one of the ways to scan and analyse an organisation's internal environment is through an analysis of its culture. They define culture as an amalgamation of beliefs, expectations and values that are learned and shared in the organisation, and transmitted from one generation of employees to the other. Culture, Hunger and Wheleen (1996:123 ) further state that culture conveys a sense of identity for employees, helps generate employees' commitment to organisational values, helps to stabilise the organisation, and serves as a guide for appropriate behavior. A powerful culture enhances survival, competitive advantage and success of the organisation.

Another useful tool to analyse the internal business environment is the **Ms Model** that was suggested by Botten (2009:88). The model consists of nine components. The first one is **men**, which represent the employees of the business and their skills and desire to work. The second one is **management**, which encompasses the skills, experience, competence and vision of management to lead people in a way that creates competitive advantage. The third component is **money** that is concerned about the financial situation of the business and financial support from stakeholders. The fourth component is **make-up** that represents the organisational structure and culture and the willingness of managers and staff to take responsibility. The fifth one is **machinery** that covers the assets of an organisation and the quality of products they produce. The sixth aspect is the **methods**, which encompasses the methods used in the production of goods and outsourcing activities involved. The seventh component is the **market** that is concerned about the products offered and market served, and the extent to which it is vulnerable to competitors. The eighth segment covers the materials that include the business' supplier base and the bargaining power of the business in negotiating for better prices. The last component is the **management information**, which is the availability of quality information to the business, and how timely the business gets information about the environment in order to make informed decisions. It also encompasses making use of modern information and computer technology to improve the effectiveness of the business to meet the needs of customers.



Botten (2009:108) regards benchmarking as another important tool for assessing the internal environment of a business, by stating that it can be conducted against indicators such as own historic performance, performance of firms operating in similar markets, performance of firms in the same sector or similar industries but producing different products, as well as firms in different sectors or industries but having similar processes. Botten (2009:104) further mentions that the purpose of benchmarking is to help management understand how well the business is performing, in relation to competitors and other businesses having similar processes. The author (2009:108) has suggested that benchmarking helps to overcome complacency and bring about changes in the business, to help management to understand the value-adding processes of the business and ultimately to improve business performance.

The Gap analysis has also been widely recognised as another powerful tool in the assessment of a firm's internal environment (Botten 2009:113). The Arizona Department of Public Safety and Crime Victim Services (2006:31) view a gap analysis as the identification of the difference between the desired position where the business wants to be and current position that the business is in. This view is in line with Botten's (2009:113) suggestion that a gap analysis is a comparison between a business' ultimate objective and the expected performance of projects as shown in Figure 3.8.



**Figure 3.8 The Gap analysis.**

Source: Botten (2009:113)

The gap that exists enables an organisation to assess its performance, as well as the background and sources of problems so that corrective actions are taken to improve the operations thereby closing the gap (Botten 2009:113). After scanning the business environment, the next step is to identify strategies, evaluating all the possible strategies and then choosing the most appropriate ones.

### **3.9.4 Strategy identification, evaluation and choice**

Having formulated the organisational vision and mission statements, and after performing environmental analysis, the business identifies a strategic gap that needs to be addressed. The business needs to devise strategies to close this gap. To this end, there is a need for the business to identify, evaluate and choose appropriate strategies to accomplish this objective (David 2003:198). In addition, David (2003:198) contends that besides using the business

mission and vision, the strategic planners should use the information gathered from environmental analysis to assess and choose the strategies.

Rossouw *et al.* (2003:121) have suggested six criteria that businesses may use for evaluating strategies. First, the strategy must be consistent with the vision, mission and goals of the business. Secondly, there must be a fit between the chosen strategy and the business' environment so that the strategy addresses the changes that are brought about by the environment. Thirdly, the assumptions made by strategic choices need to be tested to identify if they are able to address the objectives of the business. Fourthly, the various organisational aspects, namely the culture, skills, resources, and commitment from managers and employees are crucial in establishing the feasibility of the chosen strategy. Fifthly, risks associated with the chosen strategy need to be considered. Lastly, there should be a consensus among the strategic planners about the strategy to choose.

According to Smit *et al.* (2007:107) four stages are involved in the strategy selection process and these are, the identification of the present strategy, conducting a portfolio analysis, selecting a strategy, and finally evaluating the selected strategy. Further, Smit *et al.* (2007:110) contend that the choice of a strategy is dependent on the following factors. First, the corporate governance, whereby the board members select the strategy, which they believe is the best to manage the business' risks. Secondly, the past strategy strongly influences the selection of the new strategy. The more successful the old strategy has been, the more difficult it is to replace. Thirdly, the external market factors such as suppliers, customers and competition also influence strategy choice so that the business maintains its relationships with the external factors. Fourthly, the top management's attitude to risk taking also plays an important role. Those managers who are in favour of risk are usually pursuing new strategies, whereas those who are risk averse are not. The fifth factor is the influence of the business' mission, its long-term goals as well as its culture. A strategy that is consistent with the mission, goals and the culture of the business has a high chance for selected. The final factor is the time when the selection of the strategy is to be done. For example, periods with unfavourable interest rates are not the best times for an investment strategy (Smit *et al.* 2007:110). In a related vein, Johnson *et al.* (2008:365) assert that there are three key success criteria, which can be used to evaluate the viability of strategic options.

The first criterion is the suitability of strategy which is concerned with the degree to which the strategy fits with the key drivers and the expected changes in the environment, its ability to exploit strategic capabilities, and if it is likely to address the interests of stakeholders and its alignment with the prevailing culture. The second criterion is the acceptability of the strategy, which is also concerned with the extent to which the strategic options are likely to produce expected performance outcomes and meet stakeholders' expectations. The third success factor is the feasibility of the strategy, which means that a business must assess whether a strategy could work in practice and whether it has potential to deliver the expected performance outcomes.

Certo and Peter (1995:81) stress the importance of Porter's framework of five forces in guiding businesses develop business strategies. In their view, a business can choose among Porter's three generic strategies; overall cost leadership, differentiation and focus strategies. While cost leadership is achieved through the utilisation of efficient manufacturing equipment and favourable access to raw materials, differentiation involves the provision of distinctly better products and services, and focus strategy involves the segmentation of markets into niche segments, and appealing to one or more of them better than competitors do (Certo & Peter 1995:81-83).

Strategy analysis frameworks such as the Strength, Weaknesses, Opportunities and Threats (SWOT) Matrix, Strategic Position and Action Evaluation (SPACE) Matrix, Grand Matrix and the Quantitative Strategic Planning Matrix (QSPM), are generally recommended by strategic management academics and practitioners as useful tools for analysing and selecting relevant strategies (David 2003:198; Rossouw *et al.* 2003:122; Ehlers & Lazenby 2007:195).

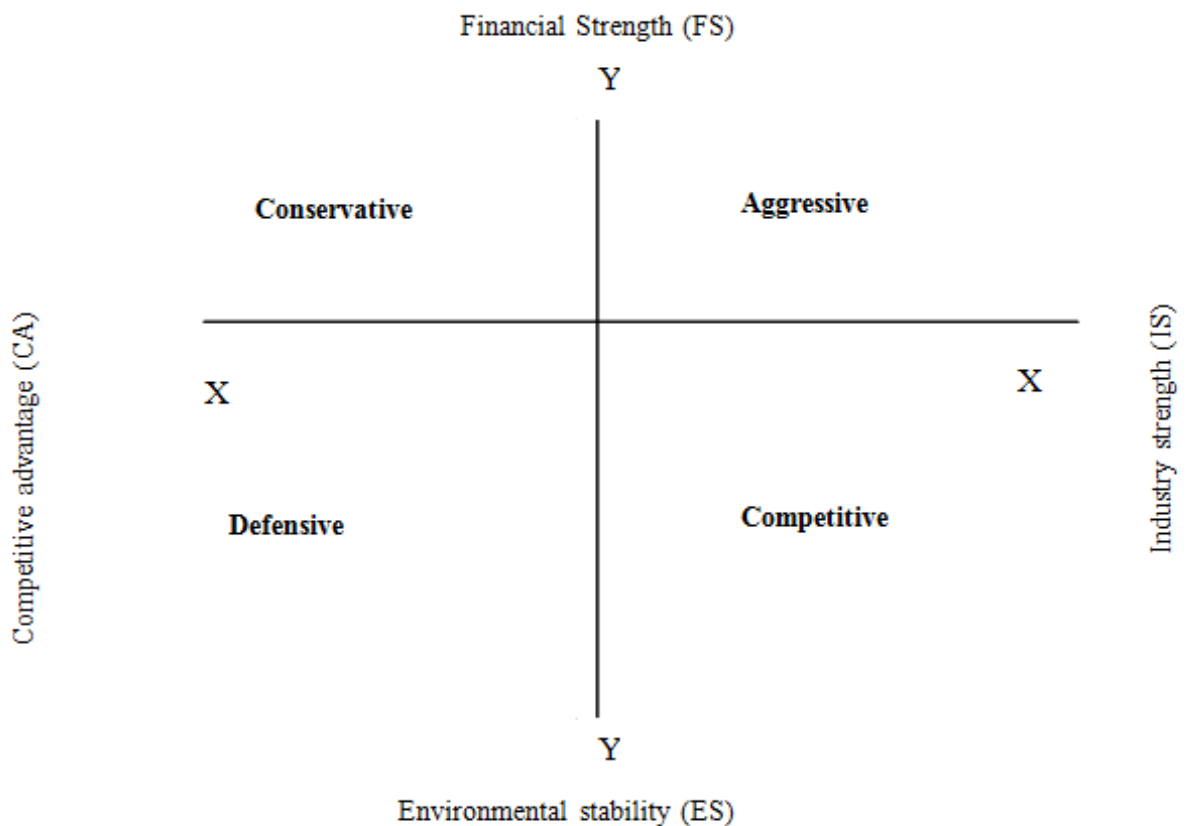
With regard to the SWOT Matrix, Ehlers and Lazenby (2007:198) state that there are four sets of strategies, namely Strengths-Opportunities (SO), Weaknesses-Opportunities (WO), Strengths-Threats (ST) and Weaknesses-Threats (WT). They further mention that SO are generally growth and development strategies, while the WT are commonly defensive and WO and ST strategies may be aggressive or defensive. The Matrix is illustrated in Table 3.4.

**Table 3.4 The SWOT Matrix**

	<b>STRENGTHS-S</b>	<b>WEAKNESSES-W</b>
<b>OPPORTUNITIES-O</b>	<b>SO STRATEGIES</b> Use strengths to take advantage of opportunities	<b>WO STRATEGIES</b> Overcome weaknesses by taking advantage of opportunities
<b>THREATS-T</b>	<b>ST STRATEGIES</b> Use strengths to avoid threats	<b>WT STRATEGIES</b> Minimize weaknesses and avoid threats

Source: Ehlers and Lazenby (2007:198)

David (2003: 204) proposed the SPACE Matrix as another important tool to evaluate strategies by suggesting four quadrants that represent two internal dimensions, *namely* financial strength and competitive advantages, and two external dimensions, *namely* environmental stability and industry strength. The appropriate strategies in the quadrants are conservative, aggressive, defensive and competitive strategies in Figure 3.9.



**Figure 3.9. SPACE Matrix.** Source: David (2003:204)

In David's (2003:205) view, when the SPACE Matrix suggests the aggressive quadrant, feasible strategies include concentrated growth, market penetration or development, product development, vertical integration, horizontal integration, concentric diversification and conglomerate diversification. Concentric diversification, divestiture, turnaround and liquidation strategies are recommended when the SPACE Matrix suggests the defensive quadrant. On the other hand, market penetration or development, product development and concentric diversification strategies are feasible for the conservative quadrant. When the SPACE Matrix suggests the competitive quadrant, then feasible strategies are vertical integration, horizontal integration, market penetration or development, product development, joint ventures, strategic alliances and consortia (David 2003:205).

Ehlers and Lazenby (2007:201) point out that the Grand Strategy Matrix offers the same results as the SPACE Matrix and the SWOT Matrix. However, they mention that the Grand Matrix is more popular in many organisations because it is simple and easy to use, as it is only based on two specific dimensions, namely competitive position and market growth. Using the dimensions as a basis, Rossouw *et al.* (2003:124) assert that an organisation can be segmented into four categories, inter alia a weak position in a rapidly growing market, a strong competitive position in a rapidly growing market, a strong position in a slowly growing market, and a weak position in a slowly growing market. Figure 3.10 depicts these categories and shows the different strategies available in each quadrant.



**Figure 3.10 The Grand Strategy Matrix.**

Source: Rossouw *et al.* (2003:14)

The useful other tool in strategy evaluation and choice is the Boston Consulting Group (BCG) Matrix. It is useful because it allows a diversified business to manage its portfolio of businesses by examining the relative market share position and the industry growth rate of each subsidiary compared to others in the organisation (David 2003:206). Rossouw *et al.* (2003:126) bolster this assertion by pointing out that the BCG Matrix is divided into four quadrants labeled question marks, stars, cash cows and dogs. Table 3.5 illustrates the quadrants and the relevant strategies.

**Table 3.5 BCG Matrix**

**Relative market share**

		High	Low
		Market Growth	<b>Stars (matrix 2)</b> Product innovation Product development Market development Concentrated growth Forward integration Backward integration Horizontal integration Concentric diversification Joint ventures Strategic alliances
<b>Cash cows (matrix 1)</b> Innovation Product development Market development Concentric diversification Forward integration Backward integration Joint ventures Strategic alliances	<b>Dogs (matrix 4)</b> Concentric diversification Conglomerate diversification Divestiture Liquidation		

Source : Rossouw *et al.* (2003:126)

David (2003: 206) further clarified the characteristics of the quadrants. First, question marks or problem children are characterised by rapidly growing market and small market share. They are classified as question marks because the organisation is not sure if they will withstand competition from rivals. The second quadrant is the stars with rapidly growing market and large market share that earn the organisation attractive cash flow but need cash injections for their operations.

The third quadrant is the sources of income, which are business units with a strong competitive position in a low growth market; they make high sales and earn huge profits that can be used to finance other business units, hence the name cash cow. The fourth quadrant is the dogs, which have low market shares and are found in a low growth market. They are so called because the growth prospects are low and the market position is weak. These are usually products in their last cycle stages and usually need cash injection from other business units for them to continue operating. Depending on the position of the product or service in the matrix (Ungerer *et al.* 2007:164), therein lie the future strategies for the products. The strategy for cash cow products is market leadership, whereby there is a need to protect and



nurture the position because of its profitability. For the second matrix (stars), the suitable strategy is holding or gaining market share so that the opportunities and benefits in the growing market are realised. For matrix three (question marks), a business needs to invest in product portfolios that are promising and sell those that are not. There is uncertainty in dealing with these portfolios because their future is uncertain. In matrix four (dogs), a business may close down or sell product portfolios that are continually losing the market.

Rossouw *et al.* (2003:130) argue that the use of four cells limits the applicability of the BCG Matrix; therefore, they recommended the matrix developed by McKinsey and Company at General Electric called The Industry Attractiveness-Business Strength Matrix. By using nine cells, Rossouw *et al.* (2003:130) assert that the Industry Attractiveness Matrix consists of industry attractiveness and business strength dimensions. Industry attractiveness consist of the nature of competitive rivalry, the bargaining power of suppliers, bargaining power of consumers, the threat of substitutes, the threat of new entrants, and social and economic factors, which are assessed based on people’s perceptions. To come up with nine cells, Rossouw *et al.* (2003: 130) clarified that industry attractiveness and business strengths are classified on a high, medium and low scale, and come up with alternative strategies as shown in Table 3.6.

**Table 3.6 Industry attractiveness**

		Industry attractiveness		
		High	Medium	Low
Business strength	High	Product Market development Concentrated growth Vertical integration Concentric diversification	Concentric Conglomerate diversification Joint ventures	Concentrated growth Horizontal integration Divestiture
	Medium	Concentric diversification Conglomerate Diversification Joint ventures	Concentrated growth Horizontal integration Divestiture Liquidation	Concentric diversification Conglomerate diversification Turnaround Retrenchment Divestiture Liquidation
	Low	Concentrated growth Joint ventures	Concentric diversification Divestiture Liquidation	Concentric diversification Turnaround Retrenchment Divestiture Liquidation

Source: Rossouw *et al.* (2003:130)

Business units falling in low industry attractiveness and low competitive positions, or low in one scale and medium in another, are cash cows and dogs in the BCG Matrix, and recommended strategies are maintenance, divestment or liquidation strategies. The bottom left to top cells are question marks; therefore, caution strategies such as investment, retrenchment, harvesting or liquidation are recommended (Rossouw *et al.* 2003:137).

Rossouw *et al.* (2003:137) criticised the BCG and the Industry Competitiveness matrixes for treating products as static. They reasoned that a product develops from inception to extinction stages; hence they suggested the Product Life Cycle Matrix comprising of the development, growth, maturity and decline stages. They further argued that managers could consider appropriate strategies for each stage of the product life cycle, as illustrated in Table 3.7.

**Table 3.7 The Product Life Cycle**

<b>Development</b>	<b>Growth</b>	<b>Maturity</b>	<b>Decline</b>
Product development	Product innovation	Innovation	Concentric
Market development	Product development	Product development	diversification
Reformulation of concentrated growth	Market development	Market development	Conglomerate
Horizontal integration	Concentrated growth	Concentric	diversification
Divestiture	Forward integration	diversification	Divestiture
Liquidation	Backward integration	Forward integration	Liquidation
	Horizontal integration	Backward integration	
	Concentric	Joint ventures	
	diversification	Strategic alliances	
	Joint ventures		
	Strategic alliances		

Source: Rossouw *et al.* (2003:137)

The matrixes discussed above have exposed all the possibilities of varied strategies, which may be considered for implementing by businesses but they may still not be feasible for organisations. There is need therefore, to reduce possible strategies to few feasible ones (Ehlers & Lazenby 2007:204). Strategic planning academics agree that the Quantitative Strategic Planning Matrix (QSPM) is so far, the only real analytical technique designed to assess and determine the best strategy to be adopted by a business (David 2003:215; Ehlers & Lazenby 2007:204). David (2003:217) outlines the six steps involved in developing a QSPM up to the stage when feasible strategies are determined. First, the business needs to make a

list of a minimum of ten key external opportunities and threats, as well as internal strengths and weaknesses. Secondly, the weights must then be assigned to each external and internal factor. Thirdly, alternative strategies decided from the SWOT, SPACE, Grand Strategy and other matrixes that a business considers implementing, must be recorded in the top row of the QSPM. Fourthly, each strategy is individually evaluated against each factor that influences strategy choice.

A factor that affects the choice of a given strategy gets highest points, and is regarded as highly attractive, whereas the one that is least attractive gets lowest points and is considered less attractive and no points are allocated to a strategy that has no influence in choosing the strategy. Fifthly, the business must calculate the total attractiveness score by multiplying the weight of the factor by the attractiveness score for each strategy. A high attractiveness score would imply that a strategy is a highly attractive and feasible. The last step involves adding up all the total attractive scores for each strategy to get the overall total attractiveness score. David (2003: 205) recommends that a strategy with the highest overall total attractiveness is the most feasible to pursue.

Besides the use of the QSPM to choose the most feasible strategy, David (2003:205) points out those organisational factors, namely culture, organisational politics and board of directors, do also have a crucial impact in this exercise. As regards culture, David (2003:205) opines that a business that has a supportive culture can easily choose and implement strategies but if that supportive culture does not exist then it is difficult to introduce a new strategy. It means that a supportive culture is a source of competitive advantage. With respect to organisational politics, David (2003:220) states that political biases and personal preferences result in coalitions of individuals, which may or may not support certain strategies. Therefore, politics in organisations is not conducive for positive changes in the organisation. Lastly, the support and commitment of the board of directors (David 2003:223) is critical in strategic evaluation and choice as this will ensure the success of the chosen strategy. The next stage that follows is the implementation of the chosen strategies.

### **3.9.5 Strategy implementation**

Once appropriate strategies have been selected, the strategic planning process moves into a stage of implementing the strategies (Ehlers & Lazenby 2007:212). Strategy implementation

is recognised as being critical for business success and the most powerful of the other stages in the strategic planning process (Sterling 2003:27; Chimhanzi 2004:73; Li, Guohui & Eppler 2008:3). In fact, until a strategy is implemented, Chimhanzi (2004:73) argues that it remains a plan, not an operational reality. In Speculand's (2009:167) view, a business may have the greatest strategy in the world but it is worthless if it is not implemented. This observation led Sterling (2003:27) to argue that a proper formulation of a strategy leads to an effective and successful implementation of that strategy.

This section is organised to first, review definitions of strategy implementation. Second, the reasons why businesses fail to implement strategies are presented. Thereafter, various strategy implementation drivers that businesses can utilise to achieve successful execution of strategies are discussed.

Ehlers and Lazenby (2007: 212) have conceptualised strategy implementation as a process that turns plans into action tasks to ensure that objectives are achieved. A more comprehensive definition of strategy implementation is provided in the literature review by Liet *al.*(2008:6) of factors influencing strategy implementation. The authors view strategy implementation as a dynamic, iterative and complex process that involves decisions taken by managers and employees in order to transform effectively, strategic plans into action to achieve formulated strategic goals.

Chen, Guo and Li (2008:122), consider both the business' internal resources and its external environment to define strategy implementation. In that vein, Chen *et al.* (2008:122) view strategy implementation as a synthetic capability that a business uses to achieve its strategic objectives taking cognisance of the developments that are taking place in the dynamic business environment. Heide, Gronhaug and Johannessen (2002:217) regard strategy implementation as a crucial stage in the strategic planning process that is concerned with coordination of the efforts, activities and other actions of the stakeholders of the business that are directed at making a strategy to work. The view is upheld by Ehlers and Lazenby (2007:213), who assert that the main roles of implementing a strategy include, communicating the need for implementation, interpreting implementation process, and adopting methods to be used to achieve strategic plans.

This indicates that a business needs to communicate to employees about strategy implementation so that everyone is clear about what needs to be done. A clear interpretation of the implementation activities is also necessary to clarify the different roles that each one plays. All these definitions indicate that to implement a strategy effectively, a business needs to set up a clear procedure about what needs to be done and the roles of employees and management in the whole process. To achieve this, Ehlers and Lazenby (2007:213) suggest that there is need to view strategy implementation as operational in nature as it involves daily activities that are undertaken to translate the strategic plan into action (Ehlers & Lazenby 2007:213; Chimhanzi 2004:75).

Despite a wide recognition that strategy implementation can serve as a source of competitive advantage (Ehlers & Lazenby 2007:213; Chen *et al.* 2008:122), there is substantial evidence that shows that businesses have strategic plans that are poorly, or never, implemented (Beer & Eisenstat 2000:1; Sterling 2003:27). In this regard, Speculand (2009:167) has observed that nine out of ten times, businesses fail to implement strategies that they formulate, successfully. The reasons for failure and/or poor strategy implementation are varied. For example, the results in Beer and Eisenstat's (2000:1) study of perceived factors that inhibit USA businesses from successful implementation of strategies indicate six silent killers of strategy implementation. Silent killer one is about top-down or *laissez-faire* senior management style, which is characterised by laxity in leadership style where management do not have control over employees and other resources, which results in disorder and confusion in the implementation process. The second one is unclear and conflicting priorities, which also results in confusion, and strategies that compete for the same resources, thus reducing chances of effective implementation. The third problem is the reluctance by the senior management team to cooperate because they are uncertain about the changes that strategy implementation will bring. The fourth one is poor vertical communication in the organisation that also leads uncertainty and lack of commitment by the employees. Fifthly, there is poor coordination across functions of the same business leading to disharmony in the strategy implementation efforts and activities. The last obstacle is inadequate leadership skills and development. Beer and Eisenstat (2004:1) point out that the six barriers create a vicious circle from which a business may find it difficult to escape.

For Ungerer *et al.* (2007:255), the reasons for businesses' failure to successfully implement strategies are: the desired direction is not clear and initiatives to realise the desired goals are vague; businesses take time to mobilise resources, rather than having flexible strategies; strategies are regarded as fixed and closed to feedback; tendency by businesses to underestimate the key factors for strategy success; wasting energy in detailed planning rather than in actual planning; wanting to take short-cuts in order to implement all at once; fear of taking risks and making mistakes; and lastly, destructive competition in the business. Ungerer *et al.* (2007:256) therefore, advise businesses that in today's dynamic business environment, implementation should be done properly because customers and shareholders judge them considering what they deliver not what they say and the business that properly executes strategies achieves competitive advantages.

A study of turning great strategy into great performance by Mankins and Steele (2005:6) discovered that on average, most strategies deliver only 63 percent of their potential financial performance. The study further found out that the managers' perceived obstacles to strategy implementation include inadequate or unavailable resources, poorly communicated strategy, actions to execute not clearly defined, unclear accountabilities for execution, organisational culture blocking execution, inadequate performance monitoring, inadequate consequences from failure or success, poor senior leadership, uncommitted leadership, and inadequate skills and capabilities. Freedman (2003:26) attributes the failure or ineffective strategy implementation to nine implementation pitfalls. The first one is strategic inertia, where a strategy is formulated but no action is taken, or there is no priority to execute it. Secondly, strategy implementation is impeded by lack of stakeholder commitment, especially middle managers and employees, and as a result it is ineffective or there is failure to execute a strategy.

The third obstacle is concerned with strategic drift where there is no discipline and focus to execute the strategy and consequently failure to implement. Fourthly, the failure is attributed to unclear roles about what needs to be done and consequently, there is confusing and slow progress in implementing strategies. Fifthly, poor strategy implementation is also as a result of strategic isolation, whereby communication is ineffective and there is no coherence and consistency between functions of the business; as a result it realises poor or no connection between strategy and implementation. Sixthly, failure by a business to understand progress

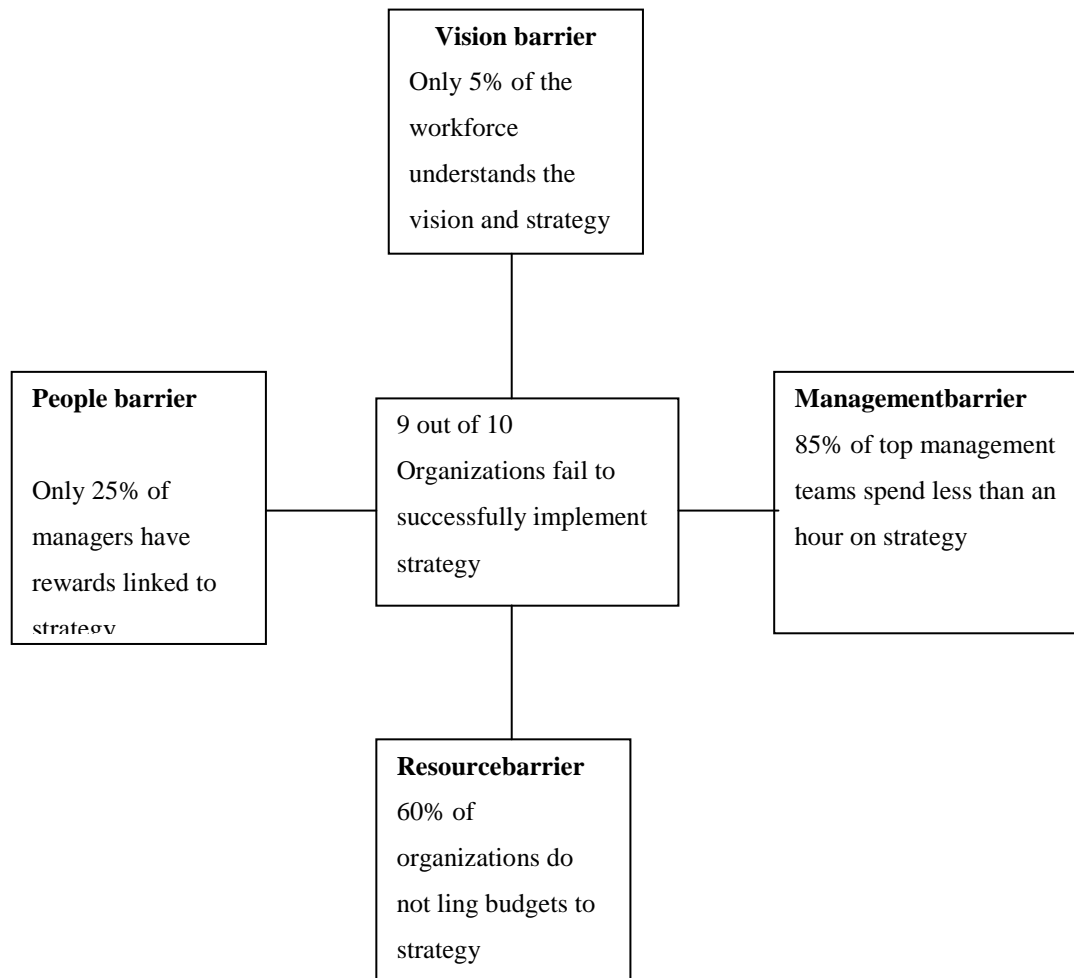
due to absence of continuous quantitative and qualitative key indicators of progress may impede it from executing the strategy. The seventh challenge occurs as a result of fatigue in the business because of pursuing too many projects. The eighth impediment emanates from the unreasonable and emotional behavior by managers who are impatient and expect to implement a strategy overnight. The desire for instant gratification puts everyone under extreme pressure and as a result, sound strategies that are well formulated are quickly abandoned, before they even bear fruits (Wery & Waco 2004:154). Finally, failure to recognise and reward progress can also discourage people involved in the implementation process.

The inability by businesses to implement strategies is due to factors involving unanticipated market changes, insufficient planning, insufficient monitoring, and insufficient resources (Sterling 2003:27; Wery & Waco 2004:153). Corboy and Corrbui (2007:1) propose seven reasons for failure to implement strategies, which they called the seven deadly sins of strategy implementation. These include strategies that are not worth implementing, strategies lacking practicality, customers and staff who do not fully understand the strategy, individual responsibilities for implementing change are not clear about their roles, chief executives and senior managers' lack of commitment, the failure to identify strategy implementation obstacles, and lastly, the tendency by senior managers to lose focus of the targets that they need to meet and the customers that they need to service.

Speculand's (2009:167) study of successful implementation of a strategy, identified that strategy implementation is flawed by the tendency of management to think that strategy implementation is easy once a strategy is successfully crafted. This leads to general laxity in the business before the strategy is implemented. Speculand (2009:168) argues that business success is determined more by the ability to implement, than the ability to formulate a great strategy. Sterling (2003:27) points out that effective implementation of an average strategy produces better results than a great strategy that is poorly implemented. The author proceeds to indicate that besides regarding strategy implementation as taking actions to achieve the goals, businesses need to realise that it is also about taking the right actions. This argument shows that Sterling (2003:27) believes that businesses fail to implement strategies because they do not take the appropriate decisions to do so. According to Speculand

(2009:170), businesses fail to implement strategies due to a misleading mindset, which believes that what worked yesterday will work tomorrow.

Ehlers and Lazenby (2007: 215) adopt the Balanced Scorecard Collaborative to present four barriers to strategy implementation as depicted in Figure 3. 11.



**Figure 3.11 Barriers to strategy implementation**

Source: Ehlers and Lazenby (2003:215)

As illustrated in Figure 3.11, the failure in strategy implementation is attributed to failure by employees to understand the business mission,

vision and strategy, lack of management commitment, lack of financial resources to support strategy implementation, and a poor reward system.



Alashloo, Castka and Sharp (2005:136) divide strategy impeder into planning, organisational, managerial and individual factor categories. Planning factors include lack of exact strategic planning and unsuitable training, organisational factors encompass unsuitable resource allocation, poor structure, and competing activities among units. Managerial issues involve unsuitable leadership, lack of management commitment, poor personnel management and individual factors are, resistance to change by employees, lack of support and commitment, as well as lack of understanding of the strategy. In a study of impeder of strategy implementation in higher education institutions of Iran by Alashloo *et al.* (2005:141), lack of exact strategic planning, lack of identification of major problems, unsuitable training system, lack of adequate communication, incompatible organisational culture, political factors in regard to power, unsuitable management, and inadequate connection to the vision, were found to be the most prevalent ones.

The other commonly mentioned obstacles to strategy implementation in the literature include, the formulation of strategies that are not feasibility, the tendency to delay the implementation activities, and the uncontrollable environmental factors (Ikavalko & Aaltonen 2001:14), key formulators of the strategy not taking an active part in implementation, advocates and supporters of the strategic decision leaving the organisation during implementation phase (Al-Ghamdi 1998:323), and implementation taking more time than what was planned (Okumus 2003:871).

From the foregoing discussion, it can be noted that several challenges emanating from both the internal and external environments confronting businesses when they implement strategies. To implement the formulated and chosen strategies successfully, a number of strategy implementation drivers are available to businesses. Some of these drivers include, leadership, organisational culture, reward systems, resource allocation, commitment, consensus, and communication ( Freedman 2003:29; Okumus 2003:876; Raps 2005:141; Ehlers & Lazenby 2007:216; Li *et al.*,2008:27).

With regard to leadership, Ehlers and Lazenby (2007:217) posit that it is through effective strategic leadership that a business is able to implement strategies successfully. Hitt *et al.* (2007:386) view leadership as critical in strategy implementation because besides

articulating the strategic vision of a business, leaders also empower and motivate subordinates so that they share the same vision.

Cocks (2010:263) has argued that effective leadership means being able to develop, receive, and interpret strategic plans and cascade them in a way that employees can understand the plans. Essentially, Cocks (2010:263) is of the view that leadership does not just mean having leaders at the top, but rather it involves creating leaders throughout the business. This view is similar to that proposed by Freedman (2003:27), who states that a genius leader is the one who successfully implements strategies. In this regard, Freedman (2003:327) argues that a successful strategy implementation phase requires a genius leader who is a disciplined, committed, and creative leader, possessing superior execution skills. This view is in line with the results in a study by Brenes, Mena and Molina (2007:590) on the key success factors for strategy implementation in Latin America. The findings of the study reveal that about 91 percent of most successful businesses consider leadership as a very important factor strategy implementation.

Middle managers and junior employees' support and commitment also matter in strategy implementation (Parnell 2008:1277). Raps(2005:142) reinforces this view by pointing out that the involvement of middle managers is crucial to increase the general awareness of the strategy and to build a general consensus in the business about the implementation of the strategy. This is because if there is general consensus, employees are united in implementing the strategy. Raps (2005:142) advocates for active involvement of middle managers and supervisors in strategy implementation as this motivates them to work hard when they execute their duties.

Promoting the same opinion, Heide *et al.* (2002:219) disclose that personnel management is an essential part of strategy formulation and implementation because the active involvement of employees boosts their morale and hence, a strong drives to implement the strategies. Speculand (2009:168) stresses the importance of people in strategy implementation by categorising them in terms of saboteurs who resist change whenever it is introduced, the groupies who neither support nor oppose strategy implementation, the mavericks who are the drivers of change, and the double agents who initially resist implementation of a strategy but once they realise that it will succeed, they start to support the change.

Speculand (2009:169) reiterates that organisational leaders should influence beliefs of those resisting so that everyone is involved and united towards achieving common goals. In a qualitative study of implementing strategies successfully, Aaltonen and Ikavalko (2002:415) confirm the view that middle managers and supervisors play a key role in implementing strategies. Other scholars such as Gadiesh and Gilbert (2001:16) who maintain that involving employees in strategy execution offers benefits such as motivating employees to capitalise on opportunities swiftly, and to innovate and take risks, also support the idea of employee involvement in strategy execution.

Studies also point out that communication is a key success factor in strategy implementation (Freedman 2003:29; Raps 2005:142; Speculand 2009:168). Raps (2005:142) recommend that businesses should institute a two-way communication programme that clearly explains new requirements, tasks and activities to be performed by employees, as well as soliciting for feedback from the employees. This according to Raps (2005:142) enables employees to be informed, ask questions, accept the changes and become active participants in the change process by sharing information. Freedman (2003:29) concurs and asserts that today, world-class organisations must ensure they communicate with their internal and external stakeholders so that they have a full understanding of the strategy to be implemented, as there will be genuine commitment and ownership in every employee in making the strategy happen.

Cocks (2010:263) finds that communication through visible management systems is an important driver required for effective implementation. Kumar, Markeset and Kumar (2006:114) examine the implementation and execution process of the oil and gas industry in the North Sea. The study presents evidence that effective communication is a key requirement for effective strategy implementation. The study concluded that to be an effective implementer, top management personnel need to communicate the strategy to be implemented to employees clearly, in order to reduce uncertainty, speculation and unfounded fears.

Ehlers and Lazenby (2007:224) regard organisational culture as another key success driver in strategy implementation. When the organisation's beliefs, visions and objectives

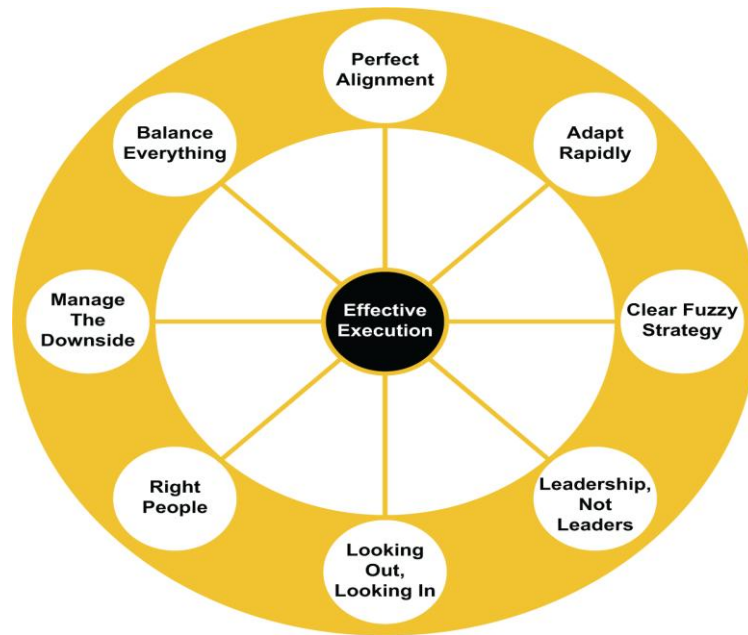
underpinning its chosen strategy are congruent with its organisational culture, it is easy to implement or execute the strategy (Ehlers & Lazenby 2007:224). Klein's (2008:1) study of organisational culture categorises organisational culture in terms of constructive culture that promotes individual motivation, cooperation and collaboration, and adaptability and defensive culture that discourages adaptability. The results suggest that cultures based on constructive norms can foster motivation, innovation, creativity and risk taking behaviour, and cooperation, thereby creating competitive advantages and defensive cultures that negatively impact on the performance of organisations. Therefore, according to Klein (2008:1) the consistency between organisational culture and the strategy is a source of competitive advantage. A study conducted by Brenes *et al.* (2007:595) also confirmed the positive impact of an enabling organisational culture on strategy implementation. Heide *et al.* (2002:219) conducted a study on organisational culture and its effect on strategy implementation. The results of the study confirm that culture is a source of competitive advantage if it is supportive of strategy implementation. The study recommends that businesses should use culture to unite employees in strategy execution.

Organisational structure is also considered as another important driver to successful strategy execution. According to Heide *et al.* (2002:219), the structure of an organisation affects implementation indirectly through influence on information, control and decision processes. The authors further maintain that a business must ensure compatibility between the chosen strategy and its structure. This is done to ensure proper reporting structures in the implementation activities. Pearce and Robinson (2000:400) see the alignment between strategy and structure as a necessary condition for successful strategy implementation. Freedman (2003:30) suggests that to ensure strategic alignment, organisations should have structures that are compatible with the business strategy and consistent with organisational culture and leadership style, as this helps in having coordinated efforts in strategy implementation. A study by Heide *et al.* (2000:219) confirms that organisational structure constitutes a key driver to strategy implementation. Brenes *et al.* (2007:595) reported similar result in a study on key success factors for strategy implementation in Latin America. The findings reveal that businesses have benefited greatly from aligning organisational structures with strategies chosen.

Several studies treat relationships among different units or departments as a significant factor in influencing strategy implementation outcomes (Chimhanzi 2004:90; Kumar 2006:114; Li *et al.* 2008:12). A study of UK service businesses by Chimhanzi (2004:73) revealed that cross-unit working relationships have an important role to play in the successful implementation of strategies. The results of the study further suggest that strategy implementation effectiveness is affected negatively by conflict and positively by communication. The study therefore recommends interdepartmental integration, especially informal social interaction that can be facilitated through social events or social functions. Similar results are also reported in a study by Kumar *et al.* (2006:114), which indicate that well-aligned relationships in the business help in building trust between people involved in the strategy implementation.

The success of strategy implementation is also dependent on other factors such as motivating reward systems and adequate resource allocation (Ehlers & Lazenby 2007:216); monitoring, reviewing and updating strategy in order to track implementation progress (Freedman 2003:31); clear assignment of responsibilities in order to avoid vagueness of the assignment of responsibilities and initiation of teamwork that results in combined efforts to implement (Raps 2005:142-143); political factors and political games that may block progress in strategy implementation (Heide *et al.* 2002:219); support from the board of directors, stockholders' commitment and financial support, and corporate governance leading the change (Brenes *et al.* 2008:597); implementation tactics and general consensus (Li *et al.* 2008:19-22); and the use of project management techniques such as defining goals and breaking the project into small discrete tasks in order to create the work breakdown structure that is easy to implement and evaluate progress (Cocks 2010:264).

Another alternative way to review the complex factors or drivers to strategy implementation is to evaluate the strategy implementation frameworks where a holistic approach is used to analyse the interaction of several factors of strategy implementation (Okumus 2003:871). For example, Cocks (2010:262) studied leading businesses in Australia and found nine drivers that influence success in strategy implementation, adapting rapidly, clear and fuzzy strategy, leadership not leaders, looking out and looking in, right people, managing the downside, balancing everything and perfect alignment. The findings were regarded as the winning framework for organisational excellence as depicted in Figure 3.12

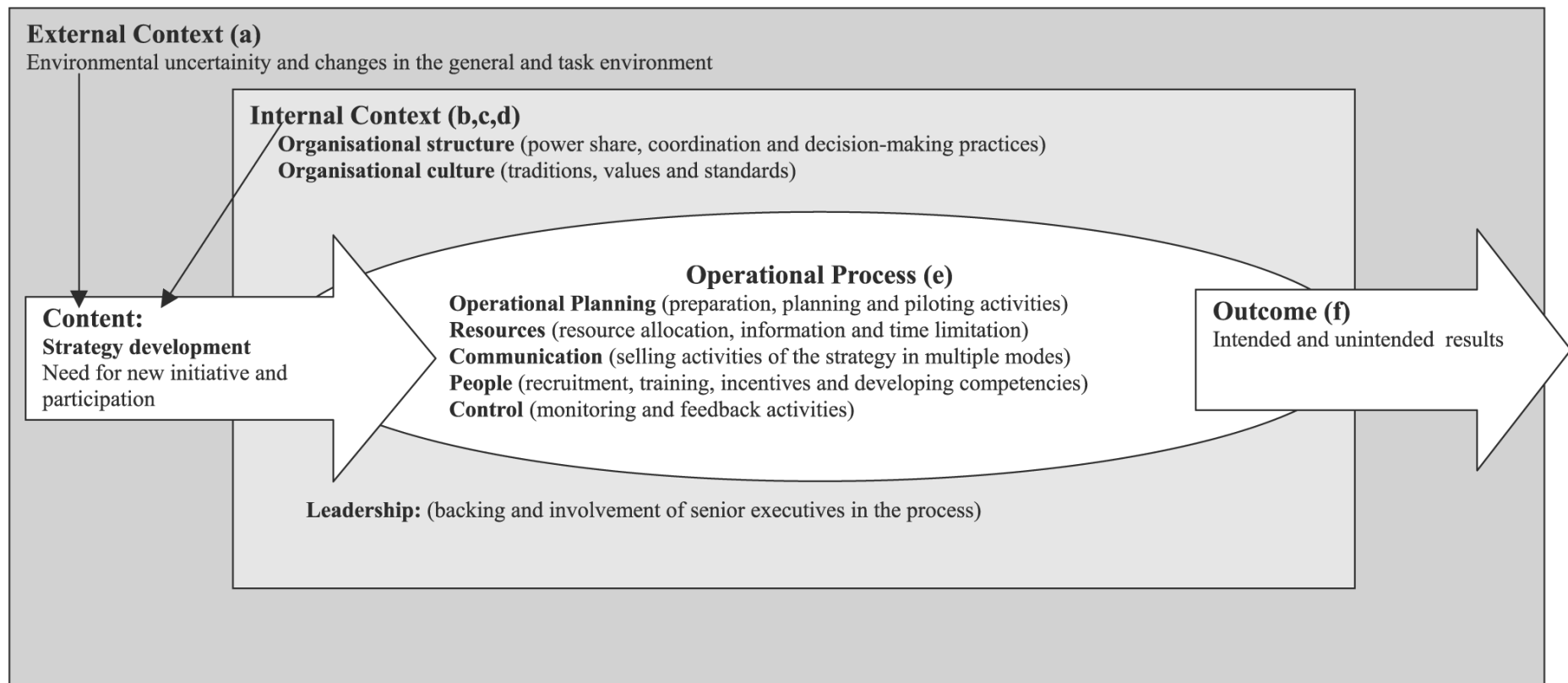


**Figure 3.12 Strategy implementation framework**

Source: Cocks (2010:262)

The nine elements are combined together to make a winning wheel and steer the business to successfully execute the strategy. Once the wheel starts moving, it should not stop moving (Cocks 2010:262) because its movement is an ongoing process. This is because the activity of strategy execution is a continuous process, especially in today’s unstable business environment.

The second framework is the one suggested by Okumus (2003:876) who identifies four key variables in strategy implementation. The first variables are the content factors that consist of components dealing with a business’ initiatives in developing strategies to achieve its goals. The second variable is the context, which encompasses internal context aspects such as organisational structure, culture and learning and external aspects such as environmental uncertainty in the general and task environment. The third one is the process, which is concerned with operational planning, resource allocation, people, communication, control and feedback. Finally are the outcomes, which include the intended and unintended results of strategy implementation that can be tangible and intangible. Figure 3.13 depicts the framework.



**Key**

- a Changes in the external environment influence the strategic context and force organizations to deploy new initiatives.
- b Problems and inconsistencies in the internal context require new initiatives.
- c The strategy is implemented in the internal context, and the characteristics of organizational structure, culture and leadership influence the process factors.
- d Having an organizational context that is receptive to change is essential for the successful implementation of strategy.
- e The process factors are primarily used on a continuous basis to implement the strategy and manipulate the internal context.
- f The characteristics of the context and process factors and how they are used directly influence the outcomes.

**Figure 3.13** Okumus' Strategy implementation framework

Source: Okumus (2003:876)

Figure 3.13 illustrates that there is need to adapt a more comprehensive view by looking at content, context, process and outcome. Following such a holistic perspective helps in evaluating the best implementation options (Okumus 2003:878). However, the idea of combining all the variables in strategy implementation is criticised by some scholars such as Li *et al.* (2008:29) who argue that even though coherence among these variables makes implementation a success, it is an almost insurmountable challenge to achieve coherence among all the implementation variables in environments that are dynamic and complex.

Higgins (2005:3) proposed an eight 'S' strategy execution model that enables management to more readily enact, monitor and assess the execution of strategies. The model is a revision of McKinsey seven 'S' model. Higgins (2005:3) deleted skills from McKinsey framework and replaced it with resources. Strategic performance was added to the model as an eighth 'S' to help focus the strategy execution effort (Higgins 2005:3). Higgins' (2005:3) framework requires that there should be an alignment among these eight factors for strategy implementation to succeed.

Brenes *et al.* (2007:593) identified five key dimensions of strategy implementation, which are strategy formulation, strategy control and follow-up, corporate governance, systematic execution and finally, leadership and suitable, motivated management and employees. All these factors need to be aligned with the organisational strategy choices in order to effectively implement the business' projects (Li *et al.* 2008: 31). Ungerer *et al.* (2007:282) recommend that the strategy implementation process should be as quick as possible because of the environment that is constantly changing at an accelerated pace. To increase the speed of strategy implementation, the authors suggest using the following ideas, designing a compelling set of goals, mission and vision statements, making use of diversified teams with diverse potentials, having frequent and open feedback mechanisms that encourage information sharing and lastly, frequent interaction and connection between people involved in strategy implementation. In order to establish the success of the strategy implementation, monitoring, evaluation and control is then carried out, as discussed in the following section.

### **3.9.6 Strategy evaluation and control**

The preceding sections have discussed the first two phases of the strategic planning process, *inter alia* the strategy formulation and strategy implementation. This section reviews the next



phase that involves the review, evaluation and control of the execution of the strategy. Continuous improvement as another important aspect of strategic control will also be discussed. In environments that are stable and predictable, this phase could be regarded as the last one in the strategic planning process. However, with dynamic and unpredictable business environments, organisations can sustain competitive advantages through continuous improvements (Ehlers & Lazenby 2007:275). Smit *et al.* (2007:387) suggest various reasons why the control process is important. First, it is exercised in order to make sure that all the activities are carried out according to the business' goals. Secondly, the control process enforces proper deployment of resources. Thirdly, it is done to ensure that the quality standards are met. The fourth reason is that it helps management to cope with environmental change and uncertainty. Finally, control helps to minimise costs and errors. According to Ungerer *et al.* (2007:276), a progress measurement feedback mechanism should be in place so that the business has checks and balances to assess if things happen as planned. The authors argue that strategy evaluation and control, as well as feedback, should be a continuous emerging process that constantly checks progress and corrects mistakes to ensure success in strategy implementation. They further postulate that there should be opportunities to report on progress in the strategic plan, and the provision of feedback needs to be truthful and part of the continuous learning curve.

This means that once an organisation formulates, implements, reviews, controls and evaluates the strategy, the process does not end with the strategy evaluation and control phase because a business needs to review its strategic choices and continuously make adjustments to maintain a fit with the environment (Pearce & Robinson 2005:366). David (2003:300) recommended a systematic review, evaluation and controlling of the implementation of strategies because the best formulated and well-implemented strategies become valueless as the business' environment changes. To evaluate and control a strategy (Rossouw *et al.* 2003:226) entails the monitoring of the strategy as it is being executed and making necessary corrections to any deviations.

Strydon (2011:171) expressed similar sentiments by mentioning that strategy evaluation and control informs the managers about the reason leading to failure to meet a certain objective, performance standard or any other performance indicator is not achieved. To achieve this, the author suggests five tasks that must be performed. The first task is to constantly revise and

update the plan so that it suits the environmental conditions. The second task is to set up standards that need to be met in order to achieve the goals. Thirdly, management must evaluate the performance of employees through performance appraisals in order to ascertain if everyone is performing as required. The fourth task is to prevent problems and crises through proactive planning. Finally, evaluation and control protects the business from collapse as it ensures that errors attended to timely.

Pearce and Robinson (2005:366) contend that strategic control and evaluation is concerned with guiding action during and after strategy implementation. In addition, they draw attention to the fact that in strategy review and control, managers are concerned with two important issues. First, they ask themselves if the organisation is moving in the proper direction, if all activities are being done as planned, if the assumptions that were made about major trends and changes in the environment are correct, if there are shortcomings that need to be corrected, and if there is need to continue with the strategy or abort it. Secondly, the organisations need to evaluate how they are performing as far as meeting the objectives is concerned. It is also necessary to assess progress to ascertain whether or not the schedules, costs, revenues and cash flows are matching the projections, and if there is need to make operational changes.

Rossouw *et al.* (2003:227) have highlighted four prerequisites that need to be met for the successful monitoring, evaluation and control of a strategy. First, the business' goals and objectives must be measurable and acceptable to enable easy measurement of progress. Secondly, if there are deviations, it should be possible for an organisation to establish the cause of such deviations. Thirdly, communication links or systems should be in place so that there are feedback links for managers to react when variances occur. Lastly, the information about the progress in goal achievement must be sufficient for the managers to make informed decisions. Furthermore, managers should have authority to make decisions and effect any changes.

David (2003:302) offered four criteria that could be used to evaluate strategies, namely consistency, consonance, feasibility and advantage. Inconsistencies in the success of a strategy occur if one department succeeds and one fails, and if policy problems still occur and are brought to top management for resolution. Consonance refers to the organisation's ability

to match its strategies to its key internal and external environments. While feasibility of the strategy refers to the examination of the business' abilities, competencies, skills and talents needed to carry out a given strategy, an advantage of a strategy entails its ability to create superiority in the way it utilises its resources, skills, as well as its competitive position in the market (David 2003:302).

Rossouw *et al.* (2003:227) have posited that strategy control takes place at three levels, *inter alia* the strategic level, the functional level and the operational level. While the strategic control directs the business over long periods, the tactical and operational control levels provide post-action review and control over short periods (Rossouw *et al.*, 2003:227). Pearce and Robinson (2005:366) state that strategic control is critical as it guides the business to make sure that correct things are done, and corrections are made to correct any problems. Changes in the business' internal and external environments call for the need for the business to make changes constantly, so that the business is not adversely affected by such changes (Rossouw *et al.*, 2003:228).

To do this, Smit *et al.* (2007:389) suggest the strategic planning process that consists of four stages. They include the setting up of standards that are derived from the goals, the measurement of actual performance, the evaluation of deviations, which enable a business to identify the performance gap, and finally the rectifying of the deviations, which is achieved by taking initiatives to correct the deviations. Strydom (2011:165) suggests two forms of action that management may take after evaluating the performance in strategy execution. On the one hand, if standards are not met the appropriate action is to find out why and to take corrective action, on the other hand if performance meets the set standards, the right action is to continue with the acceptable performance. To monitor, evaluate and control the performance in strategy execution successfully, businesses should have effective control systems in place. In that regard, Smit *et al.* (2007:406) state that to be effective, the strategic control system should be flexible, accurate, timely, simple, and a continuous process. When it comes to the different types of performance controls that businesses should do, Ehlers and Lazenby (2007:276-278) assert there are four basic types of strategic control. These include premise control, implementation control, strategic surveillance and special alert control. Premise control systematically and continuously checks whether the premises and assumptions on which the strategy is based, are still valid (Pearce & Robinson 2005:366).

Strategic surveillance, as Ehlers and Lazenby (2007:278) have highlighted, is a broad type of strategic control, whereby an organisation monitors and interprets a wide range of events in both the internal and external business environments that have the potential to affect the success of the strategy.

Ehlers and Lazenby (2007: 278) further mention that businesses can gather information about the environment by constant monitoring of numerous information sources like conferences, networking, conversations with colleagues who operate in the same industry, as well as other media, namely newspapers and journals. Pearce and Robinson (2005:368) describe special alert control as the thorough and rapid redesigning of a business' strategy due to sudden and unanticipated events happening in the dynamic environment. With regards implementation control, Pearce and Robinson (2005:369) state that a series of steps, programmes, and investments take place over extended periods, through the conversion of broad plans into concrete and tangible actions that result in the achievement of the goals.

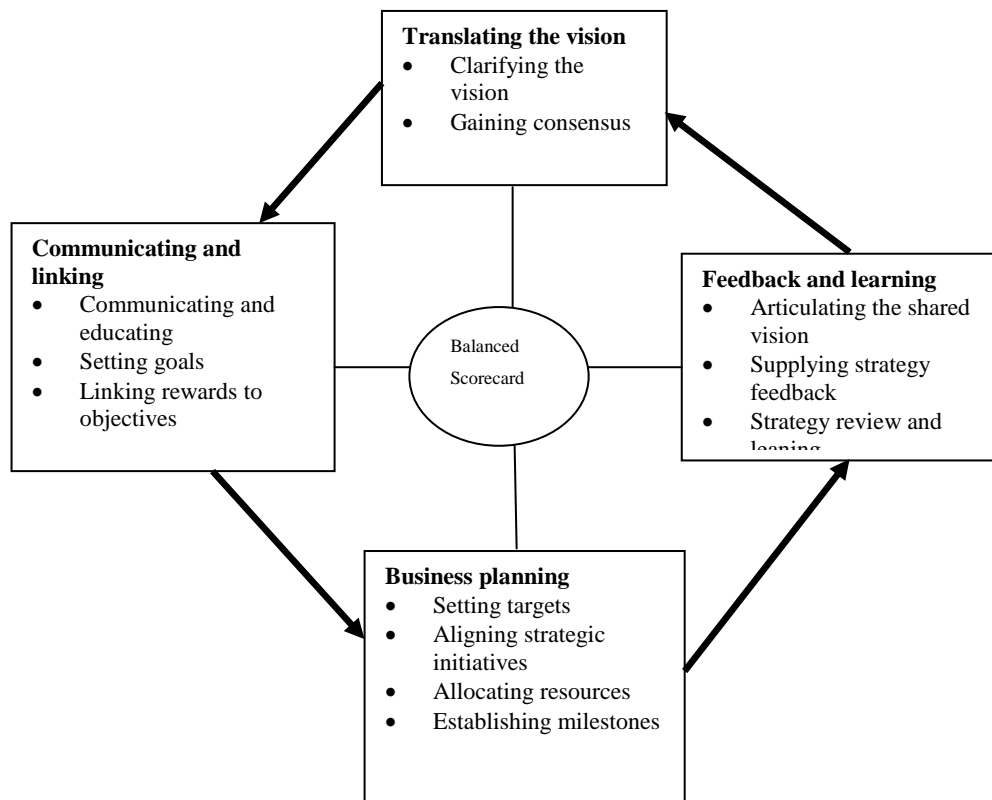
Rossouw *et al.* (2003:229) concur with Pearce and Robinson (2005:369) that implementation control breaks down a strategy into practical and manageable projects, actions and objectives that are monitored in order to determine if the overall strategy is being successfully implemented. Rossouw *et al.* (2003:230) are of the opinion that two useful ways of performing implementation control are monitoring strategic thrusts and milestone reviews. The former involves monitoring of projects, actions and objectives to enable successful strategy execution, and the latter encompasses the identification of significant milestones that must be reached during strategy implementation such as critical events, major resource allocations and the passage of a certain amount of time.

While strategic control evaluates the strategy implementation over long periods, operational control provides feedback within shorter time frames (Ehlers & Lazenby 2007:279). Sustaining the same idea, Pearce and Robinson (2005:370) point out that operational control systems that include budgets, schedules and key success factors provide post action evaluation and control over short time periods. According to Ehlers and Lazenby (2007:279), budgets help to coordinate organisational operations and set standards against which progress can be measured. Scheduling encompasses timing of resource allocation and sequencing of activities to implement strategies. Key success factors involve performance areas of

importance and hence, need constant management and attention of the strategy execution, for example cost control, gross profit, customer service, product quality, sales, employee morale, as well as competition.

Pearce and Robinson (2005:370) suggest that to be effective, operational control systems need to take four steps, namely setting standards of performance, measuring actual performance, identifying deviations from set standards and initiating corrective action. As noted by Rossouw *et al.* (2003:233), management by objectives and the balanced scorecard are other useful operational control systems that organisations can use for post action control. Management by objectives is a key result area for managers and subordinates that need to be agreed upon and achieved, in order to implement the strategy successfully. While on the one hand management by objectives may motivate employees as they know what they are supposed to achieve, on the other hand some managers might lack the capability to develop objectives and targets that are supportive of the overall goals of the business (Rossouw *et al.* 2003:247).

By using the balance scorecard, a business is able to monitor and evaluate the achievement of objectives that have been agreed upon between managers and employees (Rossouw *et al.* 2003:249). Ehlers and Lazenby (2007:281) affirm that the balanced scorecard helps a business to monitor and review short-term results in the financial, customer, internal business processes, and learning and growth perspectives, in order to establish if the strategic objectives are being implemented. Ehlers and Lazenby (2007:282) therefore suggest a framework of the balanced scorecard, to help organisations to evaluate and control strategies. The framework integrates four distinct management processes such as translating the vision, communicating and linking, business planning and feedback, and learning, as depicted in Figure 3.14.



**Figure 3.14 The balanced scorecard**

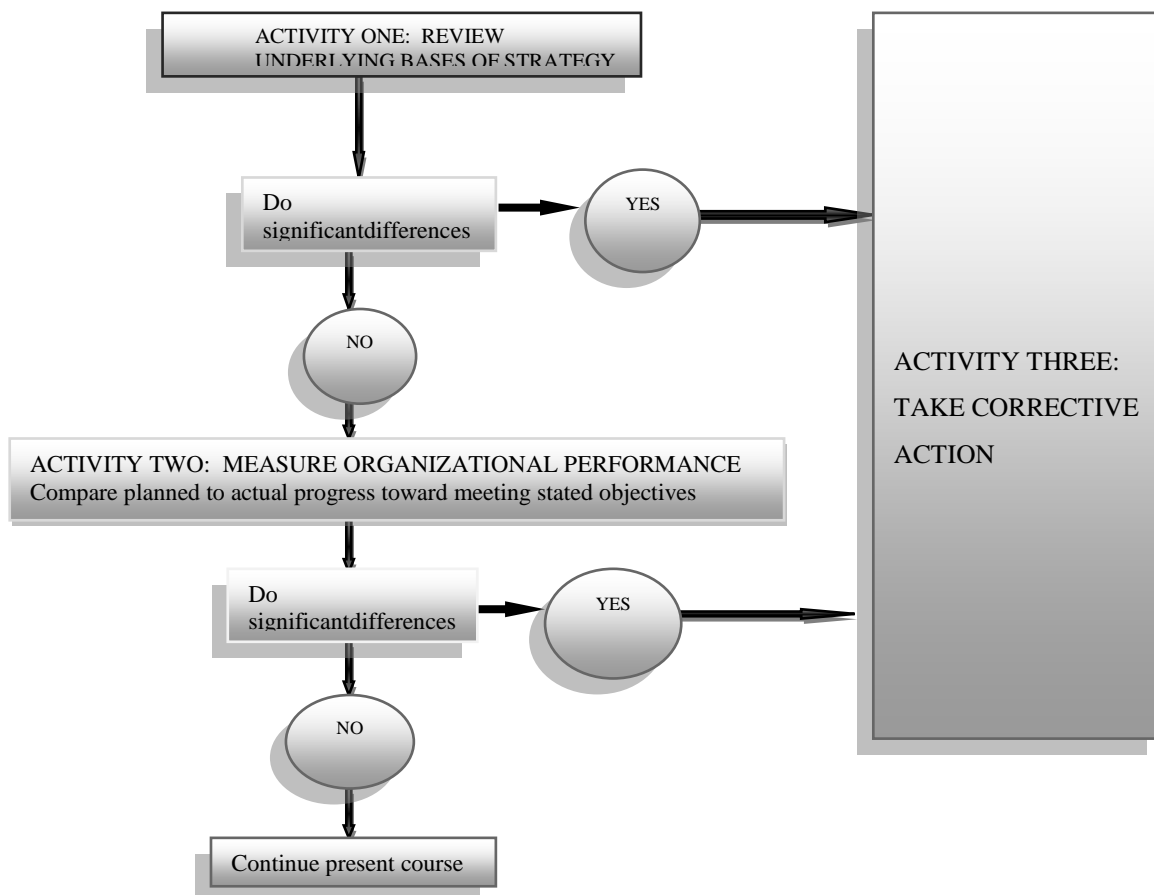
Source: Ehlers and Lazenby (2007:282)

Translating the vision involves clarifying the vision and translating it into integrated measures and objectives. Communicating the strategy helps management educate employees about the strategy and objectives to be achieved, thereby promoting commitment and accountability to the strategy of the business. Through business planning, businesses are able to integrate their strategic planning and budgeting processes in order to ensure that resource allocations support the implementation of chosen strategies. Lastly, feedback and learning are necessary to test validity of assumptions made when formulating strategies in order to make necessary adjustments if there are deviations (Ehlers & Lazenby 2007:283).

In addition, Ehlers and Lazenby (2007:285) further suggest three management control practices that can help businesses sustain competitive advantages, namely benchmarking, total quality management and business process re-engineering. Benchmarking is used as a yardstick to compare the current business performance with the performance of previous years, and against competitors operating in the same industry, or other best performing businesses. Total quality management forces a business to be committed to quality products

and services through teamwork, continuous learning and improvement, and use of innovative scientific methods. The quality assurance standards guide the business to evaluate its ability to conform to quality standards. Re-engineering involves reorganising a business in a way that creates value for customers through the elimination or minimisation of barriers, which inhibit the business ability to achieve the set goals (Ehlers & Lazenby 2007:287).

David (2003:303) has argued that a continuous rather than periodic strategy evaluation is necessary for all businesses, regardless of size, sector or industry affiliation. The reason is that a continuous evaluation of strategies offers benefits such as allowing benchmarking of progress to be established and monitored effectively, creating manager and employee commitment to achieve objectives, and enabling the monitoring of changes in the external opportunities and threats as well as internal strengths and weaknesses of the business. In that vein, David (2003:306) suggested a strategy evaluation framework that can be used to continuously evaluate its progress as depicted in Figure 3.15.



**Figure 3.15** A strategy evaluation framework Source: David (2003:306)

As depicted in Figure 3.15, if the implementation of a chosen strategy is according to set standards, the strategy proceeds whilst being monitored on a continuous basis, but whenever there are deviations of performance from the expected standard, corrective actions need to be taken. In David's (2003:308) opinion, evaluating and controlling performance on a continual basis helps the business to maintain a balance between the chosen strategies and the objectives to be achieved. This indicates that a continual evaluation of business performance ensures continuous improvements, as it is able to adjust to the needs of a changing environment.

### **3.10 CONCLUSION**

In this chapter, a literature review on strategic planning was conducted. In particular, the review focussed on definitions of strategic planning, debate on strategic planning, success factors for strategic planning as well as the strategic planning process.

Many conclusions could be drawn from the review of literature. The first conclusion concerns the need for strategic planning. Businesses today are operating in dynamic, complex and competitive environments that are continuously changing. There is therefore, a need for businesses to adopt and utilise strategic planning, as it enables them to assess the environment and respond to any changes as effectively as possible. Strategic planning cushions businesses from environmental uncertainties. In other words, strategic planning guides a business on what to do, how to do it and who should do it. Thus, the main benefit of strategic planning is to enable a business to clarify its future direction, to establish priorities, to respond to the turbulent business environment effectively and to devise effective strategies in order to achieve set targets and goals, thereby achieving sustainable competitive advantage.

Secondly, for a strategic planning process to be successful, certain necessary conditions need to be met, namely goals and targets should be realistic, the process needs to be inclusive rather than exclusive, the process must be flexible enough to quickly adapt to environmental changes, environmental assessment should be a continuous process in order to keep abreast with cyclical changes in the environment, and it is also critical that all the stakeholders have a shared vision of the desired future.



Thirdly, even though different strategic planning models might have different steps or vary in sequence of steps, the review of different models reveals that environmental scanning, strategy formulation, strategy implementation and strategy evaluation and control are the main stages of the strategic planning process. Environmental scanning is performed by analysing the external environment to identify possible opportunities and threats, and the internal environment for strengths and weaknesses. It was further revealed that the key to success in business is to assume that the business environment continues changing and to make sure that the business prepares for the change and takes advantage of that change.

Fourthly, the formulation of mission, vision, objectives and strategies is necessary as it provides a general direction of the business. Having assessed the internal and external factors, businesses need to decide on appropriate strategies to meet the objectives.

Fifthly, once the means and methods for achieving the objectives have been established, plans should be turned into action tasks. Effective strategy implementation can serve as a source of competitive advantage. However, a review of literature has identified numerous impeders to strategy implementation such as lack of commitment, poor leadership, poor reward systems, lack of resources, unsuitable training systems, organisational politics and resistance to change among employees. For strategy implementation to succeed, there is need for commitment from all the stakeholders, their reward system should be motivating, there should be effective leadership, there should be an alignment between strategy and culture, there should be a proper organisational structure, and the resources need to be adequate.

Sixthly, the business must evaluate and control the implementation of the strategy. This is necessary as it ensures that the stated objectives are achieved. In other words, activities involved in this stage include reviewing internal and external factors, measuring performance and correcting any deviations from the required standard. Therefore, in order to know how the business is doing, there is a need for any business to continuously review the implementation process, assess progress and make quick decisions to correct deviations.

Lastly, it should be noted that due to the ever-changing competitive environment, businesses can no longer afford to adopt a rigid step-by-step strategic planning process. There is now a

need for a dynamic approach that is flexible, ongoing and simultaneous. An ongoing strategic planning process that simultaneously analyses the competitive environment, develops strategic options together with their evaluation, is recommended. Thus, key to today's business success is to have an ongoing and flexible strategic planning process whereby the business must be constantly aligned with the environment. The next chapter presents an overview of the relationship between strategic planning and business performance.

## **CHAPTER 4 – STRATEGIC PLANNING AND ITS RELATIONSHIP WITH BUSINESS PERFORMANCE**

### **4.1 INTRODUCTION**

The previous chapter discussed the definitions of strategic planning. The debate on strategic planning, success factors for strategic planning and the strategic planning process were also outlined. In this chapter, a review of the relationship between strategic planning and business performance is explored. It is presented as follows. Initially, the definition of business performance and the reasons for measuring performance of business are discussed. The types of business performance measures and their strengths and weaknesses in measuring performance are highlighted. Various business performance indicators or dimensions will also be discussed. Thereafter, the characteristics of performance measures, requirements of an effective performance management system and a discussion of the performance measurement frameworks, including their relative merits and limitations as business performance models, are examined. The chapter concludes with an in-depth discussion on the relationship between strategic planning and business performance by reviewing past research studies that were conducted to establish the business performance effects of strategic planning.

To date, the majority of strategic management literature holds the view that strategic planning enhances business performance. However, studies that have attempted to elucidate the relationship between strategic planning and business performance have produced results that are fragmented, conflicting and inconclusive (Andersen 2000:186; Elbanna 2008:781; Hughes, Morgan & Kouropalatis 2008:1379). Some studies have reported a positive relationship (Desai 2000:685, Baker 2003:470; O'Regan & Ghobadian 2004:292), while others show that the relationship is negative (Nwokah 2008:279). Others again, report mixed results (Saffu & Manu 2003:1; French, Kelly & Harrison 2004:765). Falshaw, Glaister and Tatoglu (2006:9) show that the relationship is non-existent. In other words, no evidence has emerged to substantiate the notion that strategic planning improves business performance unequivocally (Andersen 2000:186).

### **4.2 BUSINESS PERFORMANCE**

Although there has been an increase of interest among strategic and management researchers in business performance, they have so far not agreed on a definite definition of business

performance and what constitutes an accurate measure of performance (Tucker, Thorne & Gurd 2007:5). Gibson and Cassar (2005:208) observe that the subject of business performance has several dimensions, which make it difficult for researchers to come up with a generally agreed-upon definition. Therefore, definitions of business performance that are suggested by academics are diverse (Gibson & Cassar 2005:208). Reijonen (2008:617) conducted an empirical study in craft and rural tourism micro businesses. The author defined business performance as an indicator that measures the business' efficiency and effectiveness in achieving the goals. Business performance can also be analysed by a business' ability to produce results in relation to set targets (O'Regan, Sims & Galleary 2008:9). Wongrassamee, Gardiner and Simmons (2003:17) show that business performance refers to how well the business satisfies the needs of employees, customers and other stakeholders, as well as its ability to achieve its planned business goals. Gibson and Cassar (2005:208) adopt a similar stance by stating that business performance is concerned with the degree to which the set objectives are achieved.

From the above definitions, it can be noted that business performance involves the effectiveness and efficiency of a business in attaining the set goals and the extent to which the business is able excel in meeting the needs of all its stakeholders. It therefore suggests that business organisations need to monitor their performance constantly. The reasons for these are diverse, as discussed in the following section.

#### **4.2.1 Need for measuring business performance**

Performance measurement is the assessment of business' ability to align its activities with its strategy, mission and vision statements (Basu, Howell & Gopinath 2010:437). Tangen (2003:348) contends that performance measurement involves quantifying the efficiency and effectiveness of any course of action. It implies that business performance measurement is concerned with evaluating how successful is a business organisation in realising its goals.

The reasons for measuring business performance are varied. According to Crowther (1996:5) performance measurement is essentially a comparative process whereby different aspects of performance are compared. This comparison, according to Crowther (1996:5), offers three benefits. First, it enables an organisation to compare the performance of one time period with another. Secondly, the business is able to compare the performance of one business, sector or

industry with another, and lastly it strategically assists the business to compare all alternative courses of action and their expected benefits, and then choose the best one. Tangen (2003:347) reveals that by measuring its performance, the business organisation is able to effectively improve its productivity, thereby increasing profitability and hence, competitiveness. In addition, Tangen (2003:347) further states that measuring business performance ensures that the business adopts a long-term focus and increases efficiency in its resource allocation as well as its operations. A study of the performance in United Kingdom (UK) hospitals by Basu *et al.*(2010:437) presents the results showing that performance measurement can help hospital administrators evaluate their practices, values, beliefs and assumptions so that they can identify shortfalls and take correct actions to improve future performances. The study further reveals that performance measurement ensures proper allocation and utilisation of resources. The results in Hass, Burnaby and Bierstaker's (2005:179) study show a variety of ways in which business performance measurement can help the business. These benefits are that measuring business performance assists the business to develop a strategic plan, to assess the extent to which the goals of the business are achieved, to monitor daily business operations in order to correct any deviations from set standards, and to evaluate employee performance.

Ogiogio (2005:2) maintain that performance measurement is necessary to ascertain the extent to which objectives have been achieved at different time periods. In summary, according to Ogiogio (2005:3), performance measurement aids institutions to measure, monitor and evaluate performance, to define and set benchmarks that help to implement performance improvement plans, to design performance tracking system, guide organisational growth and development, and to make accountability for results easy. Bititci, Turner, Begemann (2000:696) maintain that the role of dynamic performance measurement systems include, continuously monitoring the developments and changes in both the internal and external environments, acting as a review system to check whether the objectives and priorities are met and as an internal deployment system that deploys the revised objectives and priorities to prove business performance.

Robinson, Anumba, Carrillo and Al-Ghassani (2005:18) view business performance measurement as crucial for the survival and growth of a business organisation. The authors state that performance measurement ensures continuous improvement as the progress in goal

achievement is constantly performed. The authors maintain that if there are problems, these performance measurement systems provide mechanisms for implementing improvement efforts. From the views expressed by different authors about the performance measurement systems, it appears that they generally agree that businesses need to have them in place because this will help them to understand and improve their processes. It also helps to identify the cause of problems and to ensure that quality decisions are made, strategic plans are implemented and finally, that alignment between the business and the needs of the market is achieved.

Cocca and Alberti (2010:186) studied the performance measurement practices of SMEs in Italy. The purpose of the study was to develop a framework that SMEs can use to assess their performance measurement system so that they can improve their performance. The study argues that the necessary condition for a business organisation to perform well is being able to measure its performance effectively. The premise posited by Cocca and Alberti (2010:186) is that an organisation can only manage what it can measure or a business gets what it measures. What it implies is that the business can take corrective actions on any anomalies only after an evaluation or measurement of progress on given activities. In this way the business organisation is able to gain competitive advantages due to its ability to continuously react and adapt to the external environment (Cocca & Alberti 2010:186).

Gomes, Yasin and Lisboa (2004:511), who studied the performance measures and measurement in manufacturing organisations, argue that in order to achieve a competitive edge, businesses should be able to measure the different aspects of performance. They further argue that the absence of performance measurement in organisations will render benchmarking efforts, aimed at deploying the best manufacturing practices, useless. Making a similar claim, Chow and Van der Stede (2006:1) pointed out that performance measurement assists business organisations to translate strategy into desired behaviours and results, communicating expectations, monitoring progress, providing feedback, as well as motivating employees through performance-based rewards.

According to Crowther (1996:6), businesses need to evaluate their performance in order to evaluate and control the performance against the plan and to address the challenges being encountered. In addition, the author states that business needs to assess its performance in

order to account for its decisions and to help the business to provide feedback to its stakeholders who need to know how it is performing.

#### **4.2.2 Performance dimensions**

Crowther (1996:5) reveals that in order to evaluate its performance it is important that a business should determine what should be measured. In this regard, Antony and Bhattacharyya (2010:4) contend that the fundamental performance indicators that can guide a business to determine its success encompasses creativeness, innovativeness, productivity, efficiency, effectiveness, competitiveness, and profitability. The authors view creativeness as the ability to develop new products, and this is dependent on organisational climate, leadership style, organisational culture, resources and skills, and structure and systems in the organisation. Innovation is defined as introduction and implementation of new ideas by business employees and is influenced by innovation-friendly business strategy, business structure, management style, and management support.

Productivity, as defined by Antony and Bhattacharyya (2010:4), is the rate at which a given number of employees produce goods, and this takes place in labour productivity, material productivity, and total productivity. They furthermore define efficiency and effectiveness as the how good a process is in using time or energy and doing the right things at the right time. Whereas competitiveness indicates the ability of a business to meet the needs of stakeholders better than competitors do, profit represents the total income that accrues to the business minus expenditure and taxes (Antony & Bhattacharyya 2010:5). Crowther (1996:8) further examines three dimensions of business performance, namely the perspective dimension, the purpose dimension and the focus dimension. The perspective dimension is concerned with how successful is the business in meeting the needs of owners, shareholders, employees, environment, local and international communities, managers, and efficiency in resource allocation.

The purpose dimension covers the need for performance evaluation, and includes strategy formulation that reflects a business' ability to formulate long-term plans and develop strategies, strategy implementation, which indicates the success of the business to translate plans into action, and accountability that shows if the needs of stakeholders are met. The other aspects of the purpose performance dimension are shareholder value, compliance to

legal requirements, company reputation, retaining current customers and attracting new ones and defending the current business position from competition (Crowther 1996:9). The author further explains that the focus perspective incorporates the business' ability to have an internal view, for example, employee needs and external view that considers needs of outside stakeholders. It also includes how the business succeeds in adopting the long-term focus, past and future comparisons of performance.

Wadongo, Kambona, Odhuno and Othuon's (2010:5) study of key performance indicators in the Kenyan hospitality industry outline that competitiveness, financial performance, quality service, flexibility, resource utilisation, innovation, supplier performance, and community or environmental perspective are the key performance dimensions in Kenyan hotels. The results demonstrate that the key performance indicators, in descending order, are total revenue achieved, profit ratios, volume of sales, total operating costs, total sales, sales growth, customer satisfaction, quality of service and relative market share. A study of the performance measurement practices of hotels in Cyprus by Haktanir and Harris (2005:39) found that the main performance indicators were employee performance, customer satisfaction, financial performance and innovativeness.

Eusebio, Andreu and Belbeze's (2006:145) comparative study of measures of marketing performance in Spanish tourism and hospitality businesses with industrial organisations confirmed that consumer-based measures have a leading role in the evaluation of marketing effectiveness in these firms. Chan and Chan (2004:203) studied the key performance indicators for measuring construction success and concluded that time, cost, profit, health and safety, environmental performance and quality are the predominant criteria in measuring construction performance. In the context of universities' performance measurement, Chen, Wang and Yang's (2009:220) study shows that key performance indicators are student quality, financial resources, research results, student retention ratio, financial donation, social responsibility and teaching quality. Therefore, the most commonly used performance indicators, according to the above discussion, are customer satisfaction, financial performance, quality service, customer retention, sales growth, profits, market share, and innovativeness. The following section discusses the different types of performance measures.



### **4.3 PERFORMANCE MEASURES**

How to measure business performance remains a debatable subject in the business practitioner, consultancy and academic communities (Tang 2005:4; Pun & White 2005:51). However, several researchers tend to agree that organisations can generally use the objective and the subject measures to assess their success. (Chow & Van der Stede 2006:3; Panigyrakis & Theodoridis 2009:608). The objective, financial and quantitative measures are used interchangeably while qualitative and non-financial measures may be used to refer to subjective measures. Reijonen (2008:617) contends that objective assessment mostly encompasses comparing business performance with financial measures, while subjective measures refer to personal perceptions about business performance.

#### **4.3.1 Financial performance measures**

Business success has traditionally been assessed by financial measures, for example, return on investment, return on assets employed, return on sales, growth in revenues, cash flow, and market share or number of employees (Chenhall & Smith 2007:267; Jusoh, Ibrahim & Zainuddin 2008:121; Reijonen 2008:617). Verbeeten and Boons (2009:115) justify the reliance by business organisations on financial measures in assessing their performance. They point out that financial measures are subjected to internal controls which makes them reliable, they are also reported externally, hence are subject to public scrutiny, are relatively easy to understand and lastly, they combine the results of all the business activities into a single integrated financial measure. Pun and White (2005:50) concur and mention that financial measures are popularly utilised by organisations because they are easy to measure and manage. According to Jusoh and Parnell (2008:8) the advantages of financial measures are that they provide simple and straightforward results, are readily available, and they are easy to use and understand.

Critics of financial performance measures have made several arguments against the use of these measures to assess the performance of businesses. According to Chow and Van der Stede (2006:2) traditional financial measures of performance are flawed by the use of historical data, which is not reliable in assessing business performance. This means that the traditional financial measures cannot be reliably used because they rely on historical data to project the future business trends. The information they provide may be misleading because

past data could be outdated and hence, not useful as future business conditions might have changed. The use of historical data (Chow & Van der Stede 2006:2) tends to promote reactive rather than proactive management style, and this may create competitive disadvantages because in today's dynamic business environment businesses need proactive management that utilises up-to-date, accurate and relevant information. Neely (1999:206) criticises financial measures because as they are usually poorly defined, they are rarely integrated with one another, and neither are they aligned to business processes.

Atkinson and Brown (2001:128) argue that financial measures are associated with fundamental weaknesses such as being backward looking rather than being forward looking, lacking accuracy and stressing the short-term future of the organisation instead of the long-term future. Furthermore, other scholars such as Tang (2005:4) criticise the traditional financial measures because they are difficult to obtain and the businesses have a tendency to conceal some financial information that is useful in assessing their performance. Similarly, Chow and Van der Stede (2006:4) accuse financial performance indicators for being unable to support modern manufacturing systems and initiatives. Salameh, Abu-Serdaneh and Zuriekat (2009:3) argue that financial performance measures excessively focus on the short-term periods by using measures such as profits, rather than a long-term perspective that considers measures such as quality and customer satisfaction.

In criticising financial performance indicators, Jusoh *et al.* (2008:121) advise businesses not to over-rely on financial measures because doing so would lead a short-term focus, which will not create value to the business. Furthermore, Jusoh *et al.* (2008:121) posit that the traditional financial measures of performance tend to be obsolete and can easily be manipulated by managers. The authors proceed to state that financial indicators do not promote continuous improvements in the business, and relying on these backward looking performance indicators may weaken the business' ability to meet customer needs. Chenhall and Smith (2007:267) add that today's heightened pace in technological changes, shortened product life cycles and new innovations in production operations, render financial performance indicators not very useful. The other drawbacks of financial measures are that they are not easily accessible to researchers and the public, and due to their reliance on historical data financial indicators, do not reflect the true value of the business (Panigyrakis & Theodoridis 2009:608; Verbeeten & Boons 2009:115).

Literature also shows that it is very difficult to access financial information from SMEs as they are unwilling to provide information about their financial positions, and the quantitative financial data that they provide, is in most cases unreliable. Some SME owners/managers do not understand the financial performance measures such as the calculation of the profit earned by the business (Gibson & Cassar 2005:208). This indicates that financial measures that are provided by SMEs might be wrong and therefore, do not always indicate the actual value of the business and its performance. Financial performance measures alone are an insufficient measure of business performance, as they do not provide accurate, realistic and up-to-date management information to allow modern management techniques to be applied in order to achieve competitive advantages (Reijonen 2008:617). In summary, the traditional financial measures of business are characterised by deficiencies such as being backward looking, being outdated, being prone to manipulation, and not reflecting the true value of the business. Due to these shortcomings, the other business performance indicators, known as the non-financial performance measures, have been suggested to supplement the financial performance indicators.

#### **4.3.2 Non-financial performance measures**

Several scholars have recommended the use of the non-financial measures in measuring business performance because of the shortcomings of the traditional financial indicators. One of the proponents of the non-financial assessments of business performance, Dawes (1999:3), has encouraged the use of these non-financial measures because they are subjective in nature. This means that subjective views or perceptions of managers are required to evaluate the performance of their businesses compared to competitors, whereas with financial measures, they would be requested to provide actual figures. Dawes (1999:3) therefore argues that in subjective measures, managers are willing to provide their perceptions about business performance, even if the information required the performance of the organisation is sensitive or confidential.

Non-financial measures are measures of business performance that provide performance information in non-monetary terms, for example, market share, customer satisfaction, employee turnover and new product development (Verbeeten & Boons 2009:116). Cho and Van der Stede (2006:3) categorise the business' subjective measures of performance into variables, *inter alia* the respondents' perceptions of their business' performance compared to

that of other different organisations falling in other sectors, and respondents' perceptions of their business performance relative to similar organisations. This means that when evaluating business performance, managers provide their subjective evaluations and need to compare the business performance with other similar and different organisations. To do this Jusoh and Parnell (2008:8) suggest varied components of subjective measures. These components include areas of business performance such as ethical behavior, customer satisfaction and retention, employee motivation and retention, volume of sales, market share, quality of products/service, business image, delivery performance, process improvement, throughput time, quality, machine flexibility and inventory levels.

Jusoh and Parnell (2008:8), therefore, argue that the strength of non-financial measures lies in their ability to provide insight into business processes and outcomes and to be better predictors of future business performance than the historical financial measures. Robinson *et al.* (2005:15) have argued that non-financial measures are now a crucial aspect of business performance. They contend that not only is there growing interest from investors, customers and other stakeholders for non-financial information but also because there is a demand for changes in business reporting as a result of failure of several businesses, which solely relied on financial measures. Prieto and Revilla (2006:171) observe that although subjective measures are reliable, indicators of present and future business performance as the perceptions of managers are more reliable and truthful, as compared to the traditional financial measures.

To reinforce their argument, Prieto and Revilla (2006:171) illustrate the link between customer satisfaction, market share and profitability, as indicators of future financial business performance. They argue that customer satisfaction would mean that more customers would buy more products and make repeat purchases, and this improves a business' financial performance due to huge profit earnings. The business is then able to satisfy and motivate employees through competitive salaries. Employee satisfaction leads to efficiency and effectiveness and consequently, an increase in productivity. This enables a business organisation to cost effectively attract more employees and customers and to achieve a high level of reputation. More and new customers, key suppliers, creditors, distributors and others would be willing to partner a reputable business organisation due to low perceived risk. Non-financial performance measures are therefore, a precedent of the long-term financial returns (Prieto & Revilla 2006:171).

According to Chow and Van der Stede (2006:4), non-financial performance measures should be promoted because they cover several business performance aspects and those business performance activities that are not easily quantifiable. This indicates that the information provided by financial indicators does not adequately reflect a holistic picture about the business performance. In this line of thought, Verbeeten and Boons (2009:115) suggest that non-financial performance measures help provide better information on the strategic dimensions that are not accurately captured by traditional financial measures, and they also place emphasis on growth priorities of the business. The authors further explain that both the non-financial measures and the financial indicators need to supplement each other in evaluating business performance.

Rubio and Aragon (2009:178) also prefer non-financial to financial measures, as they argue that non-financial measures are more useful when samples of SMEs are used because SME owners or managers are willing to provide qualitative data rather than quantitative data that might not be available. Laitinen (2002:66), who states that in today's globally competitive environment, for businesses to effectively compete, they need to accurately measure their performance in order to improve on the shortcomings also supports the use of these non-financial measures of business performance. The author therefore, maintains that subjective business performance measures are more effective than financial measures to achieve this objective.

Despite gaining support from several scholars for being effective business performance measures, there exists some skepticism on whether non-financial measures can be accurate measures (Tapinos *et al.* 2005:374). Tang (2005:4) accuses these subjective measures for lacking objectivity and accuracy. Other scholars such as Ketokivi and Schroeder (2004:251) argue that the use of non-traditional measures may be problematic because in using perceptions of respondents, some may not be honest in providing information about the business' performance. The authors further argue that the subjective responses may not reflect the actual situation and the respondents may not interpret some concepts in the questionnaire in a similar, consistent and comparable manner.

In addition, Verbeeten and Boons (2009:116) indicate that the weakness of subjective measures is that some of them are so complex the respondents may not understand them;

therefore, these measures fail to provide accurate information about the business' performance. Pun and White (2005:51) add that unlike financial indicators, non-financial measures are difficult to measure. This is because different subjective views provided by different managers about the performance of the same business may cause problems in evaluating the business' performance.

In summary, due to the dynamic business environment, several scholars and practitioners now prefer the use of subjective business performance measures to the financial indicators. Laitinen (2002:67) declared that these non-financial measures are going to be a dominant force in future business performance evaluation.

Several empirical studies provide evidence showing that businesses are increasingly utilising non-financial measures to assess their performance (Gomes *et al.* 2004:522). On the one hand, some organisations are utilising non-financial measures (Ketokivi & Schroeder 2004:247; Reijonen 2008: 616; Verbeeten & Boons 2009:113), on the other hand others are employing both financial and non-financial assessments (Jusoh *et al.* 2008:119; Salameh *et al.* 2009:1).

The results of a study by Bergeron, Raymond and Rivard (2003:1009) indicate an increase in the use of subjective performance of Canadian businesses. The reason for their popularity in this country is that they are the most appropriate performance measures in the small business sector, whose financial data may not be available and reliable. Tapinos' *et al.* (2005:370) study on the impact of performance measurement in strategic planning process also emphasised the appropriateness of subjective business performance measures. A study by Reijonen (2008:626) on the aims of small business owners, and how they relate to business performance in North and Eastern Finland, also supports the use of these subjective measures. The results confirmed the importance of subjective measures of business success, especially measures of satisfaction of customers, job satisfaction and the quality of product. Furthermore, Ketokivi and Schroeder (2004:247) have also observed that perceptual measures of business performance are mostly used in the business performance measurement literature than in the general management and strategy literature.

A study of performance measures in Dutch firms by Verbeeten and Boons (2009:113) found that non-financial measures such as innovation, customer orientation, employee measures,

and process measures are used to measure business performance. Using survey data from manufacturing managers of 128 business organisations, Cho and Van der Stede (2006:5) underscore the non-financial or subjective measures growing in popularity. The results indicate that non-financial/subjective measures were utilised by 51 percent of the sampled businesses, compared to the 49 percent who used financial measures. This is a clear indication that non-financial/subjective measures are now highly valued by business organisations in measuring their performance. Based on similar grounds, a study of the performance measures in the Malaysian manufactures by Jusoh *et al.* (2008:119) confirms an increase in the usage of non-financial measures, especially indicators, namely the internal business process improvement, innovation and learning outcomes.

There is also a lot of evidence to show that businesses now combine both the financial and the perceptual measures to evaluate their performance. For example, the results in Prieto and Revilla's (2006:166) study of Spanish organisations found that business performance was assessed in both financial and non-financial terms. Similarly, a survey of business performance measurement practices in leading UK construction engineering organisations by Robinson *et al.* (2005:13) showed that whereas in the past financial measures were predominant in business performance, a significant number of organisations are now using a wide range of both financial and non-financial measures to evaluate business performance. Dawe's (199:65) study to investigate the relationship between subjective and objective business performance measures in market orientation in 180 South Australian organisations also reveals results showing a strong correlation between the two measures.

The results further indicate that subjective measures such as customer satisfaction and quality products can positively influence the product sales, market share and profitability of the business. This therefore means that both measures are regarded as equally useful in business performance measurement. Salameh *et al.* (2009:6) further reinforces this argument in a study of Jordanian manufacturing organisations. The results indicate that even though companies are still depending on financial information as the main source to evaluate their business success, non-financial measures, especially operational, quality and customer performance categories, are significantly used to assess business performance. It is, therefore, evident that financial measures alone are not sufficient for evaluating today's businesses that operate in dynamic, complex and competitive environments.

Therefore, Laitinen (2002:68) underscores the need to have an integrated performance measurement that includes both the financial and non-financial measures. Gomes *et al.* (2004:512) maintain a similar stance and state that an integrated measurement system that aligns both the financial and non-financial measures should be adopted in order to effectively measure business performance. In the opinion of Panigyrakis and Theodoridis (2009:608), business performance is a multifaceted subject that requires a holistic rather than a piecemeal approach so that all the aspects of business performance are measured. An integrated performance measurement system that combines both financial and non-financial measures is necessary to provide a balanced and broader view of the business performance (Salameh *et al.* 2009:4).

For an integrated measurement system to be effective, it must be comprehensive and should be horizontally and vertically integrated (Cocca & Alberti 2010:188). Jusoh *et al.* (2008:121) believe that an integrated measurement system helps a business to measure its performance fully, and because of this, continuous improvements can be made to the way the business performs. Meanwhile, Salameh *et al.* (2009:4) highlight that there is a cause-and-effect relationship between financial and non-financial performance measures. The implication is that non-financial measures are regarded as leading measures that are used to predict future financial performance measures, which are also treated as lagging measures.

This view is similar to an opinion by Prieto and Revilla (2006:171) who demonstrated that non-financial measures are a precedent to financial measures of business performance. In other words non-financial measures, for example, quality management, employee satisfaction and customer satisfaction, may precede financial measures by enhancing more sales, increasing market share, and hence an increasing profits. Therefore, non-financial measures should not be treated as substitutes to financial measures but rather as a supplement, and in that vein, an integrated performance measurement system that combines both financial and non-financial measures is needed (Salameh *et al.* 2009:4).

#### **4.4 PERFORMANCE MEASUREMENT FRAMEWORKS**

As a result of shortcomings of the traditional performance measures, several integrated rather piecemeal measurement frameworks have been proposed and developed by different



researchers to help business organisations design and implement performance measurement systems (Pun & White 2005:53).

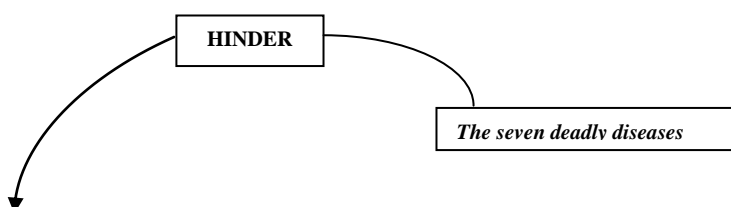
Performance measurement frameworks help to identify different dimensions of performance management as well as the relationships among these dimensions (Rouse & Putterill 2003:792). As Pun and White (2005:50) have observed, there are two groups of performance measurement frameworks, namely those that emphasise self-assessment such as the Deming Management Method, the Baldrige Award, the European Foundation for Quality Management Business Excellence Model, and others that support business processes and help manufacturing businesses to select and implement performance measures.

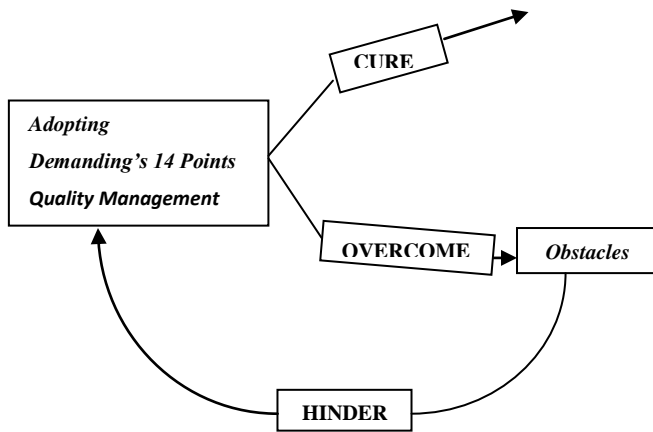
Rungtusanatham, Ogden and Wu (2003: 919) observe that the Deming management method encompasses the breadth of Deming's total management approach. According to the Deming management method an improvement in quality will enhance an increased productivity and consequently, an improvement in business competitiveness (Kruger 2001:147). Kruger (2001:147) further states that the Deming management approach is summarised in 14 equally weighted points that each applicant need to address. The 14 points encompass the following categories:

- Utilisation of innovation activities and long term planning in order to improve the quality of products and services
- To adopt a new business philosophy of quality attainment
- Focussing on improvement of the business' work processes rather than reliance of mass production of products and services
- Adopting a practice of using price to reflect the quality of the item
- Continuously improving production systems in order to reduce waste and improve the quality of procurement, engineering, transportation, sales, distribution methods, accounting and customer service activities
- Implementing modern methods of training on the job in order to adhere to the quality standards
- Utilising modern supervision methods that include listening to worker concerns, helping, leading and coaching the worker

- Driving out fear in workers by instituting quality culture where workers are free to contribute ideas that help the business organisation to achieve quality objectives
- Breaking down barriers between employees by encouraging open communication between different functions of the organisation, as well as team work approach that may enable the business to meet customer needs
- Establishing realistic goals and clearly formulating the means to achieve the goals
- Relying on qualitative quality requirements rather than the quantitative ones, as quantitative standards are too structured and restrictive to promote quality improvement
- Eliminating obstacles to productivity such as wrong supervision, faulty equipment, poor quality of raw materials and shortage of resources
- Educating and training of employees to enhance efficiency and effectiveness in production systems, which will ensure continuous improvement in products/services quality
- Ensuring teamwork in the organisation in order to achieve business transformation.

Rungtusanatham *et al.* (2003:919) have noted that achieving these 14 points improves the business' competitiveness due to its adherence to quality standards. However, the authors state that seven deadly diseases impede the performance of the business and some obstacles that constrain the achievement of quality service/products in the organisation. The seven diseases are the lack of planning, emphasis on short-term profits, poor monitoring and evaluation of business performance, high staff turnover, overreliance on the traditional objective performance indicators, increased production costs and finally, exorbitant warranty costs. The obstacles include the hope for instant success, assuming that the use of technology will automatically transform the business, and assuming that the mere adoption of quality controls translates to success. The 14 points in the Deming management method should provide a cure to the diseases and obstacles to quality achievement (Rungtusanatham *et al.* 2003:919). Figure 4.1 further illustrates this.



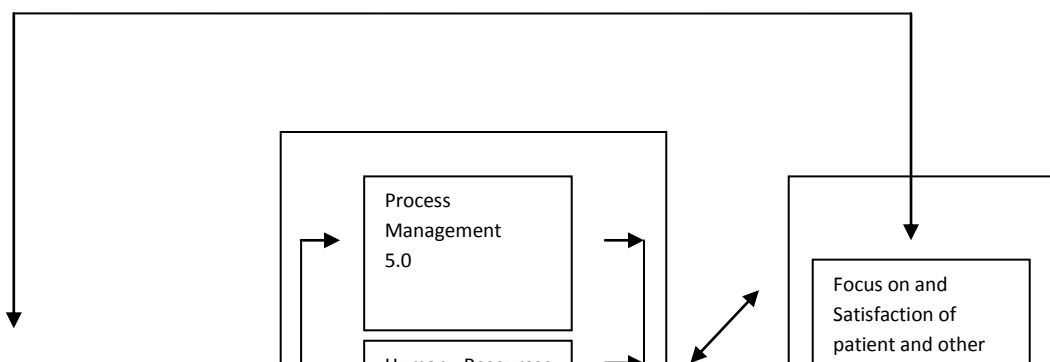


**Figure 4.1 The Deming quality management**

Source: Rungtusanathan *et al.* (2003:919)

While the Deming management method was supported for providing a useful framework in quality attainment in business organisations through robust statistical methods, it is not without shortcomings. Kruger (2001:150) criticises the framework for not considering some total quality management aspects, for example ignoring the vital contribution that an individual makes to the organisation and lack of emphasis on how to motivate an individual employee to be committed to quality achievement.

The other business performance model that is widely recommended is the Criteria for Performance Excellence, which is known as the Baldrige criteria (Jayamaha, Grigg & Mann 2008:477). The model helps to promote quality awareness, improve the competitiveness of business organisations, facilitate organisational self-assessment, and provide feedback on performance. Different categories of the model are further subdivided into specific items that focus on major performance requirements. Points are allocated to each item by using a scoring guideline based on the level of evidence of performance (Jayamaha *et al.*, 2008:477). Figure 4.2 illustrates these components.



#### **Figure 4.2 Baldrige model**

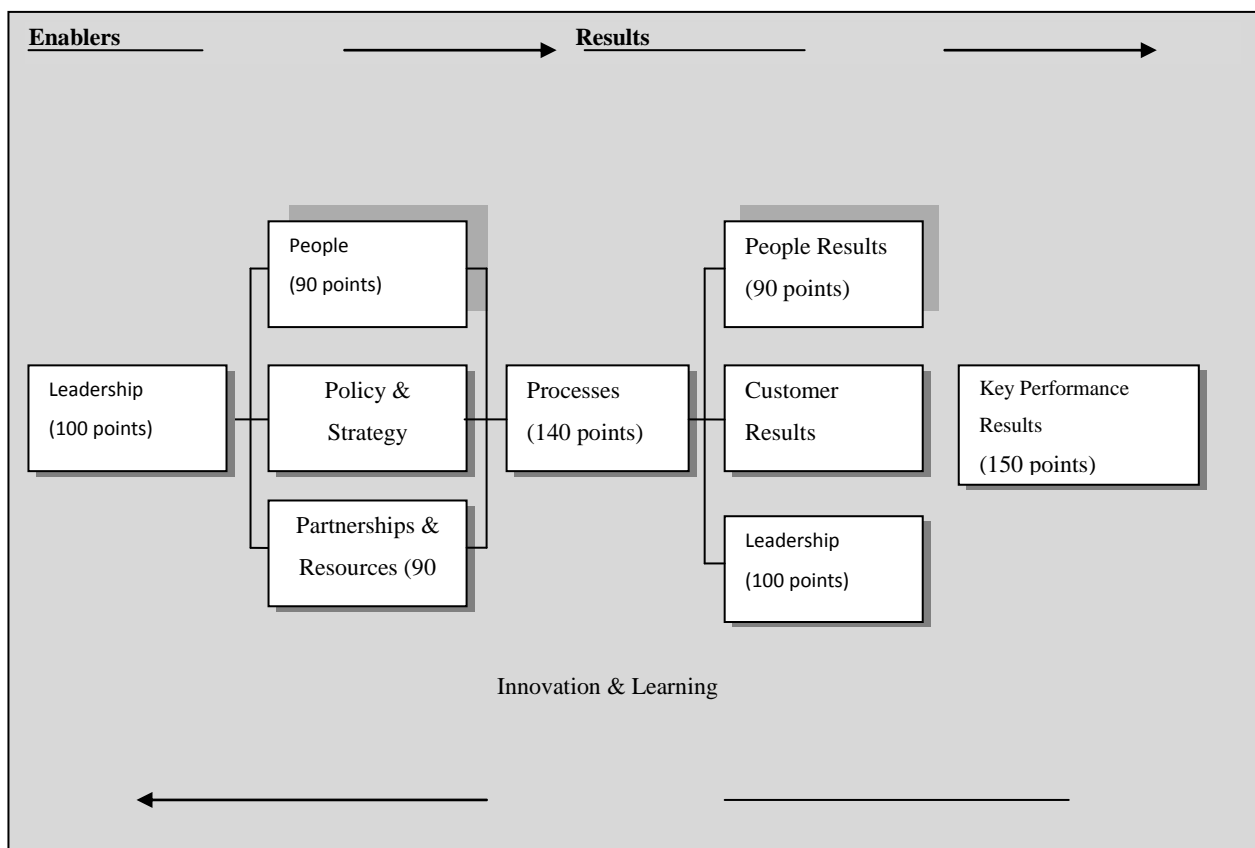
Source: Jayamaha *et al.* (2008:477)

The figure shows that the leadership component is the driver of the system that includes information and analysis, strategic quality planning, human resource development and management, and management of process quality. The measure of results are quality and operational results, and the goal is customer focus and satisfaction. This means that leadership drives the business to improve its performance in meeting stakeholder needs through the business systems, namely process management, human resources management, strategic planning, and information systems. Meyer and Collier (2001:403) also confirm the importance this framework in business measuring performance.

The success of the Deming management model in the USA and the Baldrige Criteria in Japan motivated the inception of the European Foundation for Quality Management(EFQM) excellence model in 1988(Hides, Davies & Jackson 2004:194). Wongarassamme, Gardiner and Simmons (2003:14) mention that the purpose of the EFQM excellence model is to provide a guideline for organisations to assess their performance in order to achieve business excellence through continuous improvement and deployment of processes. In that vein, Jackson (1999:244) and Eskildsen, Kristensen and Juhl (2002:23) illustrate that the EFQM

model comprises of nine criteria and the relative importance of each criteria is shown by the weight attached to it.

According to Wongarassamme *et al.* (2003:17) five of the criteria encompass aspects that an organisation can manipulate, called ‘enablers’, for example leadership, people, policy and strategy, resources, and processes, while the other four comprise of issues that an organisation will achieve called ‘results’ and are represented by people satisfaction, customer satisfaction, impact on society and business results. To help organisations with self-assessment, the RADAR (results, approach, deployment, assessment and review) logic was developed (Hides *et al.* 2004:194). Figure 4.3 illustrates the EFQM Model.



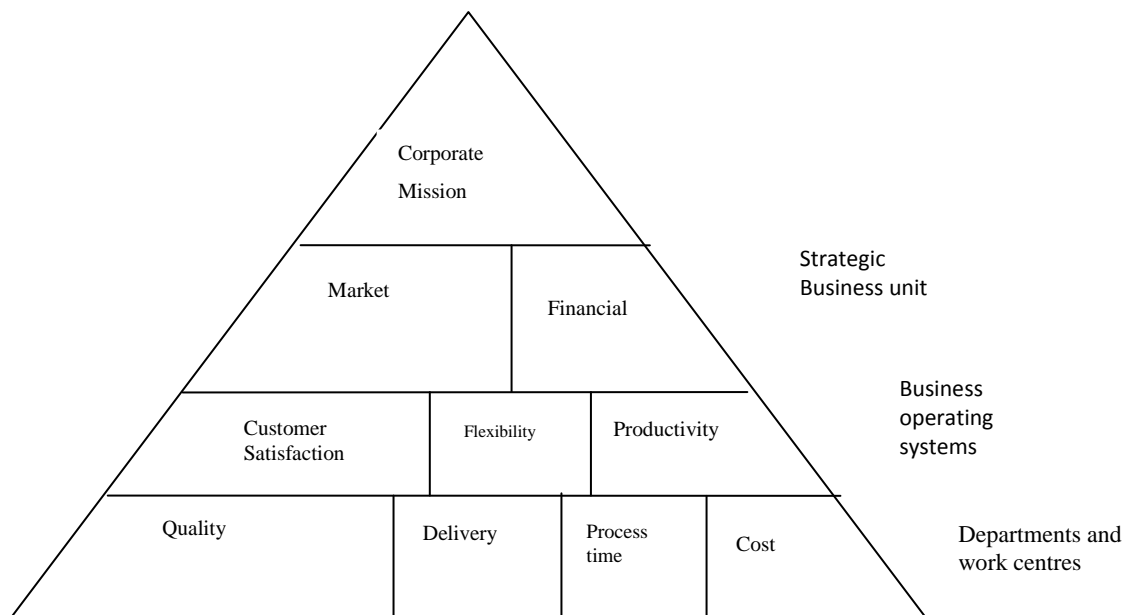
**Figure 4.3 European Foundation for Quality Management (EFQM) model**

Source: Hides *et al.* (2004:194)

Figure 4.3 shows that managers, as leaders, need to formulate the organisation’s mission, values, vision and strategic direction and direct people and other resources as well as improving business processes. This will enable the business to achieve employee satisfaction, customer satisfaction and society satisfaction and ultimately, the general business

performance and competitiveness. In addition, it is also evident that the customer satisfaction criterion is the most important component of the EFQM. It indicates that in order to achieve business excellence, an organisation must focus on meeting needs of customers.

Kim, Kumar and Murphy (2010:686) encouraged the use of the EFQM model for its emphasis on organisational self-assessment. Self-assessment aids organisations to identify their strengths and shortcomings that need improvement, and to gain more objective and holistic views on their performance relative to other businesses (Kim *et al.* 2010:686). Similar sentiments are also expressed by Jackson (1999:244), who explored the possible reasons why the UK government commended the EFQM excellence model as the framework for delivering governance in the new National Health Service (NHS), and found that some of the reasons were due to the fact that the EFQM model is based on principles of self-assessment, continuous improvement, learning and innovation, teamwork, and a culture of customer orientation. A Strategic Measurement Analysis and Reporting Technique (SMART) also described as the Performance Pyramid was developed by Wan Laboratories with the objective of setting up a performance measurement system to enhance organisational success (Pun & White 2005:54). The performance pyramid is illustrated diagrammatically in Figure 4.4

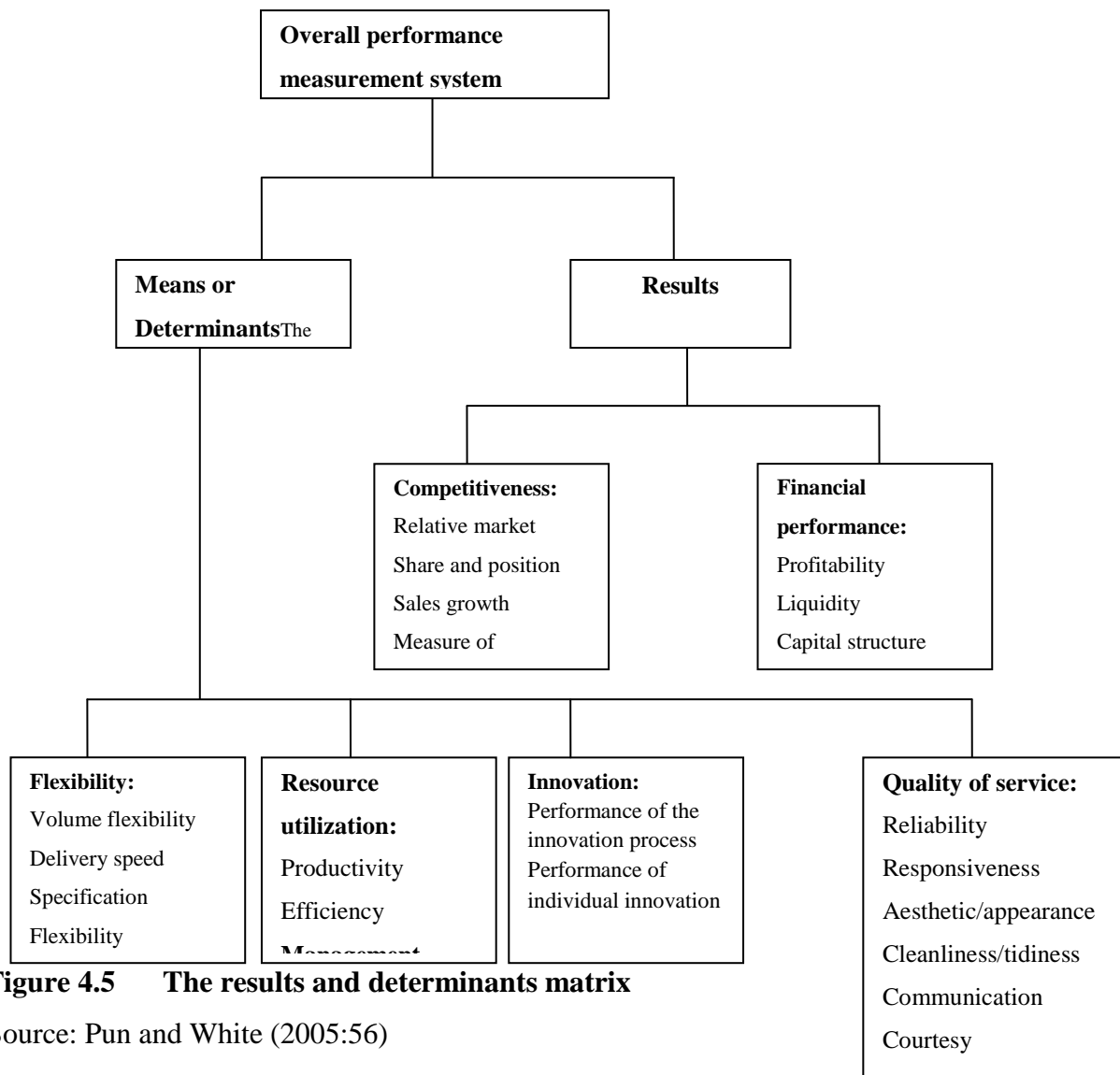


**Figure 4.4 Performance pyramid**

Source: Pun and White (2005:54)

Figure 4.4 depicts that the performance pyramid is divided into four performance levels. At the top is the corporate mission where top management sets the strategic direction of the

organisation and support strategic business units by providing resources. The second level consists of the strategic business units whose objectives are defined in terms of market and finance. Third are the business operating systems that formulate objectives in the customer satisfaction, flexibility and productivity perspectives. The bottom level of the performance pyramid covers the departments and work centres whose focus areas are quality, delivery, process time and cost and these four operational measures are of paramount importance because they enable an organisation to achieve its goals (Pun & White 2005:54). Pun and White (2005:56) further indicate that Results and Determinants Matrix measurement framework comprises of two broad categories. They include, end results and means or determinants. The end results are further subdivided into competitiveness and financial performance while means are categorized into flexibility, resource utilization, innovation and quality of service. Figure 4.5 shows the core elements of this model.

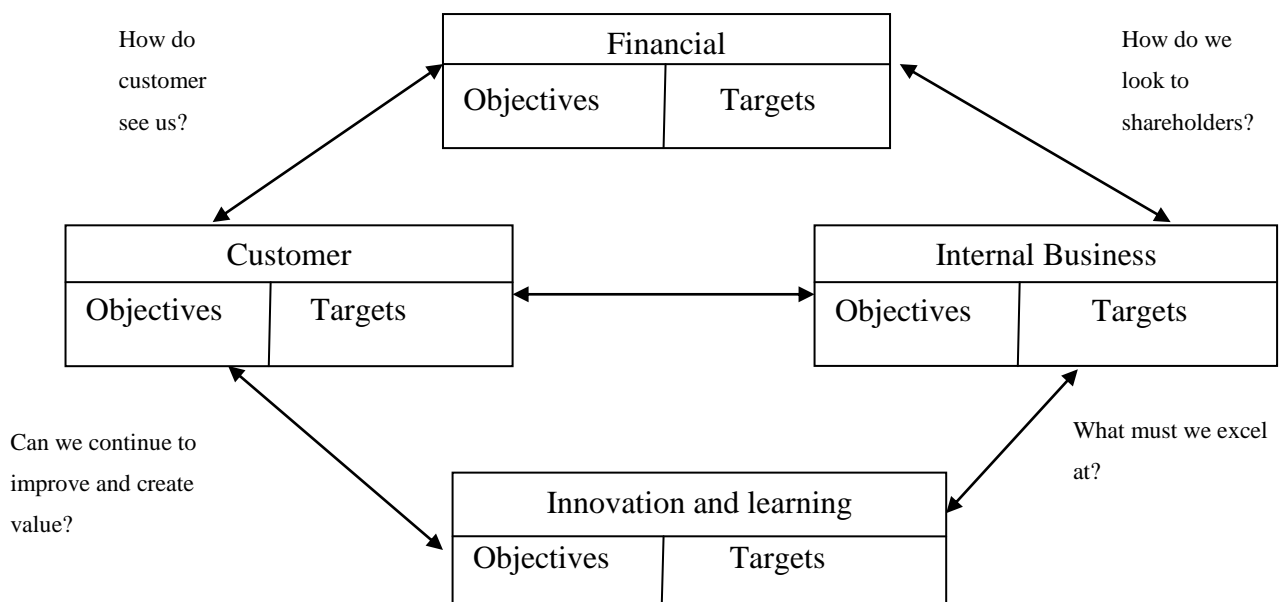


**Figure 4.5 The results and determinants matrix**

Source: Pun and White (2005:56)

As Figure 4.5 shows, to improve organisational performance and competitiveness, the business need to be flexible in delivery, volume and specification. Secondly, resources should be utilised productively and efficiently. Thirdly, innovation within the organisation must be encouraged. Lastly, the quality of service needs to be improved by being reliable and responsive to the needs of customers.

Kaplan and Norton presented the Balanced Scorecard model in 1992 to supplement the traditional financial measures, which are the lagging indicators with the non-financial measures, popularly known as the lead indicators of future performance, both measures are necessary to give information to every part of the organisation. Wongrassamee *et al.* (2003:18) opine that three additional measurement categories that highlight the non-financial aspects were introduced to measure a business' future performance as the traditional financial indicators could merely measure past performance. Therefore, Rouse and Putterill (2003:793) indicate that the balanced scorecard looks at the holistic view of the business by simultaneously considering four perspectives, namely financial measures, customer perspective, internal business processes, and innovation and learning perspectives. Figure 4.6 below diagrammatically shows the framework.



**Figure 4.6 The Balanced Scorecard model**

Source:Rouse and Putterill (2003:793)

As indicated in Figure 4.6, the financial perspective measures indicate how successful the business is in meeting the needs of shareholders that is measured by return on capital,



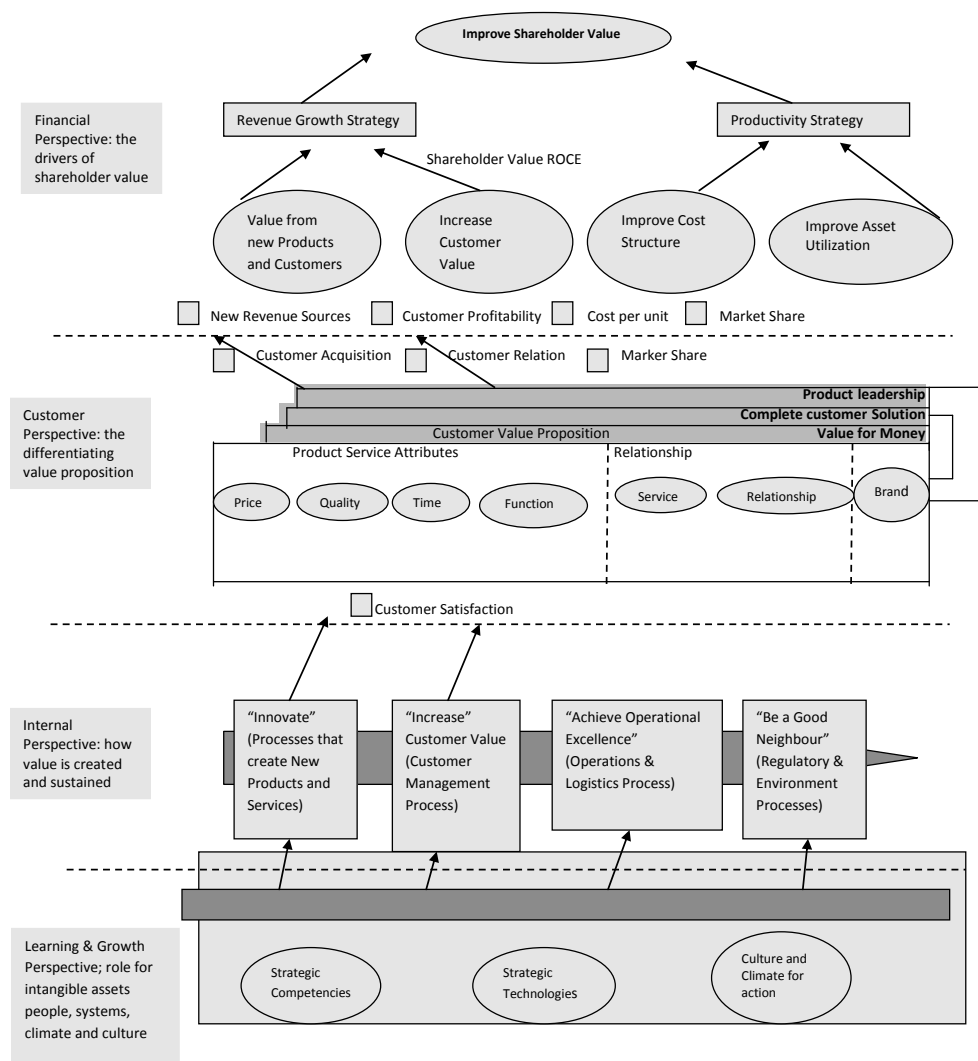
improved shareholder value and asset utilisation. The customer perspective measures the extent to which the business satisfies customer needs, and is indicated by product or service attribute, customer relationships and organisational image and reputation that attracts new and retains more customers. Whereas, the internal business processes show the areas that an organisation excels, for example, developing new products, efficient product delivery and after sales services; the learning and growth perspective shows how well a business is able to sustain its ability to change and improve through employee capabilities, information system capabilities, employee motivation and empowerment, as well as business alignment (Lipe & Salterio 2000:286).

Chan and Chan (2004:206) reveal that the broader focus of the balanced scorecard brings in a longer term, strategic dimension to the business by not merely looking at short term financial performance, but also at how the business is achieving the results, while at the same time evaluating its performance. They further assert that the balanced view of all the performance categories provides a concise yet broad picture about the success of the business in achieving its mission and goals. The balanced scorecard, briefly, provides a complete picture of business performance, ties performance measures to employee rewards, motivates employees, clarifies and translates vision into strategy, aligns strategic initiatives and enhances feedback and learning (Chan & Chan 2004:206).

The balanced scorecard is criticised for excluding people, suppliers, regulators and competitors, not incorporating environmental, community and social issues and lack of empirical evidence to support the claim by the balanced scorecard that its implementation results in improved business performance. For example, Pun and White (2005:65) argue that the balanced score card is flawed by the lack of integration between the top level, strategic scorecard and operational level measures, which makes strategy execution problematic, its failure to clarify the causality links between the four suggested categories (customer, financial, internal business process, and innovation and learning). The causal relationship between the four components, therefore, remains ambiguous and difficult to prove (Pun & White 2005:65).

A survey based on the practical experiences of UK construction engineering organisations by Robinson *et al.* (2005:13) reveals a significant portion of businesses that are now using the balanced scorecard in measuring their performances and for continuous improvement.

Neely, Marr, Roos, Pike and Gupta (2003:130) have observed that having realised the weaknesses of the balanced scorecard approach, Kaplan and Norton (2000:54) further extended it to strategy map performance framework. Despite following the logic of the balanced scorecard, the strategy map offers a different view of the four perspectives by reflecting the assumed causal relationships between the objectives on the scorecard as diagrammatically depicted in Figure 4.7.



**Figure 4.7 The strategy map**

Source: Kaplan and Norton (2000:54).

As depicted in Figure 4.7, the strategy map tries to illustrate the causality links between the financial, customer, internal processes, and learning and growth perspectives of business performance. First, having a motivated and competent workforce will create and sustain value through the creation of new products and services due to the innovativeness of the workforce. The introduction of new products will improve the business' ability to offer quality and differentiated products and services at competitive prices reliably, which results in customer satisfaction and retention. Secondly, the utilisation of strategic technologies in the form of customer management processes and operations and logistics processes, increase customer value and operational efficiency. The business is then able to build long-term customer relationships through superior brand offering and an improved organisational image. Shareholder value is further improved through improved cost structure, increased productivity and enlarged market share. Thirdly, the implementation of a supportive organisational culture and an enabling organisational climate for action enables the organisation to boost the morale of employees.

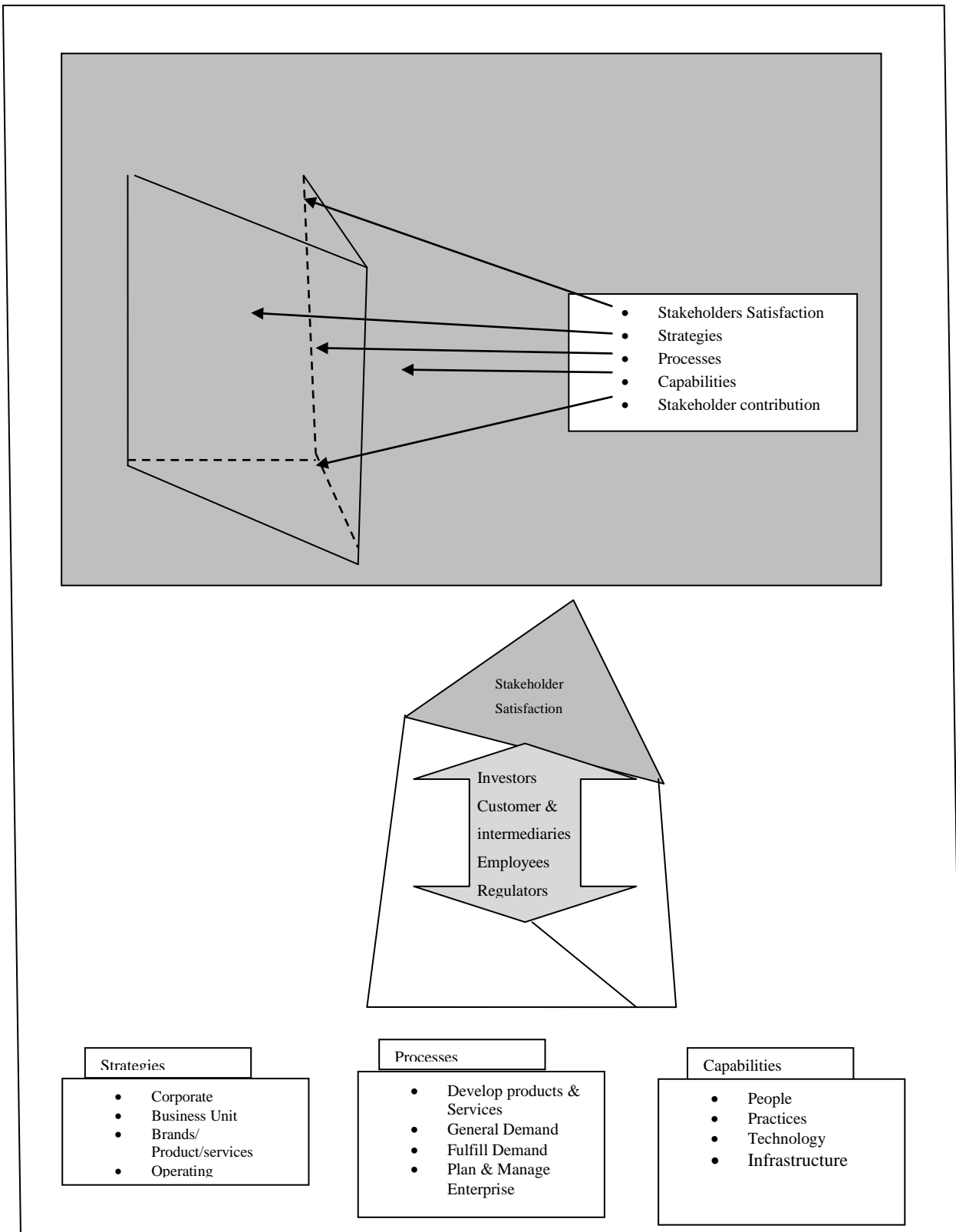
Therefore, the main strength of the strategic map is its ability to show the causal links between the four categories however, it fails to consider today's complex organisations, which require more than these four perspectives to measure their performance. Therefore, there is need to also address the needs of more stakeholders other than those of customers and shareholders (Neely *et al.* 2003:130).

To overcome the shortcomings of the balance scorecard, Neely, Adams and Crowe (2001:6) outline a better performance framework, which is known as the Performance Prism framework, which takes a broader view of stakeholders. The framework is organised in five distinct but interlinked components, namely stakeholder satisfaction, strategies, processes, capabilities, and stakeholder contributions (Rouse & Putterill 2003:793). The first component, stakeholder satisfaction, is concerned with the identification of the needs of the stakeholders such as investors, customers, intermediaries, employees, regulators, communities and suppliers. The second component focusses on strategies that can be formulated and implemented to ensure the needs of stakeholders are satisfied. The third component is the processes perspective, which concentrates on businesses processes that need to be put in place to ensure success in strategy implementation.

The fourth one is the capabilities which consist of people, practices, technology and infrastructure that when put together may make it possible for the organisation to execute or improve processes. The fifth component is the stakeholder contribution and it is concerned with the contribution of stakeholders to the success of the organisation. For example, employee's contribution through their innovativeness may result in the introduction of new products, thereby improving the business' competitiveness. (Neely *et al.* 2001:7). In summary, according to Neely *et al.* (2003:131), the five facets of the Performance Prism framework encourage businesses to address the following aspects:

- Identifying the key stakeholders and their needs
- The formulation of strategies to satisfy needs of stakeholders
- The current processes available to implement the strategy
- The capabilities that are needed to execute the proceeds
- What the business expects in return from its stakeholders.

Addressing these questions will aid businesses to build comprehensive and successful performance measurement frameworks (Neely *et al.* 2003:131) as depicted in Figure 4.8.

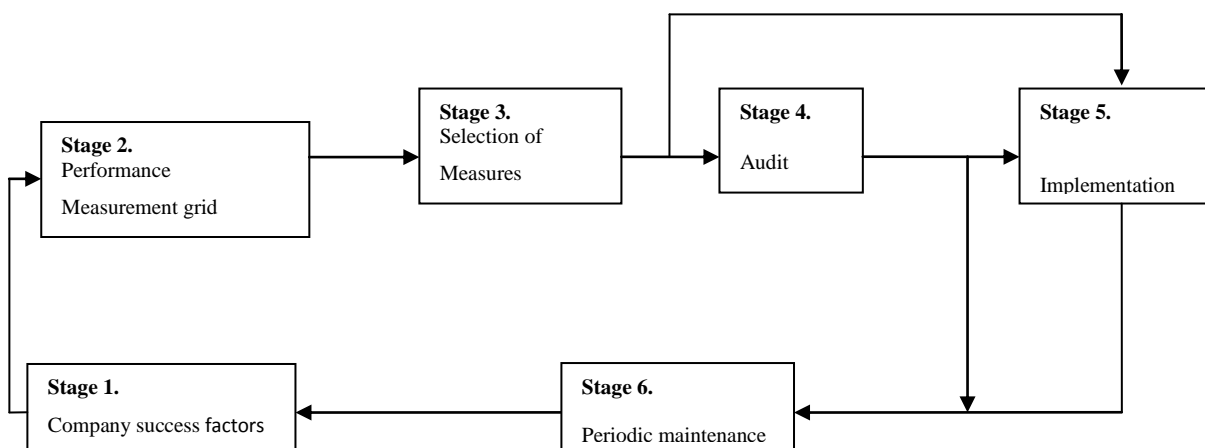


**Figure 4.8 Performance Measurement framework**

Source: Neely *et al.* (2003:131)

It can be noted from Figure 4.8 that in order to satisfy the needs of stakeholders, businesses need to implement corporate, business unit, brands or products and operating strategies, develop processes such as demand generation and new product development as well as utilising capabilities through the use of right people, practices, technology and infrastructure. In addition, stakeholders such as investors, customers and intermediaries, employees, regulators and communities and suppliers can also respectively contribute to the success of the business through financial support, purchasing products, innovation and hard work, friendly and enabling regulations and consistent and reliable supply of inputs. According to Rouse and Putterill (2003:793), the main strength of the Performance Prism framework is that it clearly shows the causal link between stakeholder and the four facets of strategies, processes, capabilities and stakeholder contribution and takes a broader view of stakeholders.

Pun and White (2005:62) describe a six-stage integrated performance framework that addresses both financial and non-financial measures. The first stage concentrates on business success factors that include the manufacturing strategy and the needs of customers. The second stage develops a performance measurement grid that matches the six competitive priorities, namely quality, cost, flexibility, time, delivery and future growth to strategic requirements identified in stage one. The selection of appropriate measures and the auditing of the business' existing performance measurement system are carried out in stages three and four respectively. While the implementation of new measures to close the identified gaps is performed in stage four, periodic maintenance in order to review the business' performance measurement system is carried out in stage six. Figure 4.9 depicts the six stages of the integrated performance measurement framework.



**Figure 4.9 Theintegrated performance measurement framework**

Source: Pun and White (2005:62)

While the six-stage integrated performance measurement framework has been criticised for its lack of a structured process for overall development, it nonetheless provides a comprehensive approach that allows it to define the dimensions of performance and provides a mechanism to design the measures of performance (Pun & White 2005:66).

Neely *et al.* (2003:129) have argued that first generation and second-generation measurement systems such as the balanced scorecard and the performance prism respectively, have weaknesses that need to be addressed. For example, the first generation frameworks failure to consider several stakeholders and the inability of second generation models to link the business-oriented and financially oriented management and measurement methodologies. Therefore, Neely *et al.* (2003:132) propose the development of the third generation frameworks that seek more clarity about the linkages between financial and non-financial measures of business performance and the subsequent effects on shareholder value.

Neely *et al.* (2003:132) suggested three criteria for these models to be effective in measuring organisational performance. First, the models need to be appropriate and adequate to measure the modern dynamic organisations that need measurement frameworks that evolve with change. Secondly, the frameworks should provide adequate information since organisations are now operating in a knowledge era where communication with stakeholders cannot be overemphasised and where information is crucial for strategy formulation and implementation. Thirdly, if the performance measurement frameworks are to be of value to organisations, they need to be practical and should be fully integrated with other business processes, for example, planning, budgeting, reporting and reviews of performance (Neely *et al.* 2003:134).

The preceding sections have discussed the business performance measurement indicators and various performance frameworks. The following section focusses on the review of previous studies on the relationship between strategic planning and business performance.

#### **4.5 STRATEGIC PLANNING AND BUSINESS PERFORMANCE**

Even though numerous studies were conducted to ascertain the effect of strategic planning on business performance, evidence of its effect has been mixed (Andersen 2000:184, Falshaw *et al.* 2006:9). This has been attributed to conflicting views among strategic planning scholars

regarding the effects of strategic planning on business performance. Advocates of non-formalised strategic planning argue that strategic planning has no performance benefit to SME business due to its tendency to cause rigidity in a business organisation, which minimises its ability to be adaptive to the dynamic and competitive environment (Mintzberg 1994:109; Saffu & Manu 2003:12).

Conversely, advocates of formalised strategic planning indicate that several performance benefits are attributed to strategic planning (Desai 2000:685; Kraus *et al.* 2006:334). A major claim of such an argument is that not only does strategic planning create a viable link between a business organisation's objectives, goals and resources, but it also contributes to performance by generating relevant information, creating a better understanding of the business environment and by reducing uncertainty. McIlquham-Schmidt (2010:3) argues to suggest that strategic planning results in a better match between the external environment variables and the changing internal organisational conditions of the business.

According to McIlquham-Schmidt (2010:3), a match is necessary to ensure a continuous realignment between a business' objectives and strategies with the environmental changes and this will ultimately improve business performance. In a related view, Hughes *et al.* (2008:1378) note that strategic planning enables businesses to be initiative, to take some risks and capitalise on identified market opportunities, resulting in an increased level of intelligence generation and responsiveness and hence, competitiveness. Furthermore, Hughes *et al.* (2008:1379) mention that strategic planning contributes to improved business performance by generating useful information, promoting long-range thinking, generating new ideas, and assisting the business to identify and evaluate strategic alternatives.

French *et al.* (2004:766) agree that strategic planning is vital to small businesses as it ensures an efficient allocation and control of resources and this results in the success and sustainability of SME business. This view is also reflected by McIlquham-Schmidt (2010:3) who presented both the process and personal advantages of strategic planning as follows:

Process advantages:

- Ensuring the identification and capitalisation of market opportunities
- Providing guidelines on the strategic plan implementation, evaluation, and control



- Cushioning the business from effects of adverse environment conditions and changes
- Helping the business to align its business decisions and objectives
- Helping to integrate all business functions
- Aiding the business in the prioritisation of activities
- Improving the general competitiveness of the business over competitors.

Personal benefits:

- Facilitating teamwork among personnel within the business organisation
- Helping to motivate employees by providing a basis to clarify responsibilities of each employee
- Encouraging employees to have future focus
- Motivating employees to solve problems and approach opportunities in a collective, integrated and cooperative manner
- Stimulating desire for change
- Enforcing employee discipline and formality to the management of the business.

Beaver (2007:15) also contends that besides improving business performance through performance assessment, strategic planning also facilitates improvements in business processes, and innovation activities, which consequently increase the business' profitability. Wilson and Eilertsen (2010:14) assessed the role of strategic planning during the 2009 financial crisis by asking line managers and staff professionals what they perceived as key advantages of utilising strategic planning during the crisis. Among the key findings, the respondents indicated that:

- Businesses that utilised strategic planning were better able to pursue growth strategies as compared to non-planners
- Organisations that used strategic planning during the crisis are more confident about chances to grow
- Regular strategic planners were more prepared for the economic crisis
- Strategic planners have better chances to earn more revenues.

A similar study by Phillips (2000:457) of the strategic planning and finance interface in UK hotels found the benefits of strategic planning at hotel unit level to be:

- Providing greater control over the hotels' future
- Setting priorities for the hotel future
- Encouraging a long term focus
- Identification of strengths and weaknesses of hotels
- Improving the deployment of scarce resources in hotels
- Providing a better understanding of competitors
- Improving internal communication, co-ordination, synergy and teamwork in hotels
- Providing a better understanding of the external environment.

According to Beaver (2007:16), strategic thinking and planning are a prerequisite for business success because of three reasons. First, strategic planners are able to cope with dynamic markets. Secondly, businesses that use strategic planning can strategically position themselves to fight competition and to have a deep knowledge of customer needs. Thirdly, utilising strategic planning helps a business to have a focus, cohesion, clear vision and a common purpose that results in business success. Brinckmann, Grichnik and Kapsa (2010:27) synthesise various advantages of strategic planning. The authors argue that strategic planning allows more rapid decision making since information gaps can be anticipated and closed, assumptions can be verified without expending the resources, resource flows can be optimised, and bottlenecks can be averted. Brinckmann *et al.* (2010:27) proceed to point out that strategic planning helps a business to clearly formulate its goals and strategies, control goal achievement, identify and correct any deviations from the required standards, and finally to reduce uncertainty in dynamic and turbulent market environments. From the foregoing discussion, there appears to be substantial theoretical support for the hypothesis that numerous performance benefits are ascribed to strategic planning.

Contrary to the proponents of strategic planning, other academics are pessimistic about the value of strategic planning and; therefore, have argued on several fronts as well, to prove that explicit strategic planning is dysfunctional or irrelevant (Desai 2000:686; McIlquham-Schmidt 2010:4). Strategic planning has been criticised for stifling creativity through its over-emphasis on rational analysis that has resulted in the formulation of strategies that are old, imitative and irrelevant to the current situation. Desai (2000:686) opposes strategic planning for institutionalising and regulating innovation, thereby inhibiting the ability of the business to come up with new ideas.

A management theorist such as Mintzberg (1994:109) accuses strategic planning for its rigid focus on analysis and quantification, which makes it inflexible and incapable to predict important environment changes. This according to Mintzerg (1994:109), reduces the ability of a business to adapt to environmental changes that are taking place at an accelerated pace. The author also criticises strategic planning for discouraging the involvement of employees, as it is mostly top managers who dominate the strategic planning process. In this regard strategic planning is viewed as a management tool that is diametrically opposed to the new ethos of employee empowerment (Desai 2000:686).

Brinckmann *et al.* (2010:27) argue that in the face of a dynamic environment, formalised and predictive behavior are of less value, as they create unnecessary rigidities which result in lower degrees of adaptation to environmental changes, and hence lower business performance. In addition, Brinckmann *et al.* (2010:27) assert that the instability of the business environment creates information gaps as there is uncertainty about the market conditions and therefore, the ability of the business to develop reliable strategic plans is minimised. The authors proceed to mention that rather than wasting valuable time in trying to predict the future, the business should instead focus on leveraging the resources it currently controls and make efforts to acquire more resources. To this, Mintzberg (1994:107) argues, “while certainly not dead, strategic planning has long since fallen from its pedestal.”

It appears that the theoretical explanations for the usefulness of strategic planning in enhancing business performance has been mixed and is still an unresolved issue. This has motivated several scholars to conduct empirical studies in different settings in order to establish whether strategic planning does or does not have an effect on business performance.

#### **4.5.1 Positive relationship between strategic planning and business performance**

Several studies have found empirical support for the positive relationship between strategic planning and business performance. Wood and LaForge (1979:516) published one such research study. They examined the relationship between formal planning procedures and financial performance using a sample of large US banks. The results revealed that the sample banks that engaged in comprehensive long range planning, significantly outperformed those

that had no formal planning system. The study concluded that the large banks that develop and make use of long-range plans have a competitive advantage over similar financial institutions that do not. Bracker, Keats and Pearson (1988:591) examined the relationship between planning process sophistication and the financial performance of a select group of small firms in a US growth industry. Multivariate analysis of variance was used to statistically identify significant differences between businesses that utilise sophisticated plans and those that do not. The results support the hypothesis that strategic planning positively influences business' financial performance.

In deciding whether formal planning is useful to manufacturing companies, Armstrong (1991:127) conducted a quantitative critique of 28 studies, which concludes that formal planning is valuable for business organisations. Phillips' (1996:347) exploratory study of the relationship between strategic planning and business performance on 63 hotel units in the UK, found that key strategic planning characteristics of thoroughness, sophistication, participation and formality were positive, and in most cases significantly related to indicators of business performance, such as effectiveness that was measured by occupancy percentage, average room rate and growth in sales per room, efficiency that was indicated in terms of return on investment and profit margin, and lastly adaptability that was also measured by the number of successful new services/products introduced, and percentage of sales accounting for new services/products.

Phillips and Moutinho's (1999:349) study of the effectiveness of strategic planning in the UK hotels included a detailed examination of components of strategic planning such as the use of SWOT analysis, setting of goals, commitment to long-term planning, assigning implementation responsibilities to individuals, participation of all employees and functions, and use of benchmarking. The results confirm the positive contribution of strategic planning to business performance but cautioned that strategic planning must not be viewed as a panacea to business success.

Andersen (2000:196) authored a comprehensive study of the relationship between strategic planning and corporate performance across different industry groups. The study provides evidence that strategic planning that focuses on elements of the conventional strategic management process is associated with higher performances in all industries of different

sectors. Specifically, the results confirm that the performance effects of strategic planning do not significantly vary between businesses of different sectors. The study concluded that strategic planning processes are crucial business performance driver in businesses of all industrial sectors and it recommended that businesses should employ strategic planning.

Desai (2000:685) found empirical support for the relationship between strategic planning and business performance by examining whether or not strategic planning creates value in the stock market. The study found that, on an average, organisations that institutionalise strategic planning usually experienced an increase in stock price increases. The results document a strong relationship between strategic planning and stock market returns. The study recommends the utilisation of strategic planning in businesses as it increases shareholder value. Baker (2003:470) executed a survey of 200 executives in five food-processing industries to examine the relationship between formal strategic planning and financial performance. The study indicates positive results in terms of strategic planning and business performance.

The study assessed the utilisation of seven strategic planning tools, namely mission statement, trend analysis, competitor analysis, long-term goals, annual goals, short-term action plans, and ongoing evaluation. Measuring financial business performance in terms of the average pretax return on assets (ROA) for the previous 3-year period, the study concludes that strategic planning is a business tool that can be used to improve business performance for a wide range of food processors. Delmar and Shane (2003:1165) noted in a survey of 223 Swedish SMEs, the ability of strategic planning to facilitate the development of new ventures. They challenged the negative view of past researchers, that strategic planning interferes with the efforts of firm founders to undertake more valuable actions to develop their enterprises.

The results show that by helping businesses to make decisions, strategic planning reduces the probability of business failure and accelerates the chances of new product development and new venture creation. Sanchez and Marin (2005:287) examined 1 351 Spanish SMEs and linked strategic orientation to business performance. The typology of three strategic orientations of a defender, prospector and analyser were adopted to assess the effect of each strategy adopted on business performance. The study presented findings that indicate that SMEs with a prospector strategy perform better than those who adopted the analyser and

defender strategies. According to Sanchez and Marin (2005:305), businesses with a more prospector orientation perform better than the rest because they are more proactive and flexible to adapt to environmental changes and easily capitalise on their internal resources and capabilities, resulting in improved performance. A study examining the importance of capabilities for strategic direction and business performance in 194 United Kingdom (UK) manufacturing SMEs by O'Regan and Ghobadian (2004:292) presents findings that generic capabilities help a business to manage for the future by focusing on the needs of customers, while at the same time adapting to the changing environment. The study suggests that businesses that seek high business performance need to consider their generic capabilities as essential in determining their strategic direction. Briefly, the results confirm that alignment of the generic capabilities and strategic planning is needed to achieve high performance.

Similarly, Gibson and Cassar (2005:207) based on the results of the longitudinal analysis of Australian businesses over a four-year period, conclude that business performance indicators related to employment growth and sales growth are positively correlated with strategic planning. The results further indicate that regular planners are associated with higher levels of performance across all periods that were examined. Although this study has established a positive correlation between strategic planning and business performance, it did not establish a causal relationship between formal planning and an improved business performance.

Another study confirming the positive linkage between strategic planning and business performance was that of Kraus *et al.* (2006:334), whose results show that planning formalisation has a positive and highly significant impact on the chances of belonging to the group of growth businesses. However, the results also show that the other components of strategic planning, such as time horizon, strategic instruments and control, did not contribute to business performance. In addition, Racelis (2006:70) exploratory study of Philippine companies to investigate the relationship between strategic orientation and business performance, found that financial performance indicators related to profit margin and debt ratio had a significant relationship with strategic planning variables, such as consistent brand and image strategies, the offering of products with competitive advantages, and increasing investment in the development of core business areas.

Supporting a positive relationship, Veskaisri (2007:55) executed a survey on Thai SMEs and found strategic planning to be statistically related to performance indicators relating to sales, expanding customer base, establishing new locations, and increasing staff in using strategic planning. The study therefore concluded that the significant correlation between strategic planning growth linkages implies that SMEs employing strategic planning increase the chances to grow. Cortes, Azorin and Moliner (2007:6) conducted a study to examine the impact of strategic behaviours on performance in Spanish hotels. The results indicate that strategic planning variables, namely size, type of hotel management, category, and competitive advantage, positively impact on hotel performance. A study examining the joint effects of market orientation and planning flexibility on business performance in Turkish manufacturing SMEs by Alpan, Yilmaz and Kaya (2007:152) found that both market orientation and strategic planning positively influence business performance.

Therefore, the study recommended that SMEs need to develop both proactive market-oriented and a flexible strategic planning process because strategic planning flexibility necessitates generation of new ideas and the acquisition of new sources of information and new alternatives. The study also encourages the use of flexible strategic plans in order to ensure the constant revision of the plans to capitalise on opportunities, and to manage various risks, as well as increasing the business' ability to adapt to environmental dynamics. The results in Gruber's (2007:782) study of new ventures in Germany also support the hypothesis that strategic planning is beneficial in new venture creation. In a survey involving 500 Turkish manufacturing companies, Glaister *et al.* (2008:365) found a great deal of support to the study's hypothesis that there is a strong and positive relationship between strategic planning and business performance.

The study further confirmed the hypothesis that the bigger the size of the business, the higher the changes of strategic planning practices; and that the more turbulent the environment is, the higher is the probability to utilise strategic planning. Rudd, Greenly, Beatson and Lings (2008:99) applied a cross-sectional approach to administer 2 300 questionnaires to a database of medium to large UK manufacturing businesses to study the mediating effects of four types of flexibility (operational flexibility, financial flexibility, structural flexibility and technological flexibility) on the strategic planning and performance relationship. The results

indicate that flexibility of the strategic planning process mediates the relationship between strategic planning and performance.

Specifically, both operational and financial flexibility mediate the influence of strategic planning on performance, whereas structural and technological flexibility mediate the influence on non-financial performance. According to Rudd *et al.* (2008:106), the process of flexibility and strategic planning work hand-in-hand in order to improve business performance. First, flexibility enables a business to anticipate and monitor environmental changes over the strategic plan period and take necessary actions. Secondly, when a business is flexible, it is able to compare various alternatives and eventually come up with the best option with respect to operations, finance, structure and technology, in order to minimise the adverse effects of environmental turbulence. Thirdly, flexibility forces managers to, at times, make unfamiliar decisions given the opportunities and threats that arise due to cyclical changes in the environment. Fourthly, flexibility helps a business to quickly adapt to new opportunities and threats, and hence becomes more efficient than its competitors. Finally, when a business is flexible, it is better positioned to efficiently and effectively implement changes that are important. Such adaptations according to Rudd *et al.* (2008:106) are beneficial to the business because quality products or services are offered in the marketplace, financial standing of the business improves, management of the business improves, and consequently, the business becomes more competitive.

Supporting a positive strategic planning and performance relationship, Mazzarol, Rebound and Soutar (2009:320) examine the management practices of 204 Australian small business owners or managers with an objective of establishing the association between strategic planning behavior and business performance. The results of the study reveal that businesses that possess formal written business plans were found to be better networked, employed more quality assurance standards and achieved an above-average level of annual sales turnover. Furthermore, results in a study by Wilson and Eilertsen (2010:14) shows the line managers' and staff professionals' perceived benefits of strategic planning during the 2009 financial crisis. Four major benefits were mentioned.

First, business organisations that utilised strategic planning during the financial crisis are better positioned to pursue growth opportunities during the crisis. Secondly, strategic



planners are more confident about their future growth prospects than non-strategic planners are. Thirdly, regular strategic planners were more prepared for the economic crisis and therefore, were less affected by the crisis than non-regular planners were because they were prepared for it. Finally, businesses that employ strategic planning involve management in strategic planning, and as a result achieve more revenue growth. The survey concluded that the use of strategic planning in decision-making enhances business success.

Similar findings about the positive impact of strategic planning on business performance are reported by other scholars such as McIlquham-Schmidt (2010:2), who employed a comprehensive meta-analysis procedure on 88 individual studies representing a total sample size of 32 472 observations. The study presents findings that suggest that strategic planning has a positive influence on business performance. The study, however, pointed out that the positive relationship is weaker than the existing strategic management literature proclaims it to be. The results also showed that the effect of strategic planning on business performance is stronger when quantitative performance measures are used, as compared to qualitative measures. The conclusion provided by the study is that the determination of whether there is a relationship between strategic planning and business performance depends on the performance measure selected.

The results in the meta-analysis (Brinchmann *et al.* 2010:24), indicate that strategic planning is a value creating activity, but contextual factors such as newness of the business and business culture, and the nature of business planning, do moderate the relationship between strategic planning and business performance. The strategic planning variables that were found to significantly augment business performance are written plans, market and scenario analysis, use of computers and portfolio analysis.

Another recent study by Efendioglu and Karabulut (2010:3) on the impact of strategic planning on financial performance of companies in Turkey, highlights and reinforces the importance of strategic planning activities on business performance. The findings show that strategic planning components such as involvement of top management in the process, having a mission statement, organisational capabilities, and a focus on similar markets, had a positive and statistically significant impact on business performance measures,

namely average sales growth per year, average profit per year and average export growth rate per year.

#### **4.5.2 Mixed or no relationship between strategic planning and business performance**

While studies discussed above have shown that strategic planning has a positive and statistically significant effect on business performance, conversely, other studies question the relationship. For example, Saffu and Manu (2003:12), relying on the results from a study of strategic capabilities of 171 Ghanaian female business owners, found no association between strategic planning and performance. The study indicated that no performance benefit is ascribed to the level of planning sophistication of businesses operating in uncertain economic environments like Ghana. The study further points out that rather than a sophisticated strategic planning regime, a business places more emphasis on short-term plans in order to tackle the continuing business environmental changes.

In a study involving a sample of small and regional professional service businesses operating in New South Wales and Australian economies, French *et al.* (2004:765) found mixed results. No significant relationship between performance measures (sales growth and net profit after tax) and strategic planning components (vision, mission, capabilities, competitor analysis and market analysis), was identified. However, a significant relationship between net profit and informal planning was identified. French *et al.* (2004:774), therefore, questioned the value of strategic planning elements for SMEs namely, vision and mission statements, business capabilities, competitor analysis and market analysis. In this regard, French *et al.* (2004:775) argue that what is important is the process of planning, not the plan itself. Other scholars using data from 113 UK companies (Falshaw *et al.* 2006:9) also found no association between strategic planning and subjective business performance.

Similarly, Kraus *et al.* (2006:334) found a mixed association between strategic planning and business performance. The results indicate that planning formalisation has a positive and significant effect on the growth of a business, whereas other strategic planning aspects do not have an effect on business performance. Nwokah (2008:279) failed to find any strong association between strategic planning components of customer focus, competitor analysis and inter-functional coordination of food and beverage business organisations in Nigeria and

their performance measured by sales growth, profitability and market share. A summary of the studies that were conducted to establish the relationship between strategic planning and business performance is presented in Table 4.1.

**Table 4.1 Summary of the previous studies on the relationship between strategic planning and business performance**

Author	Sample	Classification of Strategic planning	Performance measures	Findings
Wood and LaForge(1979)	50 U.S. largest banks	Comprehensive, partial formal and no formal planners	Net income growth and return on investment	Banks that in comprehensive long range planning significantly outperformed those that had no formal planning system
Bracker <i>et al.</i> (1988)	217 owner/managers of electronic businesses	Structured strategic planners, structured operational planners and unstructured planners	Growth in revenue, net income growth, present value and CEO cash compensation growth	Firms employing structured strategic planning procedures financially outperformed all other planning categorizations
Armstrong(1991)	28 studies on manufacturing companies	Formal planning only	Not given	Formal strategic planning is associated with better performance
Phillips and Moutinho(1999)	Top 50 U.K. hotel groups	Emphasis on formalization, participation, sophistication and thoroughness	Efficiency Effectiveness Adaptability	Effective strategic planning enhances hotel performance
Phillips(2000)	Top 50 U.K. hotels groups	High, medium and low level of strategic planning sophistication planners	Effectiveness(occupancy percentage, average room rate and growth in sales) Efficiency(return on investment and profit margin) Adaptability(number of successful new products introduced and percentage of sales for new products)	There is a positive relationship between strategic planning sophistication and hotel performance
Andersen(2000)	456 business entities	Focus on strategic planning process	Return on assets and sales growth	Strategic planning has positive performance effects across industries
Desai(2000)	30 announcements by New York Stock Exchange listed companies	Announcements of commitment to institutionalised long term planning	Increase in stock prices	Stock market favours the long range planning horizon
Safu and Manu(2003)	171 Ghanaian female business owners	How far ahead are business activities planned	Number of employees, sales and profits	No correlation between strategic planning and business performance. However planning ahead for new products lead to an increase in the size of full time employees
Delmar and Shane(2003)	223 new Swedish venture owners	Completeness of the strategic plan and strategic planning components	Number of employees, received external capital, competitive advantage, product attractiveness	Strategic planning improves business performance
French <i>et al.</i> (2004)	936 small Australian professional service business owner/managers	Non-planners, informal planners, formal planners and sophisticated planners	Sales growth, net profit after tax	There is a weak association between strategic planning and business performance
Dimara <i>et</i>	94 Greek businesses	Cost leadership, market	Return on capital, net profit to	Businesses pursuing a

Author	Sample	Classification of Strategic planning	Performance measures	Findings
<i>al.</i> (2004)		differentiation and focus strategy planners	total assets, return on capital invested, return to equity, sales growth	cost leadership earn more profits while market differentiation pursuers enjoy a significant growth of turnover and market share
Sanchez and Marin(2005)	1 351 Spanish SMEs	Prospector and defender strategy planners	Return on investment Business owner's perception with respect to its competitors	Prospector SMEs enjoy a better performance than defender counterparts
Baker(2003)	200 food processing industry executives	Formal strategic planning	Average pretax return on assets	Strategic planning has a positive impact on financial performance
O'Regan and Ghobadian(2004)	194 manufacturing SMEs	Alignment of generic capabilities and strategies	Market share, customer satisfaction, innovation	Alignment of generic capabilities and strategic planning enhances performance
Gibson and Cassar(2005)	Longitudinal study of 2 956 businesses	Regular planners, regular non-planners and planning introducers	Employment growth Sales growth	Strategic planning has positive influence on business performance
Kraus <i>et al.</i> (2006)	290 Australian SMEs	Planning formalization	Sales growth, profitability and subjective evaluation of the entrepreneur	Planning formalization has a positive and highly significant impact on business performance
Falshaw and Glaister(2006)	113 UK companies	Formality of planning process	Subjective measures on growth in profits, growth in sales volume, growth in market share, after tax returns on total sales, ratio of total sales to total assets	No relationship between formal planning process and subjective company performance
Racelis(2006)	53 businesses	Strategic orientation	Profit margin, return on assets, return on equity and debt ratio	Strategic orientation contributes to continuous superior business performance
Veskaisri(2007)	Thai SMEs	Adoption of strategic planning process	Sales/revenue growth, expanding customer base, established new locations and increase in staff	There exists a significant correlation between strategic planning and business performance
Cortes <i>et al.</i> (2007)	153 Spanish hotels	Tangible resource management strategy, intangible resource management strategy, improvement and dimension strategy and scope strategy adopters	Gross operating profits, sales growth, gross operating profit	Hotels who belong to a chain and strategic group and base their competitive strategy on improvement enhance their performance
Gruber(2007)	100 venture capital backed start-ups	Focus on strategic planning components	Subjective measures on achievement of marketing objectives e.g. sales growth and market penetration	Strategic planning is beneficial
Glaister <i>et al.</i> (2008)	500 largest Turkish manufacturing companies	Formalization of strategic planning process	Subjective measures on growth in profits, growth in sales volume, growth in market share, after tax returns on total sales, ratio of total sales to total assets	There is a strong and positive relationship between strategic planning and business performance
Rudd <i>et al.</i> (2008)	2300 large to medium sized U.K. manufacturing organisations	Operational, financial, structural and technological flexibility in strategic planning	Financial performance(profit growth, sales growth and market share) Non-financial performance(employee satisfaction and employee retention)	Flexibility mediates the strategic planning-performance relationship and hence facilitates the impact of strategic planning on business performance
Nwokah(2008)	Food and beverages organisations in Nigeria	Strategic market orientation	Sales growth, profitability and market share	No association found between strategic market orientation and business performance
Mazzarol,	204 owner-managers	Formal and informal	Sales growth, production	Formal strategic

Author	Sample	Classification of Strategic planning	Performance measures	Findings
Rebound and Soutar(2009)	of Australian SMEs enrolled for university management development course	strategic planners	capacity, establishment of new locations, introduction of new products	planners outperform informal planners
Wilson and Eilertsen (2010)	190 managers of mixed US business organisations	Strategic planners and non-strategic planners	Revenue growth, profitability, competitive position	Strategic planners outperform non-strategic planners
Mcllquham-Schmidt(2010)	Meta analysis of 88 individual studies	Strategic planners and non-strategic planners	Quantitative measures(return on assets, return on equity, price per share Qualitative measures(profitability, success relative to competitors)	Strategic planning is an effective way to improve business performance
Brinckmann <i>et al.</i> (2010)	Meta-analysis of 46 quantitative studies	Strategic planning process	Growth, profitability and survival	There is a positive relationship between strategic planning and business performance
Efendioglu and Karabulut(2010)	Top 500 Turkish manufacturing businesses	Users and non-users of strategic planning process components or activities	Average sales growth, average profit, average export growth	Strategic planning positively influences business performance

Source: Own compilation from literature review

Table 4.1 shows that empirical studies on the relationship between strategic planning and business performance revealed conflicting and varied associations between the two variables, which demonstrates that there is, still lack of evidence about the relationship between strategic planning and business performance.

#### 4.6 CONCLUSION

The purpose of this chapter was to review literature on the relationship between strategic planning and business performance. A number of conclusions can be offered, based on the review of literature. The review shows that business organisations need to measure their performance for varied reasons. These are to ensure that organisational goals are achieved, for efficient resource allocation, to improve productivity, to adopt a long term focus, to monitor and control business performance, to better understand and meet customer needs, to ensure the growth and survival of the business, and to define and set benchmarks that help to guide business plans.

On the other hand, the use of financial measures to evaluate business performance has been criticised for being outdated, that they are historical and backward-looking, and for not providing accurate and realistic information necessary for modern business management. While non-financial measures have also been discredited for lack of objectivity, it should be emphasised that they are gaining popularity because they are subjective in nature, since respondents are willing to provide correct information that is not accurately provided by

financial measures. The review of literature has noted that a significant number of businesses now employ both subjective and objective measures, as there is a strong correlation between the two. A holistic approach is therefore imperative, rather than a piecemeal perspective, so that there is a balanced and broader view of the business performance. In other words, an integrated performance measurement system that combines both objective and subjective measures is needed.

The review of literature also noted that several measurement frameworks have been suggested to help businesses design and implement performance measurement systems. It could be argued that the BSC is the most dominant and widely accepted business performance framework, as it is perceived to provide a complete picture of business performance. However, its shortcomings are the tendency to exclude people, suppliers, regulators, competitors, environment, community and social issues. Other frameworks that consider several other stakeholders and both the objective and subjective measures are recommended.

The debate on whether strategic planning improves business performance is still prominent and ongoing. Advocates of non-formal strategic planning still uphold the view that strategic planning is irrelevant in today's fast changing and competitive business environment due to its tendency to cause rigidity, formality and slowness in adapting to environmental changes. On the other hand, proponents of strategic planning argue that strategic planning cushions businesses from the turbulent environment, as it generates relevant information that is helpful in identifying weaknesses and strengths, as well as opportunities and threats to the business. Consequently, a business is able to devise appropriate strategies to achieve goals that ensure its survival and growth, and hence a competitive advantage.

Business organisations should not think that it is irrational not to plan. In the light of this debate, empirical studies that have been conducted to ascertain the relationship between strategic planning and business performance, produced results that are inconclusive. Therefore, today, no evidence is available to substantiate the view unequivocally, that strategic planning improves business performance. Actually, the results are varied and conflicting because there is evidence for positive, negative and no association between strategic planning and business performance. However, from the analysis of past studies, it

seems evidence that shows a positive correlation outweighs evidence showing negative or no association. In summary, there is a general view among researchers, business practitioners and policy makers that strategic planning improves business performance.

The next chapter provides an outline of the methodology that was used to achieve objectives and test hypotheses of the study.

## **CHAPTER 5 – RESEARCH METHODOLOGY**

### **5.1 INTRODUCTION**

The preceding chapter provided a literature review on the relationship between strategic planning and business performance. The various frameworks of business performance were outlined. A discussion on reasons and methods of measuring performance was also conducted. This was followed by a review of previous studies on the relationship between strategic planning and business performance.

This chapter presents the research procedure used to address the objectives and the hypotheses of the study. The chapter thus outlines the research design and methodology employed. The steps and actions taken to ensure good validity and reliability are also explained, and the procedures used to collect, capture, process and analyse data are discussed.

### **5.2 PURPOSE OF THE RESEARCH DESIGNS**

Research is characterised by three scientific purposes, which are exploratory, descriptive or explanatory designs (Berglund 2007:57). The primary purpose of exploratory designs is to establish whether a phenomenon exists and to identify and come up with important information about such a phenomenon (Welman, Kruger & Mitchel.2005:23; Harrison & Reilly 2011:15). Harrison and Reilly (2011:15) further suggest that exploratory research design is useful to explore relationships when study variables are not known.

In a descriptive research design, the purpose is to describe a given phenomenon and the researcher is aware of what to investigate, but does not have the answers to the research questions (Berglund 2007:58). Furthermore, by using a descriptive research, the researcher tries to understand how things are. In other words descriptive studies seek to have an understanding of the current status of subjects of study, or the present practices (Welman *et al.* 2005:22).

An explanatory research design is useful to explain relationships between the variables under study (Harrison & Reilly 2011:17). According to Berglund (2007:58), in explanatory research, the purpose is to explain the effect of given stimuli or factors on another variable.



Welman *et al.* (2005:22) have observed that an explanatory design is to explain why things are the way they are and why one variable affects another. Neuman (cited in Zarkesh2008:47), compared the conditions under which these discussed types of researches are appropriate, as depicted in Table 5.1.

**Table 5.1 The research purposes**

Exploratory	Descriptive	Explanatory
Become familiar with the basic facts, setting, and concern.	Provide a detailed, highly accurate picture.	Test a theory's predictions or principle.
Create a general mental picture of condition.	Locate new data that contradict past data	Elaborate and enrich a theory's explanation.
Formulate and focus questions for future research	Create a set of categories or classify types.	Extend a theory to new issues or topics.
General new ideas, conjectures, or hypotheses.	Clarify a sequence of steps or stages.	Support or refute an explanation or prediction.
Determine the feasibility of conducting research.	Document a casual process or mechanism.	Link issues or topics with a general principle.
Develop techniques for measuring and locating future data	Report on the background or context of a situation	Determine which of several explanations is best.

Source: Neuman (cited in Zarkesh 2008:47)

The primary objective of the study was to establish the relationship between strategic planning and business performance in small to medium sized businesses in Gauteng. This means that the study sought to determine the degree to which SMEs have adopted the practice of strategic planning. The study also sought to establish the effect of the practice the strategic planning on the SME performance. The purpose of establishing the extent of practicing strategic planning and its effect on the performance of SMEs is both descriptive and explanatory.

### **5.3 RESEARCH DESIGN USED IN THE STUDY**

A self-administered survey was used in this study. This was done using a structured questionnaire. The benefits for using a self-administered questionnaire were that it was cost effective, it ensured a greater possibility of anonymity and greater convenience for respondents, since they could complete the questionnaire at their own convenient time (Bryman & Bell 2007:242; Welman 2005:153). The self-administered questionnaire was developed using previous studies (Anderson 2000:187-189; Tse *et al.*2003:234; French *et al.*2004:771; Falshaw *et al.*2006:15).

#### **5.3.1. Research approach**

Research can be classified into two categories, namely qualitative and quantitative research paradigms (Amaratunga, Baldry, Sarshar & Newton 2002:19; Mansourian & Maddan 2007:94). Harrison and Reilly (2011:20) assert that whereas, quantitative research provides answers to questions of who, where, how many, how much and relationships between variables, qualitative research provides answers of why and how questions.

A quantitative approach was adopted to establish the relationship between strategic planning and the performance of SMEs. The approach was appropriate for the study as it enabled the researcher to test and confirm hypotheses, and to explain and predict the effect of strategic planning on business performance (Johnson & Onweuegbuzie2004:18). The quantitative approach was also employed as it was suitable to quantify data and to apply some statistical methods such as factor, regression and correlation analyses to analyse data (Tavakol & Zeinaloo 2004:77; Sedmark & Longhurst 2010:81).A quantitative method is descriptive in nature, and the use of large samples helps in generalising the results to a larger population (Schiffman & Kanuk 2009:22).

#### **5.3.2 Sampling design procedure**

The study utilised the sampling procedure provided by Bradley (2007:164). The procedure includes key aspects, namely target population, the sampling frame, sampling method, and the sample size. These aspects are discussed in the section 5.3.3.

### **5.3.3 The target population**

Bryman and Bell (2007:182), view population as the totality of units from which the sample is to be derived. Welman *et al.* (2005:53), posit that population encompasses a set of cases of analysis from which a sample is selected. The population of this study included SMEs operating in Gauteng province.

### **5.3.4 The sampling frame**

A sample frame includes the different types of sample source. It incorporates the basis on which respondents are selected (Bradley 2007:188). While Welman *et al.* (2005:57) describe a sampling frame as a complete list where each unit of analysis is included only once, Bryman and Bell (2007:182) view it as the listing of all units in the population from which the sample is selected. The respondents who were conveniently available were considered for the study.

### **5.3.5 The sampling method**

A non-probability sampling technique using convenience sampling was implemented to recruit the potential respondents. Initially, the researcher intended to use a list of enterprises provided by Companies and Intellectual Property Registering Office (CIPRO) to get the potential respondents. However, due to the fact that the database provided by CIPRO was not fully updated, the researcher opted for convenience sampling. In convenience sampling, a sample is obtained by selecting the sampling units that are easily and conveniently available (Zikmund, Babin, Carr & Griffin 2009:398). The procedure assisted in obtaining a large number of completed questionnaires quickly and economically as the respondents were easy to access.

### **5.3.6 The sample size**

A sample size of 415 SMEs was used in this study because it is large enough to make a good representation of SMEs in Gauteng province. This sample size is consistent with previous studies on SMEs, strategic planning and business performance. Fatoki and Odeyemi (2010:2763) used a sample of 417, and 407 respondents were used in a study undertaken by Antony and Bhattacharyya (2010:42).

The unit of analysis in this study included SME owners and managers. They were identified based on their job title and position in the business and were assumed to be strategic planners

knowledgeable and familiar with strategic planning. SME owners/managers are seen as having a wide breadth of knowledge of strategic planning (O'Regan *et al.*2008:11). The respondents were considered if they are actively operating the SME and have been in existence for at least three years.

### **5.3.7 Method of data collection and measuring instrument**

A structured questionnaire was used by means of self-administration of questionnaires that were distributed personally by the researcher to the identified industries, which were conveniently located. The use of self-administered questionnaires was opted for because of its cost effectiveness and ease to administer. The method also ensured a greater possibility of anonymity and greater convenience for respondents since they could complete the questionnaire at their own pace and time (Bryman & Bell 2007:242). In order to identify the items to be included in the questionnaire, the study adapted the scales that were used in previous, similar studies. This was done by selecting the relevant items from the scales of previous studies by (Anderson 2000:187-189; Tse, Sin, Yau, Yee & Chow2003:234; French *et al.*2004: 771; Falshaw *et al.*2006:15).The structured questionnaire comprised of four sections. Section A included demographic information about the owner-managers, which are age, sex, marital status, educational background, position occupied in the business, respondent's title, as well as the business' characteristics such as, number of years in business, number of employees, and the type of industry to which the business belongs.This data was needed to establish a detailed profile for the sample.

Section B covered questions related to the strategic planning practices. In this section, the questionnaire asked the respondents to indicate the strategic planning practices of the business using a five-point Likert scale where 1 = strong disagreement, 3 = moderate agreement and 5 = strong agreement.

Section C contained perceptual questions on the performance of the businesses. The respondents were asked to rank the performance measures on a five-point Likert scale where 1 = strong disagreement, 3 = moderate agreement and 5 = strong agreement. In order to minimise the completion time, the questions were closed-ended and respondents were simply required to tick the most appropriate answer (Pushpakumari & Watanabe 2009:66). Previous

research studies of similar topics also used subjective measures of performance (Tse *et al.* 2003:234; Sinet *et al.* 2005:565; Pushpakumari & Watanabe 2009:66).

Finally, Section D contained questions on the plans of the enterprise. The aspects considered plans to increase market share, export plans, plans to purchase more machinery and equipment, plans on recruiting, selection, training and retaining human resource, expansion plans, plans to increase the practice of strategic planning, plans to increase productivity, plans to set up branches in other countries, and plans on Information and Computer Technology (ICT) usage.

The questionnaire was then pilot tested with 60 respondents in order to detect weaknesses and to implement further refinement to the scale (Cooper & Schindler 2008:296). This was undertaken to ensure that the questions were clear and captured the required information. Based on feedback from the pilot test, modifications to the questionnaire were done.

#### **5.4. RELIABILITY AND VALIDITY**

Reliability and validity are the two criteria that are used to determine the quality of a research study (Zarkesh 2008:53). According to Cooper and Schindler (2008:296), a measure is reliable if it provides consistent results. In other words, reliability refers to the extent to which a measuring instrument is able to produce similar findings if repeated, irrespective of when the instrument is used and who administered it (Welman *et al.* 2005:145). The main purpose of reliability is to provide consistent results and minimise errors and biases (Berglund 2007:68).

As indicated in Chapter 6, section 6.17, this study used the Cronbach alpha to establish the reliability of the eight strategic planning–factor construct, the business performance construct and the future plans construct. The coefficient alpha values for all the constructs ranged from 0.64 to 0.93, which were close to or greater than the recommended level of 0.70 (Eeden, Viviers & Venter 2003:16; Bryman & Bell 2007:164).

With regards to validity, Jayamaha, Grigg and Mann (2008:485) define it as how well an instrument measures what it purports to measure. Content, criterion and construct validity are three main forms of validity (Toni & Tonchia 2001 2001:49; Jayamaha *et al.* 2008:485).

According to Toni and Tonchia (2001:49), content validity can be determined statistically by subject experts and by reference to literature. Whereas criterion validity refers to the predictive nature of the research instrument in order to obtain an objective outcome, construct validity measures whether or not a variable is an appropriate definition of the construct (Toni & Tonchia 2001:49). Cooper and Schindler (2008:289) outline the three main forms of validity, as shown in Table 5.2.

**Table 5.2 The types of validity**

Type of validity	What is measured	Methods
Content	Degree to which the content of the items adequately represent the universe of all relevant items under study	Judgmental or panel evaluation
Criterion related	Degree to which the predictor is adequate in capturing the relevant aspects of the criterion	Correlation
Construct	Identifies the underlying construct being measured and determine how well the test represents them	Judgmental: correlation of proposed test with established one: factor analysis: Multitrait-multi-method analysis and convergent-discriminant techniques

Source: Cooper and Schindler (2008:289)

The scale was tested for content, convergent, discriminant and predictive validity. As illustrated in section 6.18.1, content validity was tested through a thorough review of literature, coupled with a pilot study of 60 respondents, which enabled the refinement of the questionnaire. Convergent validity was established by Spearman rho correlations analysis and this is depicted in sections 6.8, 6.10, 6.12, 6.14, and 6.16 in Chapter 6. Significant correlations existed among the constructs. Factor analysis was used to establish discriminant validity. This was achieved by using the principal component method to factor analyse the strategic planning and business performance scales. Section 6.4 illustrates the factor analysis procedure for strategic planning while section 6.5 indicates the factor analysis procedure for business performance variables. To ascertain predictive validity regression analysis and this is addressed in sections 6.9, 6.11, 6.13, 6.15, and 6.17 in Chapter 6.

## 5.5 DATA ANALYSIS

The data were captured and analysed using the Statistical Package for Social Sciences (SPSS), version 20.0 for Microsoft Windows. The data were analysed as follows: Descriptive statistics were used to report on the demographic data; factor analysis was utilised to identify the strategic planning practices and the types of business performance; the test of

independence was employed to determine the distribution of gender, age and position held by the respondents across the strategic planning factors; correlation coefficient analysis was conducted to ascertain the relationships between strategic planning and business performance; and multiple regression analysis was used to analyse the predictive relationship between strategic planning factors and business performance. Each of these methods is discussed in the following subsections.

### **5.5.1 Descriptive statistics**

The main purpose of descriptive statistics is to describe or summarise data that is obtained for a group of individual units of analysis. The study used descriptive statistics to assess the composition of the sample. This included procedures namely, the mode, mean, median, and frequencies as shown in Chapter 6, section 6.3.1. The use of descriptive analysis helped to assess the gender distribution, age of respondents, positions held in the business, education achievement, number of years and number of employees in the business.

### **5.5.2 Test of independence**

Section 6.7 presented the test of independence, which was carried out through the non-parametric method of Mann-Whitney U Test. This test was conducted to determine if there was evidence of differences in the practice of strategic planning by respondents of different gender, age and position held in the business.

### **5.5.3 Correlation analysis**

According to *Welman et al.* (2005:234), correlation is concerned with describing the relationship between variables. It tries to estimate the extent to which the changes in one variable lead to a change in another variable. Spearman's rho correlation coefficient test was used to examine the relationships between the variables. The main features of coefficient are that a coefficient  $r$  of  $-1.0$  indicates a perfect, negative relationship, and a coefficient of  $+1.0$  shows a perfect, positive relationship (*Welman et al.*, 2005:234; *Bryman & Berry* (2007:362)). In section 6.8, correlation analysis was used to ascertain the relationship between strategic planning factors and business performance, while in sections 6.10 and 6.12 correlation analysis was used to test the relationship between strategic planning and business performance. Correlation analysis was further used in section 6.14 to establish the relationship between strategic planning and future plans of the business, and in section 6.16, it

was used to ascertain the relationship between business performance and future plans of the business.

#### **5.5.4 Factor analysis**

Besides its usefulness in establishing the validity of the instrument, factor analysis assists in summarising the information about strategic planning practices and business performance into smaller sets of variables that retain as much information in the original variables as possible (Zhang, Waszink & Wijngaard, 2000:746; Toni & Tonchia, 2001:50).

The study employed factor analysis with principal components analysis, varimax rotation, eigenvalues, scree plot and percentage of variance, in order to extract factors. The method assisted in identifying the dimensions of strategic planning and business performance in factor analysis, was used as shown in sections 6.4 and 6.5 respectively. Sections 6.4.3.1, 6.4.3.2 and 6.4.3.3 report on the number of factors of strategic planning that were determined using methods, namely eigenvalues, scree plot, and the percentage of variance accounted for. The same methods were also used to determine the number of factors of business performance as reflected in sections 6.5 and 6.5.1. The process of determining the number of factors based on eigenvalues requires that only factors with eigenvalues greater than one are retained, because together they account for most of the variance, while those factors with values less than one, are not included in the model (Toni & Tonchia 2001:50). Malhotra (2007:617) define an eigenvalue as the amount of variance associated with the factor. Tables 6.4 and 6.9 show the Kaiser's eigenvalue greater-than-one rule that was used to retain the factors of strategic planning and business performance, respectively.

The next step of factor analysis was to determine the factors based on scree plot. Malhotra (2007:617), describe a scree plot as a plot of the eigenvalues against the number of factors in order of extraction, or a point at which the scree begins to have a distinct break. The scree plots are shown in Figure 6.8 and Figure 6.9, respectively.

Having identified the number of factors, the next step was to determine the factor loadings in order to elucidate the interpretability of the factors. To determine how strongly correlated a measured variable was with a given factor, the variable was supposed to load at least 0.4 on a



factor (Huck 2012:493). Sections 6.4.4 and 6.5.1 show the rotated factor matrixes for strategic planning and business performance, respectively.

### **5.5.5 Regression analysis**

Regression analysis is a statistical technique that simultaneously develops a mathematical correlation between two or more independent variables and a dependent variable (Malhotra 2007:552). The main purpose of regression analysis is to analyse associative relationships between a dependent variable and one or more independent variables (Bradley 2007:336). In order to estimate the parameters and test the significance, Malhotra (2007:552) mentions that the regression analysis makes the following assumptions:

- the error term is normally distributed, which means that for each fixed value of X, the distribution of Y is normal
- the means of all normal distributions of Y, given X lies on a straight line with slope b
- the mean of the error term is zero
- the variance of the error term is constant
- the error terms are uncorrelated, which implies that the observations have been drawn independently.

In this study, the multiple regression analysis was used to test the three hypotheses. The regression analysis is reported in sections 6.11 and 6.12, which sought to test if strategic planning exhibits a predictive relationship with the performance of SMEs. The second hypothesis was tested in section 6.15 to establish if strategic planning exhibits a predictive relationship with the future plans of the SMEs. The third hypothesis was tested in section 6.16 to ascertain if the performance of SMEs exhibits a predictive relationship with the future plans in the business.

## **5.6 CONCLUSION**

This chapter described the methodology utilised in the study. In summary, the research purpose, approach and strategy and data collection method were outlined. This was followed by a description of the sampling procedure that was used to collect data. The statistical methods to analyse data, namely descriptive statistics, correlation, factor and multiple

regression analyses, were discussed. The criteria to determine the quality of the research study, namely validity and reliability were presented.

The research analysis, findings and discussion of the results will be presented in Chapter 6, and Chapter 7 will describe the conclusion, the interpretations, limitations and recommendations of the study. The recommendations made by the study are meant to help SMEs improve on their strategic planning practices in order to improve and sustain their businesses.

## **CHAPTER 6 – RESULTS AND DISCUSSION**

### **6.1 INTRODUCTION**

The previous chapter described the design and research methodology used in the study. The sample and sampling methods were discussed. The procedure used to collect, capture, process and analyse data were also presented. The steps taken to ensure validity and reliability were highlighted.

This chapter focuses on the presentation, interpretation and discussion of the results. The Statistical Package for Social Sciences (SPSS) version 20.0 for Windows was used in the analysis of the data. First, the reliability of the pilot study is discussed. The pilot study was essential to ensure that the questionnaire measures the relevant strategic planning variables. Secondly, the results of the main survey will be presented, interpreted and discussed. The analysis will be achieved in sequence by presenting the demographic description of the sample, followed by the extraction of factors on strategic planning practices, correlations, analysis of variance, regression analysis and hypotheses testing. This chapter concludes with a discussion of the reliability and validity of the questionnaire.

### **6.2 RELIABILITY OF THE PILOT STUDY**

A pilot study was carried out to ensure that the questions on the questionnaire were clear, and captured the required information. The reliability of the questionnaire was established by computing the Cronbach alpha coefficient for the scale.

The initial questionnaire measuring the relationship between strategic planning and performance of SMEs consisted of Section A (seven questions on respondents' demographic information), Section B (52 questions of strategic planning practices of SMEs), Section C (16 questions on business performance effects of strategic planning), and Section D (11 questions on future intentions about strategic planning). In sections B, C, and D, the questions made use of a Likert-scale where 1=strong disagreement, 3 =moderate agreement and 5 =strong agreement.

Seven items from Section B were deleted as they had low item-total correlations or negative correlations as illustrated in. Table 6.1.

**Table 6.1 Item total statistics and deleted items**

Item-Total Statistics					
		Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Cronbach alpha if item deleted
B1	The business has a formal written mission statement	164.97	607.795	0.426	0.853
B2	There is a clear vision statement about the future of the business	164.88	598.681	0.621	0.85
B3	Everyone is aware of the mission of the business	165.27	599.182	0.585	0.851
B4	Everyone is aware of the vision of the business	164.9	606.397	0.569	0.852
B5	The business has medium/long term objectives in place	164.98	595.881	0.709	0.849
B6	All business activities are objectives driven	165.02	603.779	0.576	0.851
B7	Top managers are responsible to establish business mission, vision, objectives and strategies	164.85	612.401	0.478	0.853
B8	Supervisors are responsible to establish business mission, vision, objectives and strategies	166.03	611.118	0.352	0.854
B9	Employees are responsible to establish business mission, vision, objectives and strategies	166.47	605.338	0.413	0.853
B10	Employees are consulted in the strategic planning process	165.58	602.078	0.526	0.852
B11	Formal meetings are used to convey information about strategic planning	165.3	604.925	0.557	0.852
B12	Written memorandums are used to communicate information about strategic planning	165.73	600.572	0.564	0.851
B13	The business prepares an up to 3 years strategic plan	166.1	611.82	0.346	0.854
B14	The business prepares an up to 4 years strategic plan	166.2	618.807	0.264	0.856
B15	The business prepares an up to 5 years strategic plan	165.73	613.792	0.358	0.854
B16	There is open dialogue of the strategic planning procedures	165.42	612.552	0.366	0.854
B17	The strategic plan can be adjusted when the need arises	165.15	603.486	0.579	0.851
B18	Formal methods (facts, figures) are used to present the strategic plan	165.35	601.791	0.587	0.851
B19	Information about the business environment is conducted on a continuous basis	651.45	602.048	0.647	0.851
B20	The business conducts environmental scanning in order to be informed about technological advances	166.02	605.847	0.544	0.852
B21	The business conducts environmental scanning in order to be informed about customers and their needs	165.72	604.478	0.572	0.852
B22	The business conducts environmental scanning in order to be informed about competitors	166.42	608.756	0.603	0.852
B23	The business conducts environmental scanning in order to be informed about economic trends	166.13	611.27	0.549	0.853
<b>B24</b>	<b>The business conducts environmental scanning in order to be informed about political changes</b>	<b>166.92</b>	<b>628.145</b>	<b>0.137</b>	<b>0.857</b>
B25	The business conducts environmental scanning in order to be informed about social changes	167.15	624.842	0.285	0.856
<b>B26</b>	<b>Customers are the main source of information about changes in the business environment</b>	<b>165.05</b>	<b>623.574</b>	<b>0.238</b>	<b>0.856</b>
B27	Trade meetings are the main source of information about changes in the business environment	165.73	603.826	0.847	0.852
B28	Watching competitors is the main source of information about changes in the business environment	166.17	611.633	0.361	0.854
B29	Media is the main source of information about changes in the business environment	165.4	617.905	0.373	0.855
B30	Suppliers are the main source of information about changes in business environment	166.5	617.78	0.311	0.855

<b>B31</b>	<b>Government is the main source of information about changes in business environment</b>	<b>165.52</b>	<b>635.474</b>	<b>-0.033</b>	<b>0.859</b>
B32	Formal methods (computers, manual files) are used to store information	165.22	618.783	0.371	0.855
B33	The business conducts the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis	165.97	605.762	0.629	0.852
B34	The business conducts the PEST (Political, Economic, Social and Technological) analysis	166.8	618.332	0.537	0.853
B35	The business uses the value chain analysis technique to gather information	167.13	609.745	0.559	0.853
B36	The organisation uses benchmarking to assess the conditions in the market	166.85	618.536	0.366	0.866
B37	The organisation uses Porter's five forces to assess the conditions in the market	167.27	618.673	0.41	0.855
B38	The business rewards employees with bonuses to enforce commitment towards carrying out the strategic plan	165.38	623.664	0.223	0.856
<b>B39</b>	<b>Salary increments are used to motivate employees to be committed to strategy implementation</b>	<b>165.47</b>	<b>630.456</b>	<b>0.09</b>	<b>0.858</b>
B40	Profit shares are used to motivate employees to be committed to strategy implementation	165.95	616.692	0.286	0.855
B41	Non-monetary rewards are used to motivate employees to be committed to carry out the plan and accomplish goals	165.77	618.182	0.259	0.856
B42	Benchmarking against set objectives is used to check progress in the plan implementation	166.12	612.783	0.492	0.853
B43	To monitor progress in plan implementation, the business compares the previous year performance with that of the current year	164.68	618.559	0.411	0.855
B44	A formal method is used to monitor and evaluate progress	165.15	614.435	0.456	0.854
<b>B45</b>	<b>Monitoring and evaluating of progress is done monthly or more</b>	<b>164.32</b>	<b>623.745</b>	<b>-0.098</b>	<b>0.926</b>
B46	Half year reviews are used to monitor and evaluate progress	165.62	607.529	0.428	0.853
B47	Quarterly reviews are done to monitor progress	165.62	602.206	0.532	0.852
<b>B48</b>	<b>Monitoring and evaluation of progress is done annually</b>	<b>165.58</b>	<b>622.857</b>	<b>0.147</b>	<b>0.854</b>
B49	Feedback about progress in goal achievement is done during regular scheduled meetings	165.1	617.108	0.376	0.855
B50	Memorandums are used to provide feedback to employees	165.63	613.118	0.344	0.855
B51	Feedback about progress in goal achievement is done in Company Performance Results Postings	166.28	610.41	0.319	0.1855
<b>B52</b>	<b>Formal methods are used to provide feedback to employees</b>	<b>166.15</b>	<b>621.147</b>	<b>0.151</b>	<b>0.858</b>

After the deletion of seven items from Section B, the new main survey questionnaire for Section B then contained 45 items and consequently, the reliability improved from 0.858 to 0.933, as illustrated in Table 6.2.

**Table 6.2 Item total statistics**

Item-Total Statistics					
		Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Cronbach alpha if item deleted
B1	The business has a formal written mission statement	141.08	545.569	0.493	0.931
B2	There is a clear vision statement about the future of the business	141	539.424	0.644	0.93
B3	Everyone is aware of the mission of the business	141.38	537.935	0.643	0.93
B4	Everyone is aware of the vision of the business	141.02	547.712	0.575	0.93
B5	The business has medium/long term objectives in place	141.1	537.719	0.715	0.929
B6	All business activities are objectives driven	141.13	545.541	0.574	0.93
B7	Top managers are responsible to establish business mission, vision, objectives and strategies	140.97	554.914	0.449	0.931
B8	Supervisors are responsible to establish business mission, vision, objectives and strategies	142.15	549.35	0.405	0.932
B9	Employees are responsible to establish business mission, vision, objectives and strategies	142.58	544.823	0.447	0.932
B10	Employees are consulted in the strategic planning process	141.7	539.4	0.607	0.93
B11	Formal meetings are used to convey information about strategic planning	141.42	541.637	0.661	0.93
B12	Written memorandums are used to communicate information about strategic planning	141.85	537.825	0.649	0.93
B13	The business prepares an up to 3 years strategic plan	142.22	555.63	0.302	0.933
B14	The business prepares an up to 4 years strategic plan	142.32	557.101	0.315	0.933
B15	The business prepares an up to 5 years strategic plan	141.85	552.197	0.412	0.932
B16	There is open dialogue of the strategic planning procedures	141.53	551.507	0.409	0.932
B17	The strategic plan can be adjusted when the need arises	141.27	543.758	0.609	0.93
B18	Formal methods (facts, figures) are used to present the strategic plan	141.47	540.999	0.638	0.93
B19	Information about the business environment is conducted on a continuous basis	141.57	541.165	0.706	0.929
B20	The business conducts environmental scanning in order to be informed about technological advances	142.13	546.524	0.563	0.931
B21	The business conducts environmental scanning in order to be informed about customers and their needs	141.83	547.26	0.548	0.931
B22	The business conducts environmental scanning in order to be informed about competitors	142.53	549.202	0.629	0.93
B23	The business conducts environmental scanning in order to be informed about economic trends	142.25	553.343	0.53	0.931
B25	The business conducts environmental scanning in order to be informed about social changes	143.27	566.267	0.261	0.933
B27	Trade meetings are the main source of information about changes in the business environment	141.85	547.452	0.452	0.931
B28	Watching competitors is the main source of information about changes in the business environment	142.28	550.478	0.405	0.932
B29	Media is the main source of information about changes in the business environment	141.52	560.525	0.333	0.932
B30	Suppliers are the main source of information about changes in business environment	142.62	558.376	0.319	0.932
B32	Formal methods (computers, manual files) are used to store information	141.33	559.311	0.382	0.932
B33	The business conducts the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis	142.08	545.806	0.666	0.93
B34	The business conducts the PEST (Political, Economic, Social and Technological) analysis	142.92	552.213	0.524	0.931
B35	The business uses the value chain analysis technique to gather information	143.25	551.648	0.547	0.931
B36	The organisation uses benchmarking to assess the conditions in the market	142.97	561.558	0.315	0.932
B37	The organisation uses Porter's five forces to assess the conditions in the market	143.38	560.41	0.389	0.932

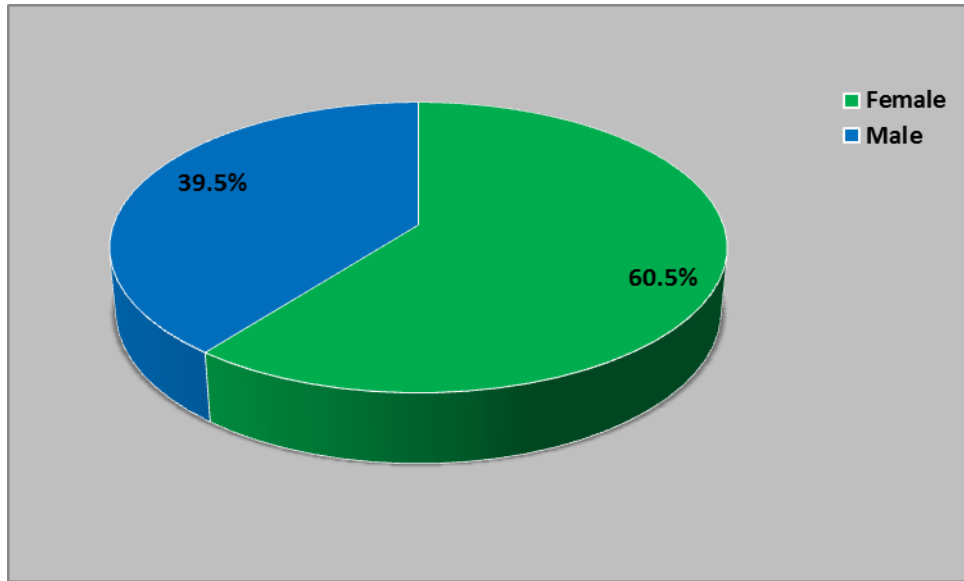
Item-Total Statistics					
		Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Cronbach alpha if item deleted
B38	The business rewards employees with bonuses to enforce commitment towards carrying out the strategic plan	141.5	562.627	0.263	0.933
B40	Profit shares are used to motivate employees to be committed to strategy implementation	142.07	555.724	0.322	0.933
B41	Non-monetary rewards are used to motivate employees to be committed to carry out the plan and accomplish goals	141.88	559.223	0.258	0.933
B42	Benchmarking against set objectives is used to check progress in the plan implementation	142.23	552.385	0.533	0.931
B43	To monitor progress in plan implementation, the business compares the previous year performance with that of the current year	140.8	559.586	0.409	0.932
B44	A formal method is used to monitor and evaluate progress	141.27	555.656	0.455	0.931
B46	Half year reviews are used to monitor and evaluate progress	141.73	548.572	0.436	0.932
B47	Quarterly reviews are done to monitor progress	141.73	545.894	0.497	0.931
B49	Feedback about progress in goal achievement is done during regular scheduled meetings	141.22	557.291	0.396	0.932
B50	Memorandums are used to provide feedback to employees	141.75	554.225	0.345	0.932
B51	Feedback about progress in goal achievement is done in Company Performance Results Postings	142.4	550.142	0.344	0.933
Overall Standardised Cronbach Alpha = 0.933					

### 6.3 ANALYSIS OF THE MAIN SURVEY

The descriptive statistics, test of independence, correlations analysis and regression analysis that were employed to analyse the data, are presented in the following sections.

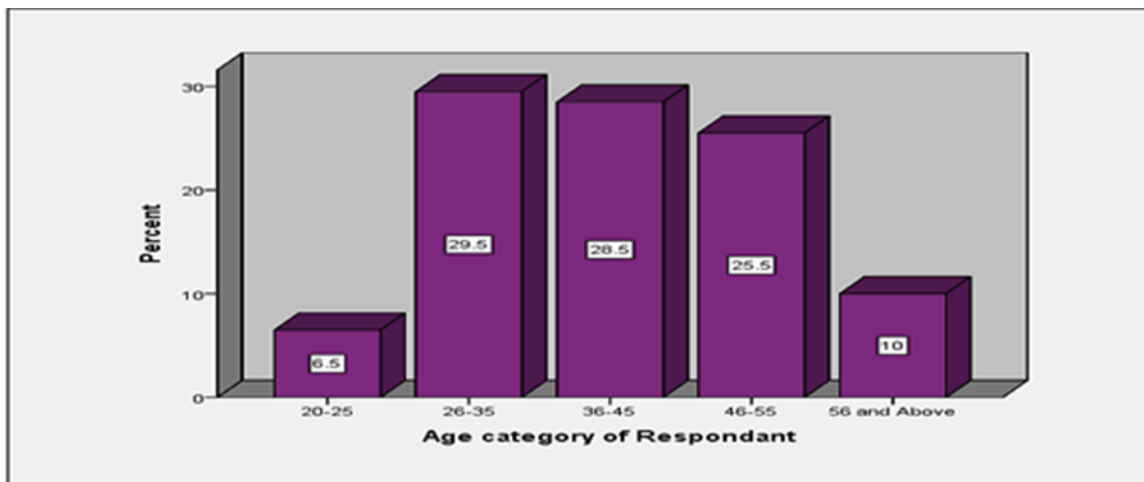
#### 6.3.1 Descriptive statistics

With regard to gender distribution, Figure 6.1 indicates that out of 200 respondents, the majority of respondents 121(60.5%) were male and 79(39.5%) of respondents were female. This indicates a higher proportion of males in the managerial and ownership of SMEs. It seems that mainly male managers or owners lead most SMEs in South Africa. This confirms the results of a study of South African entrepreneurs by Herrington, Kew and Kew (2010:23) which revealed that the entrepreneurial activity of men is 1.2 times higher than that of female entrepreneurs.



**Figure 6.1 Gender of respondents**

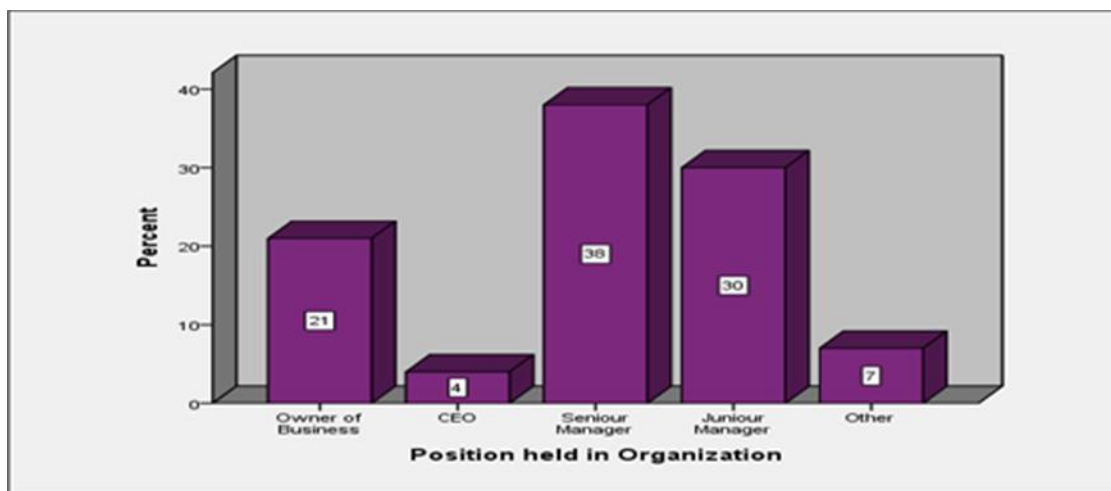
The majority of respondents  $n= 59(29.5\%)$  were in the age category of 26-35 years as shown in Figure 6.2. This was followed by two other age categories, 36-45 and 46-55, which accounted for  $n=57(28.5\%)$  and  $n=51(25.5\%)$  of the sample, respectively. In addition, while 20 respondents (10%) indicated that they were in the age category of 56 years and older, 13 respondents (6.5%) fell in the 20-25 year old category. Those in managerial positions in the SME sector were relatively young and middle-aged. The results are consistent with the trend reported in a study of South Africa’s entrepreneurs conducted by Herrington *et al.* (2010:24), which found that entrepreneurship is more prevalent in the 25 to 34 and 35 to 44 years old age groups.



**Figure 6.2 Gender of respondents**

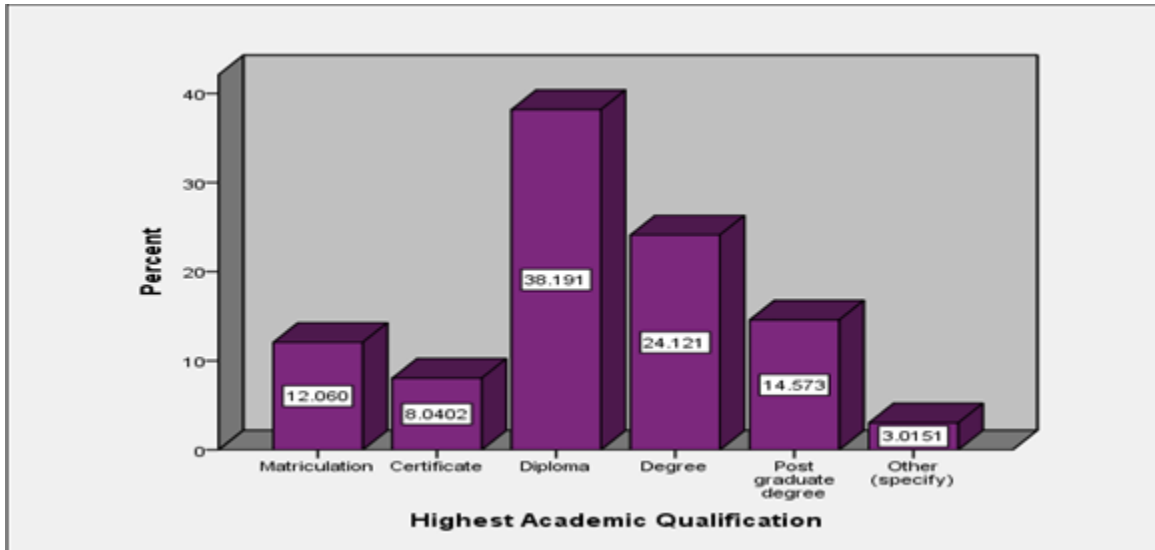


Figure 6.3 illustrates the positions held by the respondents in the business where the majority of SMEs positions are occupied by senior managers, n=76 (38%) followed by junior managers n=60 (30%), respectively. In contrast to that, 42 respondents (21%) are owners and only eight respondents (4%) were Chief Executive Officers (CEOs), while 14 respondents (7%) were people who occupy non-managerial positions but are involved in the strategic planning process.



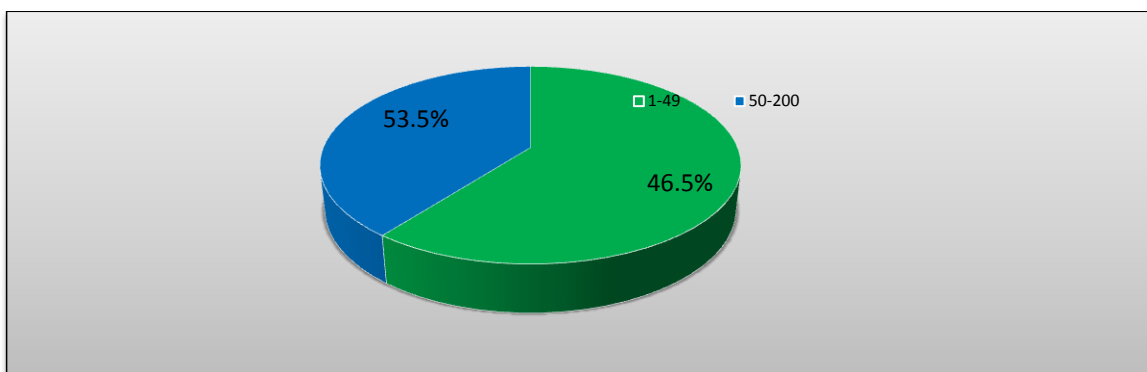
**Figure 6.3 Positions held in the organisation**

Based on the data regarding academic qualifications, Figure 6.4 shows that the highest number of owner/managers 76(38%) indicated that they had obtained a diploma. In contrast, 48 respondents (24%) had attained university degree. Only 29 (14.5%) of all respondents had a post-graduate degree. The analysis of the sample also revealed that 24 respondents (12%) had only obtained matriculation level of education; 16 respondents (8%) indicated that they had achieved certificate education level, and six respondents (3%) had attained other qualifications such as a trade certificate.



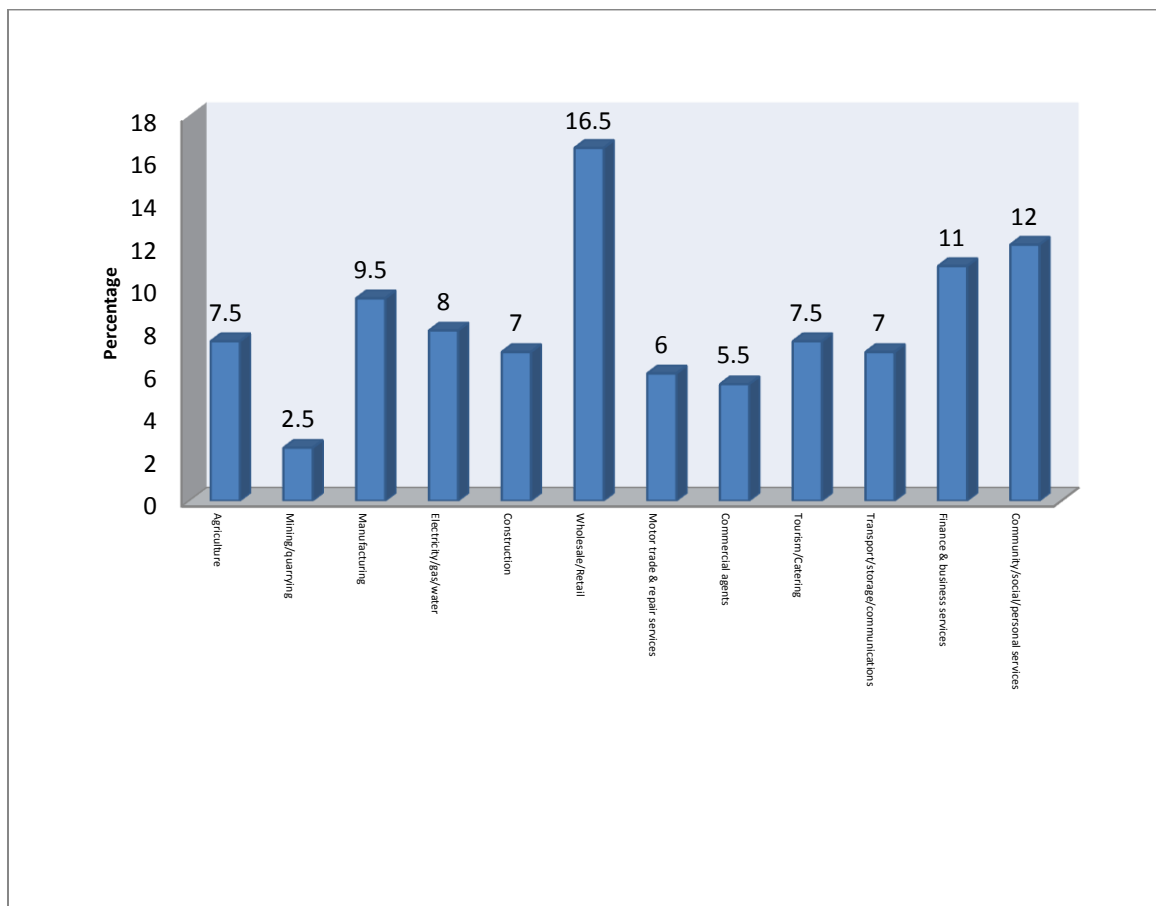
**Figure 6.4 Highest academic qualifications**

One of the salient features of the majority of South African SMES in the sample is that they employ fewer than 50 employees. As Figure 6.5 shows, 107(53.5%) SMEs employ between one and 49 employees, whereas 93(46.5%) indicated that they employ between 50 and 200 employees. This shows that the majority of SMEs are small organisations. Similar patterns were also revealed in other developing countries such as Japan and Sri Lanka, where it was found that the majority of SMEs are small rather than medium-sized (Pushpakumari & Watanabe 2009:67). A study of business interventions and their effect on the perceived success of South Africa SMEs by Ferreira (2007:200) also confirmed that the majority of SMEs are small enterprises.



**Figure 6.5 Number of employees in business**

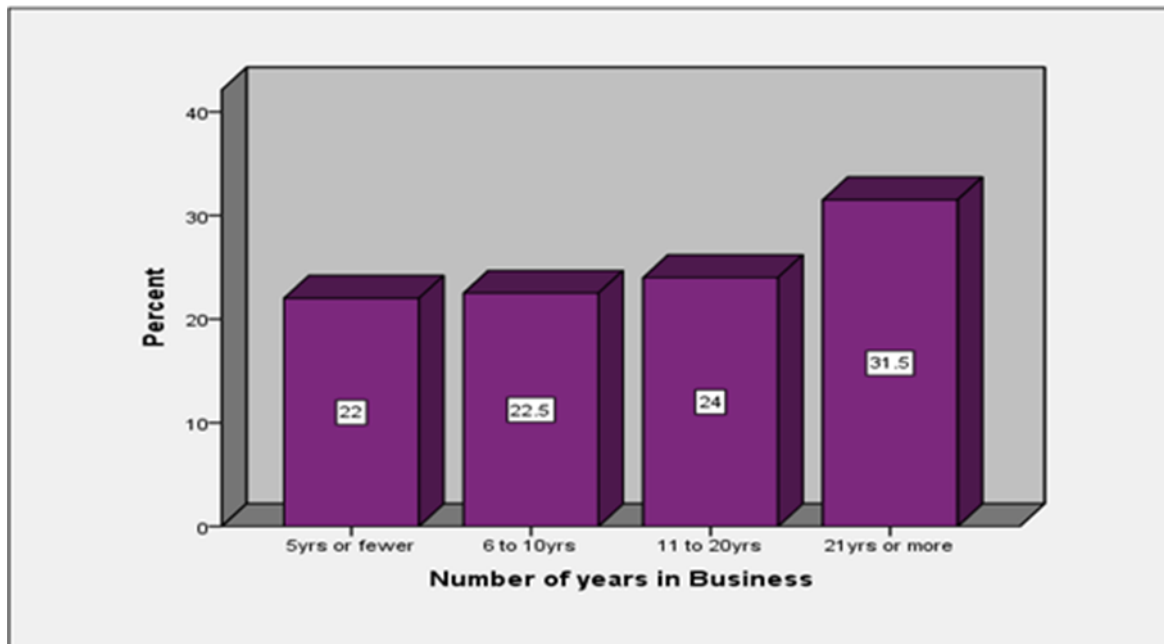
Figure 6.6 depicts the categories of industries within which the SMEs in the sample conducted their business. Guided by the South African National Small Business Act, No. 102 of 1996 (amended in 2004), twelve sectors were represented in the sample. As depicted in Figure 6.7, the majority of SMEs in South Africa operated in the wholesale and retail (n=33; 16.5%) which comprised, community, social and personal services and (n=24; 12%) comprised financial and business services. The least represented sectors were mining and quarrying, comprising five respondents (2.5%), and commercial agents, which comprised 11 respondents (5.5%). The moderately represented sectors were manufacturing, which constituted 19 respondents (9.5%), tourism and catering which consisted of 15 respondents (7.5%) and agriculture, which also constituted 15 respondents (7.5%).



**Figure 6.6 Industry type**

Responses for the question related to the number of years that the SMEs were in business are presented in Figure 6.7. The figure shows that the majority of SMEs (n=63; 31.5%) were more than 21 years old, followed by those SMEs who operated their business between 11 and 20 years (n=48; 24%) and those who operated their business between six and 10 years (n=45;

22.5%). Finally, those SMEs that were in operations for five years and less (n= 44; 22%) comprise a small part of sample.



**Figure 6.7** Number of years in business

The sample was subjected to multivariate methods of analyses in order to explore interrelationships among multiple sets of variables simultaneously.

The next section presents a multivariate statistical procedure, factor analysis, that was used to identify the underlying dimensions of strategic planning and business performance.

#### **6.4 IDENTIFICATION OF DIMENSIONS OF STRATEGIC PLANNING PRACTICES THROUGH FACTOR ANALYSIS**

The previous section (section 6.3.1) presented a description of the frequency distribution of the data in terms of the gender, age, the position held in the business, the highest qualifications, and the number of years in the business. This section provides an account of the exploratory factor analysis procedure that was carried out to identify the main dimensions of strategic planning practices. The exploratory factor analysis procedure that include checking the suitability of data for factor analysis, methods of factor extraction, factor rotation, naming and interpretation of factors, is discussed. In order to get an insight into the

latent structure of the data, factors were subjected to Varimax orthogonal rotation with Kaiser Normalisation. The factor rotation procedure converged in seven iterations.

The factor extraction is arranged as follows, first the suitability of the data for factor analysis is explained. This is followed by the selection of factors through the Principal Components analysis. The next procedure was to determine the number of useful factors using Kaiser's eigenvalue greater-than-one rule, the percentage of variance and the scree plot. The rotation of factors was then conducted using the rotated loading matrix, after which the naming of the factors was performed.

#### **6.4.1 Checking the suitability of data for factor analysis**

The Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity are the most commonly used statistical tools used to check the suitability of data for factor analysis. To test the factorability of the data, the study used both of these statistical techniques. The discussion below shows how they were applied.

The KMO index was computed to check if the data was appropriate for factor analysis. A rule of thumb that is commonly used is that a high KMO value close to one generally indicates that factor analysis may be useful with a data set, and KMO values between 0.5 and one indicate that factor analysis is appropriate (Malhotra 2007:615). It can be noted that if the KMO value is less than 0.50, the results of the factor analysis would probably not be very useful. The KMO value in this study fell within the acceptable range at 0.885, implying that the data for this study is factorable. The KMO values lie between minus infinity and plus one (Kaiser 1970:405). KMO values in the region of four and five show a weak factor-analytic data, while a good factor-analytic data is when KMO is approximately 0.80 and excellent data occurs when the KMO value is around 0.90 (Kaiser 1970:405).

Similarly, the Bartlett's Test of Sphericity was also computed to test whether variables in the sample are correlated. A chi-square transformation of the determinant of the correlation matrix is used to compute the test statistic for sphericity. A high-test statistic value is indicative of a correlation of variables in the sample and therefore, shows whether the data is suitable for factor analysis. The approximated chi-square for this study was significant at 3224.157 with 465 degrees of freedom (df) at an observed significance level  $p < 0.000$

indicating that the variables were in fact correlated, which supports the appropriateness of factor analysis on the data. Table 6.3 below indicates the results for both the KMO and Bartlett's tests.

**Table 6.3 KMO and Bartlett's tests results**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.885
Bartlett's Test of Sphericity	Approx. chi-Square	3224.157
	Df	465
	sig.	0.00

#### **6.4.2 Selecting a method of factor extraction**

The Principal Components Analysis method was utilised to extract the underlying factors of strategic planning. This method ensured that the data set was reduced to principal components without losing any important information. It is useful in determining the minimum number of the main factors that will be the possible sources of variation in the data (Yidana, Ophori & Banoeng-Yakubo 2008:80).

#### **6.4.3 Determining the number of useful factors**

Deciding how many factors to retain when applying exploratory factor analysis is important for two reasons. First, it is when a crucial decision of striking a balance between reducing and adequately representing the correlations that exist within variables. Secondly, errors in the selection of the number of factors may result in under-extraction and over-extraction and hence, may lead to incorrect conclusions in the analysis (Ledesma & Valero-Mora 2007:2). Given the importance of the decision, the study used three diversified methods to determine the factors to retain or discard. These include the Kaiser's eigenvalue greater-than-one rule, Cattell's scree test and percentage of variance methods. The methods are illustrated in the following sub-sections.

##### **6.4.3.1 Kaiser's eigenvalue greater-than-one rule to extract factors**

According to the rule, factors are retained for interpretation only if they have eigenvalues larger than one. Large eigenvalues imply that the factors are useful, whereas small Eigenvalues show that they are trivial (Huck 2012:490). Following the Kaiser Criterion rule, the study retained eight extracted factors. The retained factors are reported in Table 6.4.

**Table 6.4 Eigenvalues**

Factors	Eigenvalue
1	10.488
2	2.244
3	1.741
4	1.619
5	1.442
6	1.295
7	1.111
8	1.093

**6.4.3.2 Extracting factors using percentage of variance**

The use of percentage of variance method in the study led to the extraction of eight factors. Table 6.5 indicates the eight strategic planning factors with their respective percentages of variance that in total account for 67.85 percent, which according to Huck (2012:487) is satisfactory for factor extraction. The cumulative percentage of variance extracted by the factors must at least be at 60 percent (Huck 2012:487).

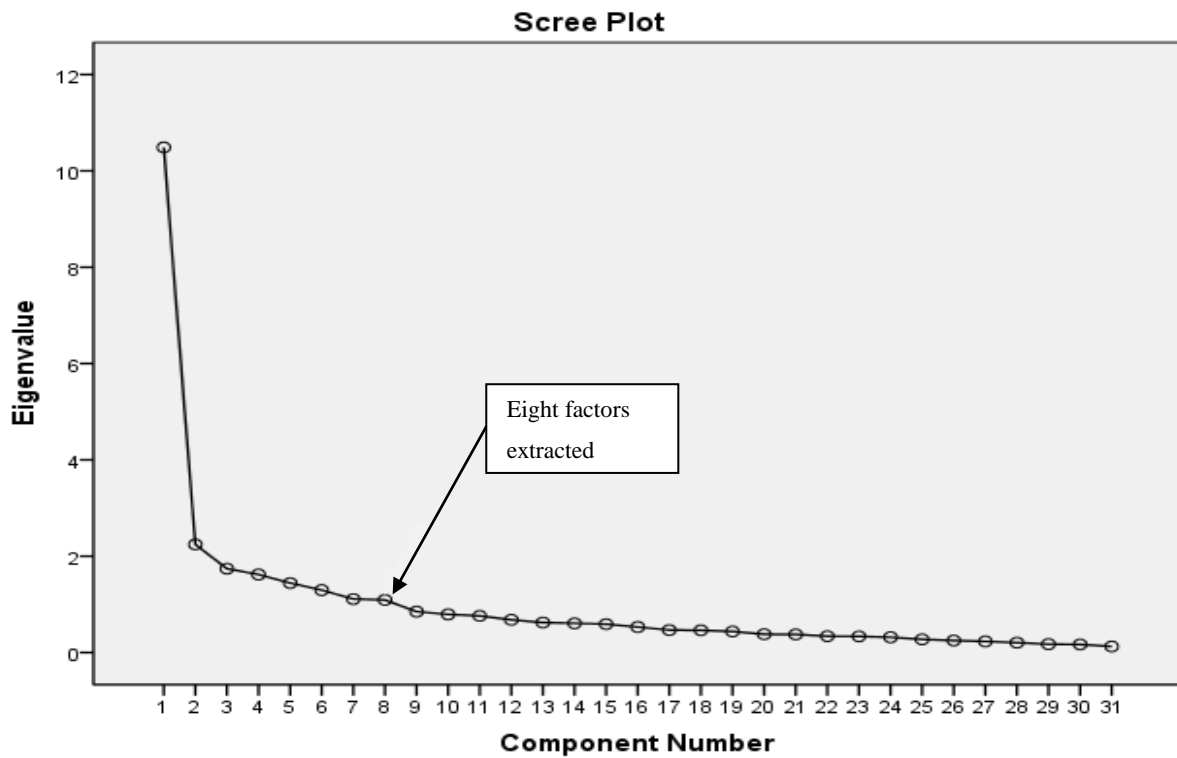
**Table 6.5 Total percentage of variance**

Component	Extraction Sums of Squared Loadings		Rotation Sums of Squared Loadings		
	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	33.831	33.831	5.382	17.363	17.363
2	7.239	41.069	3.229	10.417	27.780
3	5.615	46.684	3.039	9.802	37.582
4	5.224	51.908	2.178	7.026	44.608
5	4.652	56.560	1.913	6.169	50.777
6	4.179	60.739	1.802	5.813	56.590
7	3.583	64.322	1.778	5.736	62.327
8	3.527	67.849	1.712	5.522	67.849

**6.4.3.3 The scree plot**

The scree plot was also used to determine useful factors. The method uses graphical representation of the eigenvalues, where the vertical axis represents eigenvalues and the horizontal axis show the factors extracted (Ledesma & Valero-Mora 2007:3). The shape of the scree plot is examined to identify the point at which the last big drop takes place or where

the line levels off, as the “graph’s elbow” (Huck 2012:490). The thought behind the point is that, it is a point where important factors are separated from the trivial ones. Factors found to the left of the elbow are important, while those associated after the “elbow are of lesser importance” (Ledesma & Valero-Mora 2007:3; Huck 2012:490). According to the scree graph plotted for this study, the line seem to leveloff after eight factors, as depicted in Figure 6.8.



**Figure 6.8** Scree plot of eigenvalues for eight factors

#### 6.4.4 Rotated factor solution

To determine how strongly correlated a measured variable was with a particular factor, the variable was supposed to load at least 0.4 on a factor because it meant that the variable belonged to that factor (Huck 2012:493). Further item reduction was undertaken. Items B5, B6, B7, B10, B12, B15, B16, B22, B28, B29, B35, B39 and B40, were deleted either due to low or cross-factor loading. The data for the rotated factor loading matrix after the deletion of these items is summarised in Table 6.6.



**Table 6.6 Rotated loading matrix**

Loadings								
Description of variables	Factors							
	Factor 1	Factor 2	Factor 3	Factor 4	Factor5	Factor 6	Factor7	Factor8
	Environmental scanning	Business mission and vision	Formality of strategic planning	Evaluation and control	Source of information about environment	Strategy implementation incentives	Employee participation in strategist planning	Time horizon of strategist planning
Mission statement	0.24	<b>0.79</b>	0.1	0.166	-0.09	-0.036	-0.075	-0.014
Vision statement	0.223	<b>0.797</b>	0.269	0.142	0.001	-0.051	0.034	-0.031
Awareness of the mission of the business	0.172	<b>0.788</b>	0.117	0.027	0.102	0.122	0.176	0.168
Awareness of the vision of the business	0.089	<b>0.769</b>	0.157	-0.062	0.213	0.102	0.129	0.131
Supervisors participation in establishing business mission, vision, objectives and strategies	0.186	0.038	0.293	0.072	0.014	0.005	<b>0.8</b>	-0.024
Employees participation in establishing business mission, vision, objectives and strategies	0.246	0.164	0.063	0.054	0.198	-0.037	<b>0.786</b>	0.108
Preparation of an up to 3 years strategic plan	0.174	0.051	0.22	0.122	0.046	0.048	0.021	<b>0.811</b>
Preparation of an up to 4 years strategic plan	0.197	0.128	0.023	0.039	-0.011	0.114	0.069	<b>0.81</b>
Flexibility of the strategic plan	-0.015	0.235	<b>0.611</b>	0.285	0.253	0.05	0.102	0.1
Use of formal methods (facts, figures) used to present the strategic plan	.230	0.339	<b>0.577</b>	0.261	-0.018	0.042	0.221	0.096
Continuous collection of information about the business environment	0.195	0.229	<b>0.727</b>	0.154	0.031	0.181	0.151	-0.02
Environmental scanning about technological advances	0.53	0.167	<b>0.613</b>	-0.054	0.09	0.131	0.043	0.106

Loadings								
Description of variables	Factors							
	Factor 1	Factor 2	Factor 3	Factor 4	Factor5	Factor 6	Factor7	Factor8
	Environmental scanning	Business mission and vision	Formality of strategic planning	Evaluation and control	Source of information about environment	Strategy implementation incentives	Employee participation in strategist planning	Time horizon of strategist planning
Environmental scanning about customers and their needs	0.362	0.064	<b>0.748</b>	0.025	0.025	0.006	0.055	0.174
Environmental scanning about economic trends	<b>0.627</b>	0.17	0.306	0.139	0.169	-0.103	0.089	0.112
Environmental scanning about social changes	<b>0.741</b>	-0.071	0.224	0.172	0.032	0.136	0.065	0.092
Trade meetings as the main source of information about changes in the business environment	0.278	0.068	-0.027	0.141	<b>0.669</b>	0.032	0.221	0.078
Watching competitors as the main source of information about changes in the business environment	0.306	0.029	0.203	0.075	<b>0.639</b>	-0.034	-0.1	0.067
Media as the main source of information about changes in the business environment	0.026	0.054	0.038	0.122	<b>0.755</b>	0.249	0.106	-0.09
SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis	<b>0.538</b>	0.298	0.351	0.122	-0.031	0.143	0.107	0.037
PEST (Political, Economic, Social and Technological) analysis	<b>0.762</b>	0.32	0.149	0.093	-0.007	0.122	0.129	0.026
Value chain analysis	<b>0.803</b>	0.194	0.133	0.142	0.184	0.062	0.147	0.098
Benchmarking	<b>0.757</b>	0.138	0.117	0.256	0.223	-0.076	0.033	0.15
Porter's five forces	<b>0.778</b>	0.162	-0.002	0.016	0.189	0.184	0.203	0.115

Loadings								
Description of variables	Factors							
	Factor 1	Factor 2	Factor 3	Factor 4	Factor5	Factor 6	Factor7	Factor8
	Environmental scanning	Business mission and vision	Formality of strategic planning	Evaluation and control	Source of information about environment	Strategy implementation incentives	Employee participation in strategist planning	Time horizon of strategist planning
Use of half year reviews to evaluate progress	0.281	-0.004	0.248	<b>0.567</b>	0.086	0.177	0.003	-0.082
Use of quarterly reviews to monitor progress	0.294	-0.021	0.262	<b>0.589</b>	0.018	0.21	0.07	0.149
Regular scheduled meetings to monitor progress	0.06	0.212	0.033	<b>0.782</b>	0.246	-0.025	0.016	0.074
Use of memorandums to provide feedback to employees	0.252	0.194	-0.021	<b>0.494</b>	0.074	0.325	0.357	0.244
Use of Company Performance Results Postings to check progress	<b>0.474</b>	0.015	0.272	0.384	0.069	0.256	0.232	0.153
Use of profit shares to motivate employees	0.221	0.023	0.133	0.181	0.158	<b>0.761</b>	0.005	-0.057
Non-monetary rewards to motivate employees	0.061	0.07	0.084	0.094	0.062	<b>0.825</b>	-0.028	0.218
Benchmarking against set objectives to check progress	<b>0.505</b>	0.223	0.12	0.115	0.225	0.151	0.117	0.15

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation. Loading <0.40 excluded from analysis.

The eigenvalues, percentage of variance, explained by each factor, the cumulative percentage of variance and the Cronbach alpha values for the eight factor structures are reported in Table 6.7.

**Table 6.7: Eigenvalues, percentage of variance explained and scale reliability**

DIMENSION DESCRIPTION	NO. OF ITEMS	EIGEN VALUES	% OF VARIANCE	CUMULATIVE %	CRONBACH ALPHA
Environmental scanning	9	10.49	17.36	17.36	0.91
Business mission and vision	4	2.24	10.42	27.78	0.86
Formality of strategic planning	5	1.74	9.80	37.58	0.84
Evaluation and control	4	1.62	7.02	44.61	0.71
Source of information about environment	3	1.44	6.17	50.78	0.64
Strategy implementation incentives	2	1.30	5.81	56.59	0.69
Employee participation in strategic planning	2	1.11	5.74	62.33	0.73
Time horizon of strategic planning	2	1.09	5.52	67.85	0.71
Overall Cronbach alpha for the scale 0.93					

The use of the factor analysis procedure led to the removal of redundant variables and as a result, eight factors were identified to represent the variables of strategic planning. The next section presents the naming of the factors and also discusses the composition of each factor.

#### **6.4.5 The naming and interpretation of factors**

##### **Factor 1: Environmental scanning**

According to Table 6.7, factor one labelled environmental scanning has an eigenvalue of 10.49 and a percentage of variance of 67.85 percent. The factor comprises nine items. The items include, value chain analysis with a factor loading of 0.80, Porter's five forces (0.78), Benchmarking (0.76), PEST analysis (0.76), environmental scanning about social changes (0.74), environmental scanning about economic changes (0.63), SWOT analysis (0.54), benchmarking against set objectives to check progress (0.51), and the use of Company Performance Results Postings to check progress (0.47). The Cronbach alpha for this factor yielded a value of 0.91, indicating the reliability of the factor. Today's high levels of competition, uncertainty and turbulence require businesses to scan the environment in order to detect the market changes so as to effectively respond in a way that improves their competitiveness (Karami 2008:4). This indicates that scanning the environment is crucial because this will enable a business to adapt to the dictates of the continuously changing market. The importance of environmental scanning as a factor of strategic planning was confirmed by several studies. For example, a study of strategy in high technology small and

medium sized enterprises by Karami (2008:2) found that both internal and external environments influence decisions of enterprises. Jorosi's (2008:224) study of the environmental scanning practices of Botswana's small and medium sized manufacturing enterprises also confirmed that organisations scan the environment in order to make informed decisions. A study by Harris and Martin (2002:6) also reports about the importance of environmental scanning. The results of the study by Popoola (2000:213) further consolidate the importance of environment scanning by revealing that corporate managers in Nigeria scan the environment to gain a competitive advantage. For South Africa, a study by Neneh and Van Zyl (2012:8337) found that about 53 percent of SMEs engage in strategic planning practices in order to achieve long-term survival. Therefore, studies in different business environments have proven that in today's competitive and unstable global markets, environmental scanning is a strategic planning tool that businesses may use to cushion themselves from these changes.

### **Factor 2: Business mission and vision**

Factor two labelled business mission and vision, has an eigenvalue of 2.24 and a percentage of variance of 7.24. The factor consists of four items. These items are a vision statement with a factor loading of 0.80, mission statement (0.79), awareness of the mission of the business (0.79) and awareness of the vision of the business (0.77). The Cronbach alpha for this factor yielded a value of 0.86 indicating the reliability of the factor. Forbes and Seena (2006:409) assert that a mission statement is crucial to business as it establishes a common purpose in the business, guides decision making, and motivates and inspires personnel. In an analysis of the role of strategic planning in the performance of small service businesses, French *et al.* (2004:771) affirm the importance of business mission and vision as a factor of strategic planning. Mazzarol *et al.* (2009:330) further confirmed the factor, and Dincer *et al.* (2006:210) who evaluated the strategic planning in growth oriented small firms and the strategic planning process, respectively. A mission and vision statement enhances business performance because it reminds employees of key organisational values that provide general guideline to diagnoses and solution to problems. It also ensures that the organisation is visionary and has concern for customers and other stakeholders (Bart & Hupfer 2004:104).

### **Factor 3: Formality of strategic planning**

The third factor labelled formality of strategic planning has an eigenvalue of 1.74 and percentage variance of 5.62 percent. This factor consists of five items, which are

environmental scanning about customers and their needs (0.75), continuous collection of information about the business environment (0.73), environmental scanning about technological advances (0.61), flexibility of the strategic plan (0.61) and the use of formal methods to present a strategic plan (.58). The Cronbach alpha for this factor yielded a value of 0.84, demonstrating the reliability of the factor. Formality of strategic planning describes the extent to which the strategic plan is presented in written form. The respondents indicated that they present the strategic plan in facts and figures, and that the plan can be adjusted if necessary. Pellissier and Kruger (2011:615) report the use of a formalised strategic plan in a study of the practice of strategic management within the South African long-term insurance industry. The results obtained suggest that long-term insurance companies utilise a formalised strategic management process. The presence of this factor in the study indicates that SMEs acknowledge the necessity of formalising the strategic plan. A study by O'Regan and Ghobadian (2002:416) reveals that formal strategies are more able to eliminate strategy implementation barriers than non-formal planners.

#### **Factor 4: Evaluation and control**

This factor labelled evaluation and control, which describes monitoring, evaluation and control of progress in goal achievement, explained 5.22 percent of the total variance with an eigenvalue of 1.62 and a Cronbach value of 0.71. The factor is comprised of four components, which include regular scheduled meetings to monitor progress (0.78), quarterly reviews to monitor progress (0.59), half-yearly reviews to monitor progress (0.57), and use of memorandums to provide feedback to employees (0.49). For Pearce and Robinson (2005:370), evaluation and control involves assessing progress in the implementation of a strategy and taking action to correct any deviations from the set standards. The inclusion of this factor in the strategic planning process of SMEs in this study corresponds closely to the view proposed by Ehlers and Lazenby (2007:275) that through continuous monitoring and control, businesses are able to sustain competitive edge over competitors. The respondents in the study therefore, view evaluation and control as an important construct in their strategic planning practices. The basic thought is that evaluation and control monitors strategy implementation in order to identify the fit between strategies and objectives (David 2003:306). Frequent evaluation and controls enable businesses to adapt strategies and plans timeously and cost-effectively if there is a misfit between present and planned data (Kraus *et al.*, 2006:336). Besides initiating a learning process, Kraus *et al.* (2006:336) state that

evaluation and control can raise employee morale because employees achieve gratification and they are also incentivised if they achieve set goals. The evaluation and control construct suggests that SMEs are likely to monitor their progress in strategy implementation and take corrective action to correct deviations from the standards set.

#### **Factor 5: Source of information about the environment**

The fifth factor with eigenvalue of 1.44 accounts for 4.65 percent of total variance. The Cronbach alpha of this factor yielded 0.64. This factor consists of three variables. The variables are media as the main source of information about changes in the business environment (0.76), trade meetings as the main source of information about changes in the business environment (0.67) and watching competitors as the main source of information about changes in the business environment (0.64). The factor is labelled source of information about the environment. Businesses rely on both internal and external sources of information about the environment. The results in studies by Sharma *et al.* (2006:6) and Jorosi (2008:230) is of the view that both internal and external sources are used by businesses to track changes in the environment. Popoola's (2000:214) study of the scanning behaviour in Nigerian banks also supported the use of internal and external sources of market changes. However, in this study, respondents as main information sources mostly used external sources such as trade meetings, watching competitors, and media. This indicates that in order to acquire information about the environmental changes, respondents were likely to rely on external sources.

#### **Factor 6: Strategy implementation incentives**

The factor consisted of variables relating to incentives that are used to motivate employees in the implementation process. This factor exhibited 4.18 percent of variance with an eigenvalue of 1.30 and a Cronbach value of 0.69. The factor consists of two items which include profit shares to motivate employees (0.76) and non-monetary rewards as incentives for strategy implementation (0.83). This factor is labelled strategy implementation incentives. This suggests that SMEs use rewards to motivate employees for goal attainment. Ehlers and Lazenby (2007:216) support the use of this construct by stating that motivating rewards for employees are a necessary condition for business to implement strategies successfully. Ehlers and Lazenby (2007:215), further posit that one of the barriers to successful strategy implementation is the people barrier, where only 25 percent of managers use rewards in

strategy implementation. This indicates that if employees are incentivised, the rewards may be an effective driver to successful strategy implementation. The view is consistent with Okumus' (2003:876) strategy implementation framework, which recommends incentives as a key factor to successfully implement strategies.

#### **Factor 7: Employee participation in strategic planning**

The construct consisted of issues relating to employee participation in the strategic planning process. The two items that loaded on this factor accounted for 3.58 percent of total variance with an eigenvalue of 1.11 and yielded a Cronbach alpha value of 0.73. The items include supervisors' participation in formulating business mission, vision, objectives and strategies (0.80) and employee participation in formulating business mission, vision, objectives and strategies (0.79). The factor is labelled employee participation in strategic planning. In a participative strategic planning process, temporary committees comprising employees of different ranks are formed for consultation purposes (Elbana 2008:786). Speculand (2009:169) also found support for this construct by stating that employee participation in strategic planning ensures unity of purpose and cooperation. To carry out a successful strategic planning process, Aaltonen and Ikavalko (2002:415) also confirm that middle managers, supervisors, and employees play a key role in strategy implementation. The construct was further validated by findings in a study by Gadiesh and Gilbert (2001:16), which indicated that employees become more motivated if they participate in the strategic planning process.

#### **Factor 8: Time horizon of strategic planning**

The eighth factorexplained 3.53 percent of total variance and the eigenvalue was 1.09. The Cronbach alpha for this factor yielded 0.71, which indicates that it is reliable. The factor comprised of two variables, which are preparation of up to three years strategic plan (0.81) and preparation of up to four years strategic plan (0.81). Evidence showing that SMEs prepare long-term plans is presented in different studies of strategic planning. For example, confirming the importance of this construct, the study by Dincer *et al.* (2006:211), used six dimensions that also included time horizons to evaluate the strategic planning process of Turkish firms. Furthermore, besides the use of planning instruments, Kraus *et al.* (2006:334) identified planning formality, and frequent control of plans, strategic planning horizon, as a key factor of strategic planning in a study.



In summary, the factor analysis procedure has identified eight dimensions of strategic planning practices which are business mission and vision, environmental scanning, formality of strategic planning, strategy implementation incentives, employee involvement in strategic planning, evaluation and control, and time horizon of strategic planning.

Factor analysis procedure was also undertaken in order to determine the main factors of business performance. The results of the analysis are summarised in the following section.

### 6.5 IDENTIFYING BUSINESS PERFORMANCE VARIABLES THROUGH FACTOR ANALYSIS: SECTION C

The previous section discussed the key factors of strategic planning practices using factor analysis. To ascertain the factorability of the data in Section C, both the Kaiser-Meyer-Olkin (OKO) test and the Bartlett's tests were used. The results indicate that the approximate chi-square was 1045.548 with 91 degrees of freedom and a significance at  $p < 0.000$ . The KMO measure of sampling adequacy of .900 also validated the suitability of factor analysis in this section. Item total correlations and communalities also proved the suitability of factor analysis. The results are shown in Table 6.8.

**Table 6.8 KMO and Bartlett's tests results of Section C**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.900
Bartlett's Test of Sphericity	Approx. chi-Square	1045.548
	df91	
	sig.000	

The percentage of total variance method was used to extract factors. The method yielded two factors, which accounted for 50.71 percent of total variance. Table 6.9 shows the two factors that were extracted.

**Table 6.9 Total variance factor extraction method**

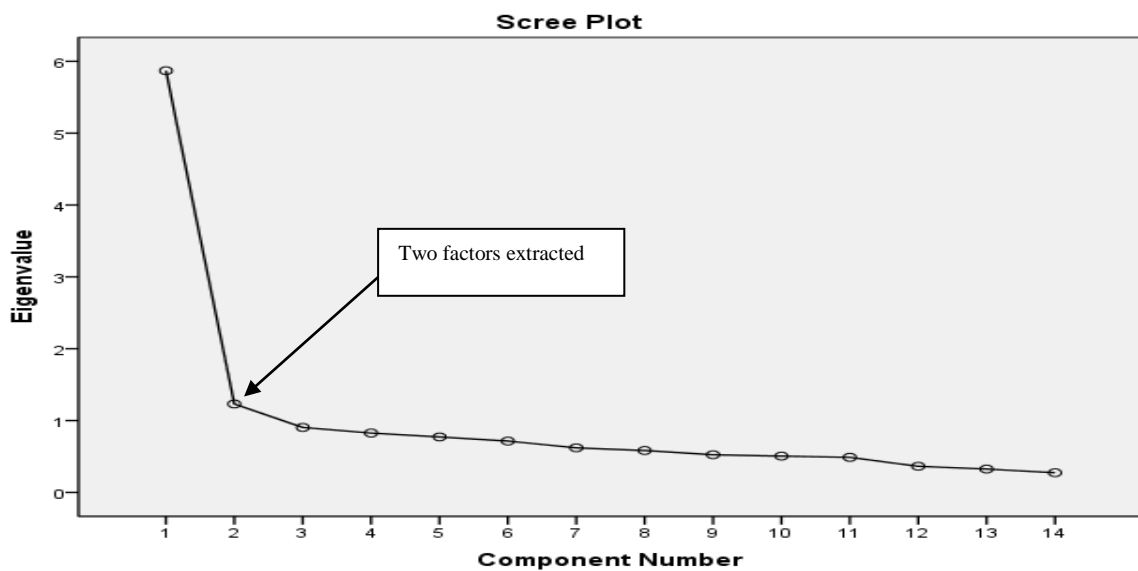
Component	Total Variance Explained				
	Extraction Sums of Squared Loadings		Rotation Sums of Squared Loadings		
	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
<b>1</b>	<b>41.921</b>	<b>41.921</b>	<b>4.010</b>	<b>28.646</b>	<b>28.646</b>
2	8.792	50.713	3.089	22.067	50.713

The use of the Kaiser's eigenvalue greater-than-one rule also extracted two factors. As depicted in Table 6.10, two factors had eigenvalues greater than one, and therefore were retained because they were the key variables of business performance.

**Table 6.10 Kaiser's eigenvalue greater-than-one rule to extract factors**

Factor	Eigen value
1	5.869
2	1.231

Furthermore, the scree plot was used to identify useful factors to retain. As depicted in figure 6.9, two factors were retained.



**Figure 6.9 Scree plot method to extract factors**

### 6.5.1 Factor rotation

The Varimax orthogonal rotation with Kaiser Normalisation was used to determine how strongly correlated a measured variable was with a particular factor. The data for the rotated factor loading matrix after the deletion of these items is summarised in Table 6.11.

**Table 6.11 Rotated loading matrix**

Description of variables	Loadings on factors	
	Factor 1: Internal business performance	Factor 2: External business performance
Customers satisfaction	.674	.176
Introduction of new products	.601	.284
The image of the business	.727	.067
The number of employees	.589	.170
The volume of sales	.742	.238
The business' market share	.568	.414
Employee satisfaction	.644	.328
The quality of product/services	.668	.359
Innovative activities	.565	.339
The ability to secure loans	.178	.607
Trust by suppliers	.247	.678
Contacts with key players in the industry	.267	.725
Ability to get government approval	.166	.739
Productivity levels	.279	.683

**6.5.2 Naming of factors****Factor 1: Internal subjective business performance indicators**

Nine variables were identified under this factor, and the loading ranged from 0.565 to 0.742. The factor accounted for 41.92 percent of the variance with an eigenvalue of 5.87. The Cronbach alpha value for this factor yielded a value of 0.87 indicating the reliability of the factor. The factor consists of nine items. The items are customer satisfaction (0.67), introduction of new products (0.60), the image of the business (0.73), the number of employees (0.59), the volume of sales (0.74), the business' market share (0.57), employee satisfaction (0.64), the quality of products/services (0.67), and innovative activities (0.57). The factor is labelled internal subjective business performance indicators. Reijon (2008:626) asserts that these internal performance measurement indicators are useful in determining the business' ability to achieve strategic plans.

**Factor 2: External subjective business performance measures**

The factor accounted for 8.80 percent of total variance with an eigenvalue of 1.23 and a Cronbach alpha value of 0.77. The factor loadings ranged from 0.607 to 0.739. The specific item loading on this factor addressed items related to the external subjective measurement

indicators of business performance. The five items that loaded onto this factor relate to the ability of the business to deal with and satisfy stakeholder needs. The items are the ability to obtain loans from financial institutions (0.61), trust by suppliers (0.68), contacts with key players in the industry (0.73), ability to get government approval after complying with regulations (0.74) and productivity levels (0.68). The factor is labelled external business performance. The Performance Prism Framework suggested by Neely *et al.* (2003:131) advocates for the use of external business performance indicators to measure a business' ability to achieve performance targets. This relates to how the business satisfies the needs of shareholders such as investors, suppliers, and regulators.

The eight factors of strategic planning practices that were identified by the factor analysis procedure in section 6.4 were then ranked according to their summated means in order to determine the level of respondents' agreement or disagreement for each factor. The results of the ranking are presented in the following section.

## 6.6 THE RANKING OF FACTORS

The analysis proceeded by ranking the factors. To achieve this, the eight factors were ranked according to their overall means, as depicted in Table 6.12.

**Table 6.12 Overall means of eight factors**

Description	N	Mean	Median	Std Deviation
Business mission and vision	200	4.16	4.25	.87
Formality of strategic planning	200	3.85	4.00	.78
Evaluation & control	200	3.71	3.75	.78
Source of information about environment	200	3.36	3.33	.86
Strategy implementation incentives	200	3.35	3.00	1.04
Time horizon of strategic planning	200	3.16	3.00	1.05
Environmental scanning	200	3.15	3.22	.94
Employee participation	200	3.06	3.00	1.04

Table 6.12 shows that all the means were above score of three on the Likert scale with five, denoting strongly agree, four denoting agree, three denoting moderately agree, two denoting disagree, and one denoting strongly disagree. The SME owners/managers either moderately

or strongly agreed that these factors were the main underlying dimensions of strategic planning.

The dimension of business mission and vision was highly ranked with a mean value of 4.16 followed by formality of strategic planning (mean=3.85), and evaluation and control (mean=3.71). The least ranked factors were employee participation (mean=3.06), environmental scanning (mean=3.15) and time horizon of strategic planning (mean=3.18). This indicates that the SME owners/managers perceived business mission and vision as the most important dimension of strategic planning. The high mean values of formality of strategic planning, and evaluation and control, also imply that SME owners/managers had similar views and that these factors are also key elements in their strategic planning process.

Previous studies have confirmed the importance of business mission and vision as they impact positively on business performance (Mazzarol *et al.* 2009:335; Katambura 2010:37). A mission statement is crucial in a business as it establishes a common purpose, guides decisionmaking, and inspires employees (Forbes & Seena 2006:409). Research has also proven that the formality of strategic planning helps a business to improve business performance (Aldehayyat & Al Khattab 2011:486). With regard to evaluation and control, Pearce and Robinson (2005:370) posit that a business that constantly monitors and controls its projects is able to check on its progress and correct deviations in a timely and cost-effective way.

The next section discusses the tests of independence to investigate whether there were any significant differences with the eight factors and gender, age and the position occupied by respondents in the business.

## **6.7 INDEPENDENCE SAMPLE TEST**

A non-parametric method of Mann-Whitney U Test was conducted to determine if there was evidence of any differences in terms of age across the eight factors of strategic planning practices. A non-parametric statistical method was used because it is suitable for ranked and unevenly distributed data in terms of the various sector categories (Weiers 2008:543). The Mann-Whitney U test assumes that the data values are independent of each other, and that the samples are drawn from the same distribution (Sharpe, Veaux&Velleman 2012:811).

The Mann-Whitney U method was used to test the independence of the eight factors from gender. The Mann-Whitney U test is reported in Table 6.13.

**Table 6.13 Distribution of the eight factors across gender categories**

	Environmental scanning	Business mission and vision	Formality of strategic planning	Evaluation and control	Sources of information	Strategy implementation incentives	Employee participation	Time horizon of strategic planning
Mann-Whitney	4388.50	4062.50	4635.50	4620.50	4148.00	4660.50	4117.50	4550.50
Z	-0.978	-1.821	-0.361	-0.399	-1.589	-0.301	-1.671	-0.560
Asymp.Sig (2-tailed)	0.328	0.069	0.718	0.690	0.112	0.764	0.095	0.560

**Independence test to identify the distribution of factor 1 (environmental scanning) across gender categories**

A Mann-Whitney U test was conducted to test the hypothesis contending that the distribution of factor 1 (environmental scanning) is the same across all gender categories. As Table 6.13 shows, the analysis of data using the Mann-Whitney U test found the results are not significant because the  $Z = -0.978$ ;  $p\text{-value} = 0.328 > 0.05$ . There is no statistically significant difference in the environmental scanning scores of males and females. Therefore, at a 0.05 level of significance, ( $p = 0.328$ ), the null hypothesis that the distribution of the factor 1 is the same across both gender categories was retained. This indicates that irrespective of gender, respondents practice environmental scanning.

**Independence test to establish the distribution of factor 2 (mission and vision) across gender categories**

With regard to factor 2, the  $Z$  value =  $-1.821$  and significance ( $p\text{-value}$ ) =  $0.069 > 0.05$ , indicating that the results are not statistically significant. This shows that the responses of both females and males were not statistically different. This also indicates that both male and female owners/managers share similar views about mission and vision statements. It implies that the mission and vision statement is evenly distributed across all gender categories. The null hypothesis stating that factor 2 is the same across all categories of gender, is retained.

**Independence test to establish the distribution of factor 3 (formality of strategic planning) across gender categories**

The  $Z\text{-value} = -0.361$  with  $p\text{-value} = 0.718 > 0.05$  which demonstrates that the results were not statistically significant, thereby implying that both gender categories agreed with statements indicating that there is formality in the way they strategically plan. The null hypothesis which contends that factor 3 (formality of strategic planning) is the same across categories of gender, is retained. It means that irrespective of gender, SME owners/managers use some formality in strategic planning.

**Independence test to establish the distribution of factor 4 (evaluation and control) across gender categories**

No statistically significant difference was indicated in the results between the responses of male and female respondents, because with a  $Z\text{-value} = -0.399$  and  $p\text{-value} = 0.690 > 0.05$  for



factor 4 (evaluation and control), which shows that male and female owners/managers evaluate progress and control deviations during the strategic planning process. The decision is therefore, to retain the null hypothesis that the distribution of factor 4 is the same across all gender categories.

**Independence test to establish the distribution of factor 5 (sources of information about the environment) across gender categories**

No statistically significant gender differences were found with regard to factor 5 (sources of information about the environment) because the Z-value = -1.589 and p-value = 0.112 > 0.05, indicating that the responses of males were not statistically significantly different from those of females. This means both male and female respondents cited almost similar sources of information about the environmental changes. The null hypothesis claiming that the distribution of factor 5 is the same across all gender categories, is supported.

**Independence test to establish the distribution of factor 6 (strategy implementation incentives) across gender categories**

The Z-value = -0.301 with a p-value = 0.764 > 0.05 indicating that there were no statistically significant differences regarding strategy implementation across male and female respondents. Therefore the null hypothesis that factor 6 is evenly distributed across gender categories, is retained.

**Independence test to establish the distribution of factor 7 (employee participation) across gender categories**

The results in Table 6.12 indicate that Z-value = -1.671 with p-value = 0.095 > 0.05. This shows that the scores of females and males were not significantly statistically different for factor 7 (employee participation). This suggests that both gender categories agreed that they involve employees in strategic planning. There is therefore substantial evidence to retain the null hypothesis, which states that factor 7 is evenly distributed across gender categories.

**Independence test to establish the distribution of factor 8 (time horizon of strategic planning) across gender categories**

The Z-value = -0.582 and p-value = 0.560 > 0.05 shown in Table 6.12 also support the null hypothesis that the distribution of factor 8 is the same across categories of gender. This

means that the time horizon of strategic planning that female strategic planner's use, is not significantly statistically different from their male counterparts.

A nonparametric, Kruskal Wallis test was conducted to test for any statistically significant differences across the various strategic planning practices, namely Environmental scanning, mission and vision statement, formality of strategic planning, evaluation and control, strategy implementation incentives, employee involvement in strategic planning and time horizon of strategic planning. The results of the Kruskal test are presented in Table 6.14.

**Table 6.14 Distribution of factors across age categories**

	Environmental scanning	Mission and vision statement	Formality of strategic planning	Evaluation and control	Sources of information about the environment	Strategy implementation incentives	Employee participation in strategic planning	Time horizon of strategist planning
chi square	2.390	4.472	2.715	9.308	2.446	4.897	1.698	7.226
df	4	4	4	4	4	4	4	4
Asymp Sig.	0.664	0.346	0.607	0.054	0.654	0.298	0.791	0.124
Significance level 0.05								

Table 6.14 shows that there were no statistically significant differences (df=4;  $p > 0.05$ ) across all the strategic planning practices and age. This indicates that despite differences in age, SME owners/managers scan the environment, make use of mission and vision statements, use formalised strategic plans, evaluate and control the success of the strategy, make use of strategy implementation incentives, involve employees in strategic planning and utilise long term strategic plans. The results therefore support the hypothesis that the distribution of all the strategic planning practices is the same across all age categories of respondents.

**Independent test to determine the distribution of factors across position held with the firm**

A non-parametric, Kruskal-Wallis test was again performed to test if for any statistically significant differences across the various strategic planning practices, namely environmental scanning, mission and vision statement, formality of strategic planning, evaluation and control, sources of information about the environment, strategy implementation incentives, employee participation and time horizon of strategic planning across the different categories

of positions held by respondents in the business. The results of the Kruskal Wallis test are depicted in Table 6.15.

**Table 6.15 The distribution of factors across position held in the business**

	Environmental scanning	Mission and vision statement	Formality of strategic planning	Evaluation and control	Sources of information about the environment	Strategy implementation incentives	Employee participation in strategic planning	Time horizon of strategist planning
chi square	5.951	12.065	5.445	2.921	7.645	3.095	4.526	8.304
df	4	4	4	4	4	4	4	4
Asymp Sig.	0.203	0.057	0.245	0.571	0.105	0.542	0.339	0.081
Significance level 0.05								

The results presented in Table 6.15 show that there were no statistically significant differences ( $d/f=4;p>0.05$ ) across all the strategic planning practices and position held in the business. This indicates that the strategic planning practices of respondents of different positions are not different. The hypothesis stating that distribution of all the strategic planning factors is the same across the categories of position held in the business is retained.

Having established the distribution of the factors across the demographic variables, the study progressed by conducting the correlation analysis between variables to establish the strength of correlations. This was followed by conducting regression analysis to ascertain the relationships between strategic planning and business performance, between strategic planning and future plans, and between business performance and future plans.

## **6.8 CORRELATION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND OVERALL SUBJECTIVE BUSINESS PERFORMANCE**

Before conducting regression analysis, Spearman rho correlation coefficient was computed in order to ascertain the bivariate relationship of the eight factors of strategic planning and business performance. The correlations range from -1.0 for a perfect negative relationship to +1.0 for a perfect positive relationship (Welman *et al.* 2005:234). The level of association between strategic planning factors and business performance is summarised in Table 6.16.

**Table 6.16 Correlations analysis of the variables**

	Business performance	Environmental scanning	Business mission and vision	Formality of strategic planning	Evaluation and control	Sources of information about the environment	Strategy implementation incentives	Employee participation	Time horizon of strategic planning
Business performance	1.00	.54	.39	.57	.53	.39	.46	.35	.30
Environmental scanning	.54	1.00	.47	.65	.59	.46	.35	.46	.40
Business mission and vision	.30	.47	1.00	.51	.33	.23	.17	.30	.26
Formality of strategic planning	.57	.65	.51	1.00	.51	.31	.31	.41	.34
Evaluation and control	.53	.59	.33	.51	1.00	.41	.43	.33	.32
Sources of information about the environment	.39	.46	.23	.31	.41	1.00	.30	.31	.17
Strategy implementation incentives	.46	.35	.17	.31	.43	.30	1.00	.12	.25
Employee participation	.35	.46	.30	.41	.33	.31	.12	1.00	.21
Time horizon of strategic planning	.30	.40	.26	.34	.32	.17	.25	.21	1.00

The results presented in Table 6.16 show that the correlations between business performance and the eight factors of strategic planning factors namely, environmental scanning ( $r=.54$ ), business mission and vision ( $r=.30$ ), formality of strategic planning ( $r=.57$ ), evaluation and control( $r=.53$ ),sources of information about the environment ( $r=.39$ ), strategy implementation incentives ( $r=.46$ ), employee participation ( $r=.35$ ), and the time horizon of strategic planning ( $r=.30$ ) are significant. This indicates that strategic planning is significantly correlated to business performance.

**The hypothesis:**

$H_1$ Strategic planning exhibits a positive relationship with SME business performance measured by perceptual measures of performance is therefore accepted.

**6.9 REGRESSION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND OVERALL SUBJECTIVE BUSINESS PERFORMANCE**

Having established the strength of correlations between the variables, the study proceeded to conduct a regression analysis because correlations analysis only measure the strength of a relationship but fail to infer the causal relationship between variables. Regression analysis was performed to test the predictive relationship between two sets of variables, namely strategic planning factors and overall subjective business performance measures. The eight strategic planning factors were used as independent variables and subjective business performance was used as a dependent variable. Table 6.17 presents the regression results showing the predictive power of each factor on subjective business performance.

**Table 6.17 Regression analysis between strategic planning factors and overall subjective business performance measures**

Dependent variable: Subjective business performance				
Independent variables	Std. Error	Beta	t-value	p-value
Factor 1(Environmental scanning)	.06	.07	.835	.404
Factor 2(Business mission and vision	.05	.08	1.25	.212
Factor 3(Formality of strategic planning)	.06	.26	3.51	.001*
Factor 4(Evaluation and control)	.06	.16	2.27	.025*
Factor 5(Source of information)	.05	.10	1.619	.107
Factor 6(Strategy implementation incentives)	.04	.23	3.824	.000*
Factor 7(Employee participation)	.04	.08	1.243	.215
Factor 8(Time horizon of strategic planning)	.04	.03	.43	.669
R=.69      R <sup>2</sup> =.48 Adjusted R <sup>2</sup> = .46    F= 21.91. * significant at p<0.05				

Table 6.17 shows that all the strategic planning factors had a positive relationship with overall subjective business performance measures. The F value of 21.90 shows that the association between strategic planning factors and business performance measures was significant at  $p < 0.05$ . The adjusted  $R^2$  value of 0.46 implies that the strategic planning factors explained 46 percent of the variance in subjective business performance measures. The beta coefficients in Table 6.16 show that formality of strategic planning makes the most significant contribution to subjective business performance ( $\beta = 0.26$ ,  $p < 0.05$ ), followed by strategy implementation incentives ( $\beta = 0.23$ ,  $p < 0.05$ ) and evaluation and control ( $\beta = 0.16$ ,  $p < 0.05$ ). However, source of information about the environment ( $\beta = 0.10$ ,  $p > 0.05$ ) business mission and vision ( $\beta = 0.08$ ,  $p > 0.05$ ), employee participation ( $\beta = 0.08$ ,  $p > 0.05$ ), environmental scanning ( $\beta = 0.07$ ,  $p > 0.05$ ) and time horizon of strategic planning ( $\beta = 0.03$ ,  $p > 0.05$ ) showed insignificant contributions to subjective business performance. While these five factors (source of information, environmental scanning, business mission and vision, employee participation, and time horizon of strategic planning) showed an insignificant relationship with business performance, they did not show a negative relationship with business performance, but instead made very small contribution towards business performance. A study by Karami (2008:4) found that in today's high levels of competition, and uncertainty, businesses scan the environment to improve their competitiveness. Popoola's (2000:213) study of corporate banks in Nigeria revealed that environmental scanning enables banks to gain competitive advantage. With regard to business mission and vision, Forbes and Seena (2006:409), Mazzarol *et al.* (2009:330) and Kantambura (2010:37) confirm that a business

mission and vision statement enhances business performance as it guides in decision making, motivates and inspires personnel. Concerning employee participation in strategic planning, Gadiesh and Gilbert (2001:16) and Speculand (2009:169) assert that employee participation in strategic planning leads to employee motivation and ensure unity of purpose and cooperation in the business. Dincer *et al.* (2006:211) whose study used six dimensions that also included time horizon to strategic planning process of Turkish firms confirm evidence of the significance of time horizon of strategic planning in contributing to business performance.

The importance of factors, namely formality of strategic planning, strategy implementation incentives and evaluation, and controls predictors of business performance is also supported by theory. A study of small business formal and non-formal planners by Lyles *et al.* (cited by Kraus *et al.* 2006:336) revealed that formal planners were able to grow twice as much as non-planners. Strategy implementation incentives are crucial to business performance because they motivate employees in strategy implementation (Ehlers & Lazenby 2007:216).

The findings of the regression analysis indicate that there is a positive relationship between some of the strategic planning factors and subjective business performance for South African SMEs.

### **The hypothesis:**

*H<sub>2</sub>* Strategic planning exhibits a significant predictive relationship with SME performance measured by subjective business performance measures is partially accepted.

These findings confirm those of previous studies. For example, using a sample of Philippine companies, Racelis (2006:70) found a positive impact of strategic orientation on financial performance indicators. Veskaisri's (2007:55) study on Thai SMEs reports a statistically significant and positive relationship with business performance indicators related to sales, expanding customer base, establishment of new locations and increase in the number of employees. Cortes *et al.* (2007:6) conducted a study to examine the impact of strategic behaviours on performance in Spanish hotels. The results indicate that strategic planning variables, namely size, type of hotel management, category and competitive advantage positively impact on hotel performance. A study examining the joint effects of market orientation and planning flexibility on business performance in Turkish manufacturing SMEs

by Alpkant *et al.* (2007:152) found that both market orientation and strategic planning positively influence business performance.

To establish the relative importance of the eight strategic planning factors (environmental scanning, formality of strategic planning, strategy implementation incentives, business mission and vision, evaluation and control, sources of information about the environment, employee participation in strategic planning, and time horizon of strategic planning) in explaining the variance in subjective business performance measures, further regression analysis was carried out. To this end, the strategic planning factors were separately regressed onto each of the two business performance factors (internal subjective performance indicators and external subjective performance measures). Correlations analysis was first conducted to identify the strength of correlations among the variables.

#### **6.10 CORRELATION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND INTERNAL SUBJECTIVE BUSINESS PERFORMANCE INDICATORS**

Spearman's rho correlation test was performed to identify the strength of correlations between strategic planning factors and internal subjective business performance indicators. The results of correlations are shown in Table 6.18.



**Table 6.18**Correlations analysis between strategic planning factors and internal subjective business indicators

	<b>Internal business performance measures</b>	Environmental scanning	<b>Business mission and vision</b>	<b>Formality of strategic planning</b>	<b>Evaluation and control</b>	<b>Source of information about environment</b>	<b>Strategy implementation incentives</b>	<b>Employee participation</b>	<b>Time horizon of strategic planning</b>
Internal business performance measures	1.00	.49	.39	.56	.49	.33	.44	.29	.31
Environmental scanning	.49	1.00	.47	.65	.59	.46	.35	.46	.40
Business mission and vision	.39	.47	1.00	.51	.33	.23	.17	.30	.26
Formality of strategic planning	.56	.65	.51	1.00	.51	.31	.30	.41	.34
Evaluation and control	.49	.59	.33	.51	1.00	.41	.43	.33	.32
Source of information about environment	.33	.46	.23	.31	.41	1.00	.29	.31	.17
Strategy implementation incentives	.44	.36	.17	.31	.43	.29	1.00	.12	.25
Employee participation	.29	.46	.30	.41	.33	.31	.12	1.00	.21
Time horizon of strategic planning	.31	.40	.26	.34	.32	.17	.25	.21	1.00

Table 6.18 reveals that the correlations between internal subjective business performance indicators and eight factors of strategic planning, environmental scanning ( $r=.49$ ), business mission and vision ( $r=.39$ ), formality of strategic planning ( $r=.56$ ), evaluation and control ( $r=.49$ ), source of information about the environment ( $r=.33$ ), strategy implementation incentives ( $r=.44$ ), employee participation ( $r=.29$ ), and time horizon of strategic planning ( $r=.31$ ) are positive, inferring that strategic planning is significantly correlated to internal subjective business performance indicators. This shows that strategic planning activities by a business will positively result in increased levels of its internal performance.

### 6.11 REGRESSION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND INTERNAL SUBJECTIVE BUSINESS PERFORMANCE INDICATORS

After establishing the correlations between variables through correlation analysis, regression analysis was carried out to examine the relationship between strategic planning factors and internal subjective business performance indicators. Table 6.19 presents the regression results for these variables.

**Table 6.19 Regression analysis between strategic planning factors and internal subjective business performance indicators**

Dependent variable: Business 1(Internal subjective performance indicators)				
Independent variables	Std. Error	Beta	t-value	p-value
Factor 1(Environmental scanning)	.06	-.01	-.02	.99
Factor 2(Business mission and vision)	.05	.10	1.58	.120
Factor 3(Formality of strategic planning)	.07	.31	4.012	.000*
Factor 4(Evaluation and control)	.06	.14	1.94	.050*
Factor 5(Source of information)	.05	.07	1.099	.273
Factor 6(Strategy implementation incentives)	.04	.23	3.707	.000*
Factor 7(Employee participation)	.04	.02	.346	.730
Factor 8(Time horizon of strategic planning)	.04	.06	1.013	.312
R=.66 R <sup>2</sup> =.43 Adjusted R <sup>2</sup> =.41 F=18.275 * significant at p<0.05				

The results presented in Table 6.19 reveal that the adjusted R<sup>2</sup> value is .41. This indicates that the eight factors explained 41 percent of the variation in internal subjective business performance indicators. In terms of the significance test for the overall regression equation, the F-value was 18.23 with an associate p-value of 0.05 means that the regression model is significant or useful in explaining the relationship between strategic planning factors and internal subjective business performance indicators. Of the factors, the formality of strategic

planning showed the strongest correlation ( $\beta=0.31$ ,  $p<0.05$ ) followed by strategy implementation incentives ( $\beta =0.23$ ,  $p<0.05$ ) and evaluation and control ( $\beta=0.14$ ,  $p=0.05$ ), and business mission and vision. The beta coefficients in Table 6.18 also reveal that factors such as source of information about the environment ( $\beta =0.07$ ,  $p>0.05$ ), time horizon of strategic planning ( $\beta =0.06$ ,  $p>0.05$ ), employee participation ( $\beta=0.02$ ,  $p>0.05$ ), and the business mission and vision ( $\beta =0.10$ ,  $p>0.05$ ), make insignificant contribution to internal business performance. Only one factor, environmental scanning had a negative association ( $\beta = -0.001$ ,  $p<0.99$ ) with the internal subjective business performance indicators (t-value of  $-0.017$ ). This result contradicts studies by Karami (2008:2) and Jorosi (2008:224) which found environmental scanning as a significant positive predictor of business performance.

According to Mazzarol *et al.* (2009:320), formalised strategic plans help a business to achieve goals and to grow. With regards to strategy implementation incentives, Ehlers and Lazenby (2007:216) posit that incentivising employees is a necessary condition for the success of strategy implementation. Okumus (2003:876) also asserts that incentives are essential to successful strategy implementation as this leads to business success.

Correlations and regression analyses were further conducted to determine the relationships between strategic planning factors and external subjective business performance measures. Before the regression analysis, correlation tests were again conducted to first identify the strength of relationships between the variables.

## **6.12 CORRELATIONS ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND EXTERNAL SUBJECTIVE BUSINESS PERFORMANCE MEASURES**

Table 6.20 presents the results of the Spearman rho correlation analysis. The results of the correlations coefficients shown in Table 6.19 indicate that the external subjective business performance measures is positively correlated to all the eight strategic planning variables (correlations range from  $r=.21$  to  $r=.53$ ). Environmental scanning had the strongest correlation ( $r=.53$ ), followed by evaluation and control ( $r=.49$ ) and formality of strategic planning ( $r=.46$ ), respectively. The factors time horizon of strategic planning ( $r=.21$ ) and business mission and vision ( $r=.30$ ) however, showed low positive correlations. This

indicates a positive relationship between strategic planning factors and the external subjective business performance measures.

**Table 6.20 Correlations analysis between strategic planning factors and external subjective business performance**

	<b>External business performance measures</b>	Environmental scanning	<b>Business mission and vision</b>	<b>Formality of strategic planning</b>	<b>Evaluation and control</b>	<b>Source of information about environment</b>	<b>Strategy implementation incentives</b>	<b>Employee participation</b>	<b>Time horizon of strategic planning</b>
External business performance measures	1.00	.53	.30	.46	.49	.41	.38	.39	.21
Environmental scanning	.53	1.00	.47	.65	.59	.46	.35	.46	.40
Business mission and vision	.30	.47	1.00	.51	.33	.23	.17	.30	.26
Formality of strategic planning	.46	.65	.51	1.00	.51	.31	.31	.41	.34
Evaluation and control	.49	.59	.33	.51	1.00	.41	.43	.33	.32
Source of information about environment	.41	.46	.23	.31	.41	1.00	.29	.31	.17
Strategy implementation incentives	.38	.35	.17	.31	.43	.29	1.00	.12	.25
Employee participation	.39	.46	.30	.41	.33	.31	.12	1.00	.21
Time horizon of strategic planning	.21	.40	.26	.34	.32	.17	.25	.21	1.00

**6.13 REGRESSION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND EXTERNAL SUBJECTIVE BUSINESS PERFORMANCE MEASURES**

In order to test the relationship between strategic planning factors and external subjective business performance measures, regression analysis was conducted. Table 6.21 presents the regression results for these variables.

**Table 6.21 Regression analysis between strategic planning factors and external subjective business performance measures**

<b>Dependent variable: Business 2(External subjective performance indicators)</b>				
<b>Independent variables</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t-value</b>	<b>p-value</b>
Factor 1(Environmental scanning)	.07	.19	2.18	.030*
Factor 2(Business mission and vision)	.06	.01	.17	.870
Factor 3(Formality of strategic planning)	.08	.10	1.28	.200
Factor 4(Evaluation and control)	.07	.16	2.09	.040*
Factor 5(Source of information)	.06	.13	2.04	.040*
Factor 6(Strategy implementation incentives)	.05	.17	2.7	.000*
Factor 7(Employee participation)	.05	.16	2.53	.010*
Factor 8(Time horizon of strategic planning)	.04	-.05	-.86	.390
R = .64    R <sup>2</sup> =.40    Adjusted R <sup>2</sup> =.38    F = 16.16    * significant at p<0.05				

As Table 6.21 shows, the F statistics (16.16) was significant at p<0.05 indicating a significant relationship between strategic planning factors and external subjective business performance indicators. The adjusted R<sup>2</sup> value of .38 shows that the changes in strategic planning factors explain approximately 38 percent of the variance in external subjective business performance indicators. The regression analysis also shows that of the strategic planning factors, only one factor, namely, time horizon of strategic planning ( $\beta = -0.05$ , p<0.39), had a negative relationship with external subjective business performance indicators. The remaining factors showed positive associations with the external subjective business measures. Environmental scanning ( $\beta = 0.19$ , p<0.05), showed the strongest relationship with external subjective business performance, followed by strategy implementation incentives ( $\beta = 0.17$ , p<0.05), employee participation in strategic planning ( $\beta = 0.16$ , p<0.05).

The separate regression analyses conducted between strategic planning factors and business performance factors have demonstrated that different strategic planning factors had different impacts on the two factors of subjective business performance measures. For example, in terms of the relationship between strategic planning factors and internal business indicators, formality of strategic planning was a dominant predictor while environmental scanning was the only factor with a negative relationship with internal business indicators. However, while environmental scanning had a negative relationship with internal business performance indicators, it had the strongest relationship with external business performance measures. Other factors that showed significant relationships with external business performance measures were strategy implementation incentives ( $\beta=0.1$ ,  $p<0.00$ ), and employee participation in strategic planning ( $\beta=0.16$ ,  $p<0.10$ ).

The following section presents the correlation and regression analyses between strategic planning factors and future plans.

#### **6.14 CORRELATION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND FUTURE PLANS**

The Spearman rho correlation analysis was computed to analyse the bivariate relationship between the eight factors of strategic planning and future plans of the business. Table 6.22 presents the correlation results.

**Table 6.22 Correlation analysis between strategic planning factors and future plans**

	<b>Future plans</b>	<b>Environmental scanning</b>	<b>Business mission and vision</b>	<b>Formality of strategic planning</b>	<b>Evaluation and control</b>	<b>Source of information about environment</b>	<b>Strategy implementation incentives</b>	<b>Employee participation</b>	<b>Time horizon of strategic planning</b>
Future Plans	1.00	.48	.51	.58	.50	.25	.36	.34	.24
Environmental scanning	.48	1.00	.47	.65	.59	.46	.35	.46	.40
Business mission and vision	.51	.47	1.00	.51	.33	.23	.17	.30	.26
Formality of strategic planning	.58	.65	.51	1.00	.51	.31	.31	.41	.34
Evaluation and control	.50	.59	.33	.51	1.00	.41	.43	.33	.32
Source of information about environment	.25	.46	.23	.31	.41	1.00	.29	.31	.17
Strategy implementation incentives	.36	.35	.17	.31	.43	.29	1.00	.12	.25
Employee participation	.34	.46	.30	.41	.33	.31	.12	1.00	.21
Time horizon of strategic planning	.24	.40	.26	.34	.32	.17	.25	.21	1.00



The correlation coefficient results presented in Table 6.22 show that statistically significant positive correlations exist between future plans and all the eight factors of strategic planning. The values of these correlations coefficients (ranging between  $r=.24$  and  $r=.58$ ) indicate that there is a statistically significant positive relationship between strategic planning and future plans.

**The hypothesis:**

$H_3$  Strategic planning exhibits a positive relationship with future plans of the business is accepted.

**6.15 REGRESSION ANALYSIS BETWEEN STRATEGIC PLANNING FACTORS AND FUTURE PLANS**

In order to identify the relationship between strategic planning factors and future plans, a regression analysis was conducted. Table 6.23 presents the regression results for the variables.

**Table 6.23 Regression analysis between strategic planning and future plans**

<b>Dependent variable: Future plans</b>				
<b>Independent variables</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t-value</b>	<b>p-value</b>
Factor 1(Environmental scanning)	.06	-.01	-.16	.87
Factor 2(Business mission and vision)	.05	.27	4.30	.000*
Factor 3(Formality of strategic planning)	.07	.29	3.81	.020*
Factor 4(Evaluation and control)	.06	.21	2.95	.004*
Factor 5(Source of information)	.05	-.05	-.81	.42
Factor 6(Strategy implementation incentives)	.04	.16	2.59	.010
Factor 7(Employee participation)	.04	.09	1.39	.168
Factor 8(Time horizon of strategic planning)	.04	-.04	-.74	.458
R =0.68      R <sup>2</sup> =.47      Adjusted R <sup>2</sup> =.44      F =20.81				

As shown in Table 6.23, the adjusted R<sup>2</sup>=0.44 indicates that the eight factors of strategic planning factors explained 44 percent of the variation in future plans. Further, even though some beta coefficients for some strategic planning factors are negative, the F-value of 20.81 demonstrates that the model is significant in explaining the relationship between strategic

planning factors and future plans of the business. This implies that all the strategic planning factors are significant in predicting the future plans of the business. According to the beta coefficients indicated in Table 6.23, the factors that had negative coefficients included, environmental scanning ( $\beta = -0.01$ ,  $p < 0.870$ ), source of information about the environment ( $\beta = -0.05$ ,  $p < 0.418$ ), and time horizon of strategic planning ( $\beta = -0.04$ ,  $p < 0.458$ ). The five remaining factors which had positive relations with future plans are business mission and vision ( $\beta = 0.27$ ,  $p < 0.000$ ), formality of strategic planning ( $\beta = 0.29$ ,  $p < 0.000$ ), evaluation and control ( $\beta = 0.21$ ,  $p < 0.004$ ), strategy implementation incentives ( $\beta = 0.16$ ,  $p < 0.010$ ), and employee participation in strategic planning ( $\beta = 0.09$ ,  $p < 0.168$ ). The formality of strategic planning ( $\beta = 0.29$ ,  $p < 0.000$ ) and business mission and vision ( $\beta = 0.27$ ,  $p < 0.000$ ) were the dominant predictors of future plans respectively. SME owners/managers have realised that the formality of strategic plans helps the businesses to grow because the use of formalised strategic plans enforce them to focus on goal achievement (Kraus *et al.* 2006:336). The dominance of the factor of business mission and vision could be attributed to the growth orientation of SMEs (Dincer *et al.* 2006:210) and to the fact that SMEs need mission and vision statements to provide them with motivation and to give direction about the future (Forbes & Seena 2006:409).

#### **The hypothesis:**

*H<sub>4</sub>* Strategic planning exhibits a significant predictive relationship with future plans of the business is therefore partially supported.

### **6.16 CORRELATIONS ANALYSIS BETWEEN BUSINESS PERFORMANCE AND FUTURE PLANS**

Further correlations analysis was carried out to establish the relationship between business performance and the future plans of the business. Table 6.24 presents the results of the correlations test.

**Table 6.24 Correlations between business performance and future plans**

	Internal subjective business performance indicators	External subjective business performance measures	Future plans
Internal subjective business performance indicators	1	.66**	.68**
External subjective business performance measures	.66**	1	.57**
Future plans	.68**	.57**	1
Sig. 0.000			

The correlations between the two business performance measures and future business plans showed strong positive relationships ( $r=.68$  and  $r=.57$ ).

**The hypothesis:**

$H_5$  SME performance measured by subjective performance indicators exhibits a positive relationship with the future plans of the business is accepted.

**6.17 REGRESSION ANALYSIS BETWEEN BUSINESS PERFORMANCE AND FUTURE PLANS**

Regression analysis was also carried out to identify if business performance exhibits a predictive relationship with the future plans of the business. Table 6.25 presents the results of the regression analysis.

**Table 6.25 Regression analysis between business performance and future plans**

Dependent variable: Future plans					
Independent variable		Std. Error	Beta	t-value	p-value
Business performance		.22	.70	13.66	.000
R = .70		R <sup>2</sup> = .49	Adjusted R <sup>2</sup> = .49	F = 186.50	

The regression results depicted in Table 6.25 show that business performance had a significant predictive relationship with future plans. The F- value of 186.50 shows that the association between business performance and future plans is significant at  $p < 0.000$ . The adjusted  $R^2$  value of 0.49 indicates that the business performance factors explained 49 percent of the variance in the future plans in the business. The beta coefficient value ( $\beta = 0.70$ ,  $p > 0.000$ ) shows that the business performance factors make significant contribution to the future plans in the business. ( $\beta = 0.70$ ,  $p < 0.000$ ). Furthermore, the high  $t$ -value of 13.66 provides evidence that business performance makes a significant contribution in predicting future plans of SMEs. It can therefore be concluded that high levels of business performance impact positively on future plans of the business.

**The hypothesis:**

$H_6$  Business performance exhibits a significant predictive relationship with future plans of the business is therefore accepted.

## **6.18 RELIABILITY ANALYSIS**

Due to the multidimensionality of strategic planning, business performance and future plans of the business constructs, the internal consistency reliability of the constructs was established by calculating the Cronbach's alpha coefficient. Table 6.26 reports the results. Table 6.26 indicates that the overall coefficient alpha for the eight strategic planning factors was 0.93, while the coefficient alpha for business performance factors was 0.89 and that of the future plans of the business was 0.87. The coefficient alpha values for each of the eight factors of strategic planning were 0.91, 0.86, 0.84, 0.71, 0.64, 0.69, 0.73 and 0.71 respectively. The reliability for the individual factors of business performance and the future plans of the business ranged from 0.77 to 0.89. The Cronbach reliability values for business performance factors, the future plans of business and the strategic planning factors, namely environmental scanning, business mission and vision, formality of strategic planning, evaluation and control, employee participation and time horizon of strategic planning were above the acceptable benchmark of 0.70 (Bryman & Bell 2007:164). The internal consistency reliability values for factors namely, sources of information about the environment and employee participation indicate marginal acceptance.

**Table 6.26 Reliability analysis for strategic planning, business performance and future plans of business factors and the composite scales**

<b>STRATEGIC PLANNING FACTORS</b>			
	<b>No. OF VARIABLES</b>	<b>N</b>	<b>CRONBACH ALPHA</b>
Environmental scanning	9	200	0.91
Business mission and vision	4	200	0.86
Formality of strategic planning	5	200	0.84
Evaluation and control	4	200	0.71
Sources of information about the environment	3	200	0.64
Strategy implementation incentives	2	200	0.69
Employee participation	2	200	0.73
Time horizon of strategic planning	2	200	0.71
All variables	31	200	0.93
<b>BUSINESS PERFORMOMANCE FACTORS</b>			
	<b>No. OF VARIABLES</b>	<b>N</b>	<b>CRONBACH ALPHA</b>
Internal business performance	9	200	0.87
External business performance	5	200	0.77
All variables	14	200	0.89
<b>FUTURE PLANS OF BUSINESS SCALE</b>			
	<b>No. OF VARIABLES</b>	<b>N</b>	<b>CRONBACH ALPHA</b>
Future plans of business	11	200	0.87

Table 6.26 indicates that the overall coefficient alpha for the eight strategic planning factors was 0.93, while the coefficient alpha for business performance factors was 0.89 and that of the future plans of the business was 0.87. The coefficient alpha values for each of the eight factors of strategic planning were 0.91, 0.86, 0.84, 0.71, 0.64, 0.69, 0.73 and 0.71 respectively. The reliability for the individual factors of business performance and the future plans of the business ranged from 0.77 to 0.89. The Cronbach reliability values for business performance factors, the future plans of business and the strategic planning factors, namely environmental scanning, business mission and vision, formality of strategic planning, evaluation and control, employee participation and time horizon of strategic planning were above the acceptable benchmark of 0.70 (Bryman & Bell 2007:164). The internal consistency reliability values for factors namely,

sources of information about the environment and employee participation indicate marginal acceptance.

After testing the factors and the scales for reliability, further tests were carried out to assess their validity. The section that follows presents the discussion about the procedures for validity testing.

## **6.19 VALIDITY ANALYSIS**

To determine scale validity, the instrument was tested for content, convergent, and discriminant validity. These validity methods are discussed in the next sections.

### **6.19.1 Content validity**

Content validity refers to the degree to which the scale covers the relevant items under study (Cooper & Schindler 2008:289). In order to test for content validity, first an extensive review of literature was carried out to ensure that the instrument related to other previous relevant studies. Secondly, the review of the instrument by strategic planning academics coupled with the pilot study of 60 respondents led to the refinement of the questionnaire. This involved the deletion of irrelevant items from the questionnaire to make sure that the content measured strategic planning and business performance. Finally, relevant previous studies on strategic planning and business performance were consulted in order to construct the questionnaire.

### **6.19.2 Convergent validity**

Convergent validity concerns the extent to which two or more measures of the same construct agree (Sin *et al.* 2005:569). In order to test for convergent validity of the strategic planning and business performance scale, correlation analysis was performed among the three components of the scale namely, strategic planning factors, business performance and future business plans. Spearman rho correlation coefficient was used to test the correlation between the variables. Table 6.15 reports the results of correlations among the eight strategic planning factors as well as correlations between the factors and business performance.

The results of the correlation coefficients show that statistically significant correlations exist between all the eight factors of strategic planning and business performance. Of the eight factors, three (environmental scanning, formality of strategic planning, evaluation and control) had strong correlations with business performance ( $r > 0.5$ ), while the remaining five factors (business mission and vision, sources of information about the environment, strategy implementation incentives, employee participation, and time horizon of strategic planning) had moderate correlations ( $r > 0.3$ ). This positive moderate to strong correlation pattern is an indication that the eight factors of strategic planning were convergent on a common construct, thereby providing evidence of convergent validity.

Table 6.22 reveals that variable future plans was positively correlated to the eight strategic planning factors. The correlation coefficients further shows that both the strategic planning factors and the future plans of a business converged on a common construct. With regard to the correlation between business performance and future plans, Table 6.24 also reported on a strong positive association between business performance and future plans ( $r = 0.70$ ), which further provides evidence for construct validity.

The pattern of correlations indicates that all the components of strategic planning, business performance and future plans converged on a similar construct, and this provides evidence for convergent validity.

### **6.19.3 Discriminant validity**

A scale is tested for discriminant validity to determine the degree to which measures of conceptually distinct constructs differ (Sin *et al.* 2005:569). Evidence of discriminant validity of the strategic planning and business performance scale was tested through factor analysis. As shown in Tables 6.4 and 6.9 of the study, eight factors of strategic planning and two factors of business performance, emerged from the factor analysis procedure. According to Sin *et al.* (2005:570), if respondents are able to discriminate between two different constructs, it shows that there is discriminant validity in the measures. In this study, the results of discriminant

validity test showed that the respondents differentiated between strategic planning and business performance constructs, thereby confirming discriminant validity in the measures.

#### **6.19.4 Predictive validity**

The results of multiple regression models provide evidence of predictive validity. Three predictive relationships were hypothesised, first between the eight factors of strategic planning and business performance, secondly between the eight factors of strategic planning and future plans of the business, and lastly between business performance and the future plans of the business. The regression results indicate that the eight factors of strategic planning significantly predict business performance. In terms of the predictive relationship between the eight factors and future plans, the results reveal that five of the eight factors significantly predict the business' future plans. The regression results further indicate that business performance is a significant predictor of future business plans.

### **6.20 CONCLUSION**

Strategic planning is a critical business tool in today's dynamic and competitive business environment. In order to sustain and improve their performance, SMEs need to practice strategic planning. This will enable them to have long-term focus, to assess the environment and then adapt their strategies to suit the changing needs of the environment, and hence improve their competitive advantage. Research studies demonstrate that SMEs that practice strategic planning generally enhance their performance. The purpose of this chapter was to establish the relationship between strategic planning and the performance of SMEs in South Africa. The pertinent dimensions that characterise the strategic planning practices of SMEs that emerged in this study, indicate that SMEs scan the environment, make use of formalised strategic plans, have mission and vision statements in place, involve employees in the strategic planning process, do evaluation and control of strategies, source the information about the environment from various sources, use strategy implementation incentives, and make use of long term plans. These dimensions also emerged in studies by other scholars for example, employee participation in strategic planning process (Elbana 2008:786), environmental scanning (Jorosi 2008:230), and business mission and vision (Mazzarol *et al.* 2009:330). In line with the results of studies by



Gruber (2007:782), Mazzarol *et al.* (2009:320), Efendioglu and Karabulut (2010:3) and McIlquham-Schmidt (2010:2) the results of this study show that strategic planning has a positive predictive relationship with the performance of SMEs. This study suggests that if businesses practice strategic planning, they will be able to assess their environment, adjust their strategies, cushion themselves from the dynamic environment, and hence improve their performance. The results of this study also show there is no statistical difference in the way SME owners/managers of different gender, age and position in the business do practice strategic planning. This may be due to the perceived importance of strategic planning on the performance of business by SME owners/managers in today's dynamic business environment. Another important finding of this study is that strategic planning practices exhibits a positive predictive relationship with the future plans of the business. As mentioned in earlier studies, for example Dincer *et al.* (2006:210), the practice of strategic planning will help SMEs to develop a growth orientation. Some other scholars have addressed that strategic planning practices, for example the use of mission and vision statement, have provided SMEs with motivation and direction about the future (Forbes & Seena 2006:409). These results show that if SMEs practice strategic planning, they will improve their performance. The findings corroborate previous studies on strategic planning and business performance.

This chapter has presented a report on the results of the empirical study. The report is divided into two phases. Phase one presented a discussion of results of the pilot study while the second one covers the results of the main study.

The pilot stage phase involved the modification of the research instrument. Modification was done through the removal of seven items from section B due to low item-total correlations. It comprised of four sections that measured different constructs.

A sequence of steps was followed to present results of the second phase of the study. The first stage involved subjecting the data to descriptive statistical analysis in order to establish the distribution of the sample data. This was achieved by examining various measures of central tendency that include means, medians, and standard deviations. Pie charts, histograms and bar graphs were utilised to summarise the data.

Secondly, exploratory factor analysis was employed to identify the main dimensions of strategic planning and business performance.

Thirdly, the relationships between strategic planning, business performance, and future plans were presented. Initially, the multiple regression analysis was conducted to ascertain the relationship between strategic planning and business performance, followed by a regression analysis between strategic planning and future plans, and lastly the regression analysis between business performance and future plans. It was at this stage when hypotheses testing were performed.

Finally, reliability and validity test were carried out. The following chapter establishes whether the formulated objectives of the study were all achieved. The chapter will provide the main conclusion, recommendations and implications of the study.

## CHAPTER 7 – CONCLUSIONS AND RECOMMENDATIONS

### 7.1 INTRODUCTION

The previous chapter presented the results and discussions of the empirical findings of the study. The factors of strategic planning and business performance were extracted. The correlation and regression analyses were conducted to establish the correlations and relationships among the variables. This chapter presents an evaluation of the research objectives and the hypotheses of the study. The conclusions, recommendations, value, implications and limitations of the study are also provided. The chapter concludes with the proposals for further study.

As discussed in Chapter 1, the problem statement of the study was presented in order to highlight the rationale of the study. The problem statement indicated that while strategic planning research in large organisations has been studied extensively, little attention has been paid to strategic planning of small and medium enterprises (O'Regan&Ghobadian 2002:663). It is evident that there is a strong argument from the literature that in today's unstable business environments, SMEs need to engage in strategic planning if they are to maintain their position as key economic players. However, strategic planning has not significantly filtered down to the SME sector and those , which engage in strategic planning practices, have plans which are unstructured, less comprehensive and sporadic (Lobontiu 2002:11). There is little evidence of empirical research that has sought to evaluate strategic planning within the sphere of small business research (French *et al.* 2004:765). There is need for more systematic research aimed at revealing the impact of particular types of strategic planning on SME performance.

The primary objective of the study was to evaluate the relationship between strategic planning and the performance of SMEs in the Gauteng province of South Africa. The next section revisits the theoretical and empirical objectives as well as the hypotheses in order to establish if they were all realised. The theoretical objectives will be evaluated first, followed by an evaluation of empirical objectives, thereafter the section will provide an evaluation of hypotheses as stated in Chapter 1.

### 7.2.1 Evaluating the theoretical objectives

The theoretical objectives were realised through the review of relevant literature. The following are the theoretical objectives that were formulated as indicated in Chapter 1 (section 3.2).

- To conduct a literature review on SMEs in general, and their role in the global and South African economy
- To conduct a review of literature on the challenges faced by SMEs as well as the support mechanisms, which they need to develop.
- To conduct a literature review on the strategic planning process, strategic planning tools, techniques and performance outcomes in SMEs
- To conduct a literature review on the relationship between business performance and strategic planning.

**Theoretical objective 1** was realised in sections ranging from 2.1 to 2.3 of this study. To achieve this, several sources of information were used. These include textbooks, research articles, policy research working papers and government publications. The main aspects that were discussed in this section include the definitions of SMEs, their characteristics, and their role in the South African and global economy. The key role that is played by SMEs in social and economic development is their contribution to employment creation, GDP, innovation, and export revenue generation.

**Theoretical objective 2** was addressed in sections 2.4 to 2.6, which discussed the various challenges that are faced by the SME sector and the support mechanisms that are needed for the development of these SMEs. The challenges that were discussed are the shortage of skilled labour, lack of management skills, marketing problems, input constraints, production and technology problems, and poor infrastructure. The support mechanisms that were reviewed are as follows, management capacity building, financial assistance, marketing skills training and assistance, simplification of regulations, and co-operative partnerships.

A literature review of the strategic planning process, tools, and techniques, that were discussed in Chapter 3 assisted in achieving **theoretical objective 3**. The main components in the strategic

planning process that were discussed include, the formulation of mission and vision statements, the formulation of objectives, scanning the environment, establishing the strategies, implementing the strategies, and lastly the monitoring, evaluation, and control of strategy implementation. The strategic planning tools and techniques that were addressed are PEST analysis, Porter's five forces, value chain analysis, BCG matrix, gap analysis, and SWOT analysis.

**Theoretical objective 4**, which is concerned with a literature review on the relationship between business performance and strategic planning, was addressed in Chapter 4 (section 4.5). A comparative analysis between objective performance indicators and subjective measures on performance was carried out. The various performance frameworks were also presented. Previous studies on the relationship between strategic planning and business performance were reviewed.

### **7.2.2 Evaluating empirical objectives**

As indicated in section 3.3 of this study, the following empirical objectives were formulated:

- To ascertain the dimensions of the strategic planning process adopted by SMEs
- To establish whether there are any significant differences among respondents according to gender, age and the position occupied in the SME and the strategic planning practices
- To establish the relationship between strategic planning practices and business performance
- To evaluate the relationship between strategic planning practice and future plans of the business
- To examine the relationship between SME performance and future plans of the business.

In order to achieve **empirical objective 1**, factor analysis was conducted to establish the main components of strategic planning that are utilised by the SMEs. The first factor is **environmental scanning**, which measures how SMEs assess their business environment in order to respond to changes taking place in the environment. Due to the increased complexity of the competitive environment, SMEs scan their business environment as this enables them to gather

information that is useful in their strategic planning activities. For example, these SMEs utilise the environmental scanning techniques such as the SWOT analysis, PEST analysis, value chain analysis, benchmarking, and Porter's five competitive forces, to analyse the market conditions. In this study, the factors that SMEs are interested in are the economic and social factors.

**A business mission and vision statement** is the second factor, which shows the reason for the existence of the business and its future aspirations. The reason for SMEs to make use of a mission and vision statement is that it enhances business performance as it reminds employees of key organisational values that provide general guideline to diagnoses and solution to problems (Kantambura 2010:37).

The third factor is the **formality of strategic planning** and it describes the extent to which the strategic plan is presented in written form. The respondents indicated that they present the strategic plan in facts and figures, and that the plan can be adjusted if necessary. This shows that the strategic planning process in many of these enterprises is formalised because they are operating in a complex, competitive and dynamic environment. The use of a formalised strategic plans help the business to acquire more relevant knowledge about the environment, and hence use proper strategies to effectively achieve business goals (Kraus *et al.* 2006:336).

The fourth factor is **evaluation and control**, which describes the monitoring, evaluation and control of progress in goal achievement. SMEs evaluate and control the progress in the implementation of strategies in order to take corrective action to correct deviations from the standards set. The respondents in the study, therefore, view evaluation and control as an important construct in their strategic planning practices. According to Ehlers and Lazenby (2007:275), through continuous monitoring and control, businesses are able to achieve competitive advantage through its ability to maintain a fit between objectives and strategies. Most enterprises, therefore, do follow-ups to check on the level of goal achievement.

The fifth factor is the **source of information about the environment**. The results indicate that SMEs mainly use information, which they gather from the external sources such as trade

meetings, watching competitors and the media. This infers that in order to acquire information about the environmental changes, SMEs rely mainly on external sources.

**Strategy implementation incentive** is the sixth factor and it relates to the reward system that is used by SMEs to secure employee commitment to the strategic plan. The findings demonstrate that SMEs make use of incentives in the form of profit shares and non-monetary rewards to motivate their employees to work hard in order to implement the strategic plan successfully. This indicates that SMEs use incentives because they believe that rewarding employees is a necessary condition for a successful strategic planning implementation process.

The construct of **employee participation in strategic planning** is the seventh factor and it consisted of issues relating to the extent to which employees are consulted and involved in the strategic planning process. The SMEs indicated that they do involve employees in the strategic planning process. A participative strategic planning process is encouraged because it leads to unity of purpose, cooperation, and employee motivation (Gadiesh & Gilbert 2001:16; Speculand 2009:169).

The last factor is the **time horizon of strategic planning**, which is concerned about the length of the strategic plans used by SMEs. Most of the SMEs indicated that they make use of three to four year strategic plans, thereby inferring that generally the owners/managers have a medium term focus for their businesses.

From this discussion, it is evident that these SMEs are mission and vision driven, scan the environment, have formalised strategic plans, gather information mainly from external sources, make use of incentives in strategy implementation, use medium-term strategic plans, and involve employees in the strategic planning process.

**Empirical objective 2** was achieved under section 6.6, as depicted in Tables 6.12, 6.13 and 6.14, where independent tests were conducted to establish the distribution of the eight factors of strategic planning (environmental scanning, business mission and vision, formality of strategic planning, evaluation and control, source of information about the environment, strategy

implementation incentives, employee participation, and time horizon of strategic planning) across demographic variables, namely gender, age, and position occupied by the respondents in the business. A comparison of the means across the gender and age categories for each strategic planning factor demonstrated that the decision to strategically plan does not depend on the gender and age of the owner/manager of the SME. In addition, with regard to the position occupied by a respondent in the business, the mean values across the position categories for each strategic planning factor revealed that the seven factors, with the exception of factor 2 (business mission and vision statement), had mean scores that did not have a significant difference. Table 6.14 shows that the position of a Chief Executive Officer (CEO), followed by that of a Senior Manager, are the ones that made use of mission and vision statements more than other positions such as the junior officer and the owner of the business.

With reference to empirical **objective 3**, the conclusions were made based on the results obtained under sections 6.7 and 6.8. Both correlations and regression analyses were used to establish the relationship between strategic planning and business performance. The results presented in Table 6.15 show that the correlations between business performance and the eight factors of strategic planning factors, namely environmental scanning, business mission and vision, formality of strategic planning, evaluation and control, sources of information about the environment strategy, implementation incentives, employee participation, and the time horizon of strategic planning, are significant. This is a demonstration that strategic planning is positively correlated to business performance. The findings of the regression analysis depicted in Table 6.18 indicate that there is a positive predictive relationship between strategic planning factors and subjective business performance for South African SMEs. Therefore, high prevalence of strategic planning activities leads to high levels of business performance.

With regard to **empirical objective 4**, regression analysis was also used to ascertain the relationship between strategic planning and future plans. The results presented in Table 6.23 show an F-value of 20.81, which is indicative of the significance of the model in explaining the relationship between strategic planning and future plans. This means that all the strategic planning factors are predictors of future plans.



The use of regression analysis helped to achieve **empirical objective 5**, whereby the relationship between SME performance and the future plans of the business was examined. The regression results depicted in Table 6.25 show that business performance has a positive relationship with future plans. It can, therefore be concluded, that high levels of business performance impact positively on future plans of the business. The more a business performs, the more it plans to practice strategic planning.

### **7.2.3 Evaluating the hypotheses**

The hypotheses which were proposed in Section 3.4 are as follows:

- H<sub>1</sub>*: Strategic planning exhibits a positive relationship with SME performance measured by perceptual measures of performance.
- H<sub>2</sub>*: Strategic planning exhibits a significant predictive relationship with SME performance measured by perceptual business performance measures.
- H<sub>3</sub>*: Strategic planning exhibits a positive relationship with the future plans of the business.
- H<sub>4</sub>*: Strategic planning exhibits a significant predictive relationship with future plans of business.
- H<sub>5</sub>*: SME performance measured by perceptual performance indicators exhibits a positive relationship with the future plans of the business.
- H<sub>6</sub>*: SME business performance exhibits a significant predictive relationship with future plans of the business.

Hypotheses one to six were tested using correlation and regression analyses. The outcomes of the correlation and regression tests are depicted in Table 7.1

**Table 7.1 Hypotheses testing and outcomes**

<b>Hypothesis</b>	<b>Decision</b>
<i>H1</i> : Strategic planning exhibits a positive relationship with SME performance measured by perceptual measures of performance.	Hypothesis accepted
<i>H2</i> : Strategic planning exhibits a significant predictive relationship with SME performance measured by perceptual business performance measures.	Hypothesis accepted
<i>H3</i> : Strategic planning exhibits a positive relationship with the future plans of the business.	Hypothesis accepted
<i>H4</i> : Strategic planning exhibits a significant predictive relationship with future plans of business.	Hypothesis accepted
<i>H5</i> : SME performance measured by perceptual performance indicators exhibits a positive relationship with the future plans of the business.	Hypothesis accepted
<i>H6</i> : SME business performance exhibits a significant predictive relationship with future plans of the business.	Hypothesis accepted

The results in Table 7.1 show that strategic planning has a positive association and predictive relationship with business performance and the future plans of the business. The results also indicate that business performance has a positive association and predictive relationship with the future plans of the business.

In summary, the following conclusions can be made. First, the majority of SMEs:

- are mission and vision driven
- scan the environment
- use formalised strategic plans
- use reward systems to motivate employees in goal achievement
- involve employees in the strategic planning process
- make use of medium-term strategic plans
- do follow-ups to check goal achievement
- gather information mainly from external sources.

Secondly, the gender, age and occupation of the respondent do not matter in strategic planning practices. The only strategic component that depends on the occupation of the respondent is the use of mission and vision statements in the strategic planning process. In this case, CEOs and Senior Managers make use of mission and vision statements more than other occupations. Thirdly, strategic planning has a positive predictive relationship with the SME performance. Fourthly, strategic planning exhibits a mixed relationship with the future plans of the business. Fifthly, SME performance exhibits a positive predictive relationship with the future plans of the business.

### **7.3 RECOMMENDATIONS**

Increased competitive pressures in the South African economy brought about by numerous foreign companies investing in the country, heightened pace of technological change, and the constantly changing needs of today's consumers, can pose a serious threat to the survival and success of the SME sector. SMEs therefore need a proper strategic planning framework that can cushion them from these eventualities. The positive relationship between strategic planning and SME performance should encourage SMEs to practice strategic planning more and more. By doing so, they enhance their performance, increase their chances to grow, and consequently strengthen the national economy.

Given the important contribution that SMEs make to a nation's economic growth, and the role that they play in the reduction of poverty, it is important that these enterprises are provided with some recommendations to assist they improve their strategic planning practices.

#### **7.3.1 Recommendations based on regression relationships**

The findings obtained from regression tests reveal that for SMEs to improve their performance, they should practice strategic planning. All the strategic planning components (environmental scanning, mission and vision statement, formality of strategic planning, sources of information about the environment, strategy evaluation and control, strategy implementation incentives, employee participation in the strategic planning process and the time horizon of strategic

planning) need to be enhanced in order to improve their performance. SMEs owners/managers should, therefore, make every effort to practice more strategic planning activities to enhance their competitiveness.

### **7.3.2 Recommendations based on environmental scanning**

There is need for businesses to scan the environment due to high levels of competition, uncertainty and turbulence. This will assist them to gather information from the environment that is useful in strategic planning (Karami 2008:4). SMEs should therefore scan the environment more than they currently do so that they are able to make informed decisions. Many owners/managers of South African SMEs seem to lack knowledge about the application of some environmental scanning techniques, as they indicated that they make use of only a few of them, namely SWOT and PEST analyses. Most of the techniques such as Porter's five competitive forces, value chain analysis, the gap analysis and benchmarking, are rarely used by these SMEs. It is recommended that in order to address this knowledge gap, the government can assist by providing training on basic strategic planning education. This can be realised through funded or subsidised workshops, short courses, flexible university or college courses. This may help to improve the environmental scanning skills and knowledge of SME owners and managers.

### **7.3.3 Recommendations based on business mission and vision**

In order to establish a common purpose, inspire and motivate personnel in the business, (Forbes & Seena 2006:409), SMEs need to increase the usage of mission and vision statements. According to Mazzarol *et al.* (2009:338), SMEs need to recognise the importance of having a clear mission and vision statement, which is communicated to the employees. Being mission and vision driven will help them to have more focus about their long-term future, and hence goal achievement.

### **7.3.4 Recommendations based on the formality of strategic planning**

Due to the increased complexity of their competitive environment, strategic planning in SMEs need to be more formalised. Although not a panacea to business success, having a formalised and documented strategic plan will enable SMEs to communicate their intentions and to meet the requirements for government grant and bank loan applications. A formal strategic plan is also

likely to require the owner/manager of the SME to review the business' vision, mission, and the external market conditions (Mazzarol *et al.* 2009:338). It is also recommended that policy makers and academics assist SME owners/managers through education programmes that train them to draft strategic plans.

### **7.3.5 Recommendations based on evaluation and control**

As noted in the literature review, more frequent monitoring, evaluation and controls of strategy implementation enable a business to timely and cost-effectively adapt strategies and plans in order to strike a balance between the present and the planned situation. Owners/managers of SMEs seeking to improve their performance; therefore, need to constantly monitor and evaluate the progress in goal achievement. This will help them to address problems in strategy implementation and to raise employee morale because employees achieve gratification if the set goals are achieved.

### **7.3.6 Recommendations based on the source of information about the environment**

The owners/managers of SMEs indicated that they rely on external sources for information about the environment conditions. However, they are likely to benefit if they gather information about strategic planning from both internal and external sources.

### **7.3.7 Recommendation based on strategy implementation incentives**

The reward system, mainly in the form of profit shares and non-monetary rewards, was commonly used to motivate employees to be committed to the strategic plan. To secure increased employee motivation levels, SMEs need to make use of more diversified incentives that could include salary raises, promotions, titles, trophies, holiday assistance, and house and car purchase assistance.

### **7.3.8 Recommendation based on employee participation in strategic planning**

The owners/managers also need to inform and involve many employees in the strategic planning process as their participation leads to motivation, and hence commitment to goal achievement. A more participative strategic planning process will ensure cooperation and positive relationships among employees (Speculand 2009:169).

### **7.3.8 Recommendations based on the time horizon of strategic planning**

Many SME owners/managers indicated that they make use of a relatively medium time horizon of strategic plans. Rather than a short-term or medium-term perspective, it may be in the best interest of SMEs if they adopt a long time horizon when engaging in the strategic planning process, as this may assist them to have a long-term direction of the business (Dincer *et al.* 2006:218).

## **7.4 LIMITATIONS OF THE STUDY**

Although this study has provided some useful information about the relationship between strategic planning and SME performance measured by perceptual performance indicators, the results of study may be interpreted with caution because of the following limitations. The use of structured questionnaires to collect data limited the depth of information received from the owners and managers of SMEs. Having been justified by several writers (Falshaw *et al.* 2005:16; Tapinoset *al.* 2005:37; Chow & Van der Stede 2006:2; Chong 2008:2), the subjective approach was used in this study to measure the business performance of SMEs. In other words, instead of looking into the objective measures of business performance, the study relied on the perceptions of the owners/managers. The reliance on the subjective views of SME owners/managers is a limitation in the study in terms of generalisation of the results to other SMEs because they could have different views about strategic planning and business performance. The subjectivity in the answers that may be given by the respondents might not show the actual situation in the business. The sample population for the study was drawn from Gauteng province, and taking into account that there are several SMEs operating in other South African provinces whose conditions might be different from those found in Gauteng, therefore the generalisation of the results needs to be treated with caution. Due to the large number of enterprises in South Africa, the size of the sample that was used in this study may also be a shortcoming. However, every attempt was made to reach as many of the respondents.

## **7.5 AVENUES FOR FURTHER STUDY**

While the results of this study develop our understanding of the relationship between strategic planning and the business performance of SMEs in South Africa, there are many potential areas for further research. First, a quantitative research design was used in this study. It will be worthwhile to investigate the relationship between strategic planning and business performance using triangulation methodology, which utilises both qualitative and quantitative paradigms, whereby a qualitative design may be used to make follow-ups to the responses provided in the quantitative design. By doing so, the quantitative responses are validated by these follow-ups. Secondly, this study focussed on perceptual measures to measure business performance. Future research could enrich our understanding of the relationship between strategic planning and business performance if both subjective measures and financial indicators of business performance are combined. Furthermore, this study focussed only on SMEs that are operating in Gauteng province of South Africa. Future research could replicate the study in other provinces in order to test the validity and reliability of the scale. Another prospect for future research is to conduct comparative studies of the relationship between strategic planning and business performance, for example between SMEs in a developed and an emerging country, or between privately owned large businesses and public sector enterprises. Other institutions, such as family businesses and non-governmental organisations that may have different strategic planning practices must also be examined. On the other hand, this study examined SMEs falling under different sectors. It will be an interesting extension of the study if future research examines the strategic planning and business performance relationship within a specific sector, as those findings are more focussed and relevant to that specific industry.

## **7.6 SIGNIFICANCE OF THE STUDY**

The study could be valuable to SMEs in that it extended the knowledge of strategic planning practices, techniques and processes, which could result in enterprise growth and competitiveness. The results of the study should also assist managers in understanding the strategic paths through which strategic planning can assist a business achieve a future desired position. In particular, the findings of the study have suggested the mechanism, which could be used by managers to adopt strategic planning in order to gain competitive advantage. In essence, this research, combined

with the results of the previous studies, may serve as a tool for small businesses to improve the effectiveness of strategic planning and their sustainability.

## **7.7 CONCLUDING REMARKS**

There is no consensus among strategic management scholars as regards the relationship between strategic planning and business performance. The major objective of this study was to establish the relationship between strategic planning and the performance of SMEs in Gauteng. The pertinent dimensions of strategic planning that emerged in this study indicate that SMEs do scan the environment, use formal strategic planning, have got business mission and vision in place, consult employees in strategic planning, use incentives in strategy implementation, monitor, evaluate and control the strategic planning practices, use long term plans and use various source to study the business environment. The results of the study confirm that strategic planning exhibits a positive predictive relationship with the performance of SMEs. The results lend support to previous streams of research, which demonstrate that the practice of strategic planning has a positive relationship with business performance (Efendioglu & Karabulut 2010:3; McIlquham-Schmidt 2010:2; Wilson & Eilertsen 2010:14). As mentioned in earlier studies (O'Regan & Ghobadian 2004:292; Gruber 2007:782 & Vekaisri 2007:55) the practice of strategic planning improves the performance of SMEs. These studies report similar results as compared to the findings of this study. It means that the practice of strategic planning enhances the performance of SMEs.

Another important finding of the study was that strategic planning exhibits a positive predictive relationship with the future plans of the business. The finding complies with the results reported in prior studies (Dincer *et al.*2006:210; Forbes & Seena 2006:409). The study underscores the need to practice strategic planning so that SMEs focus on goal achievement and growth. Strategic planning also provides SMEs with direction about the future (Forbes & Seena 2006:409). It means that the practice of strategic planning results in SMEs having more future plans about their businesses.



The results of this study also show that business performance exhibits a positive predictive relationship with future plans of the business. This could indicate that SMEs, which manage to improve their performance are likely to develop a future orientation. It therefore means that the more SMEs improve their performance, the more they develop future plans about their business.

Therefore, SMEs operating in the South Africa economy need to practice strategic planning in order to improve their performance. Through strategic planning practices, South African SMEs are cushioned from the dynamic, highly competitive and unstable business environment. The practice of strategic planning may help them to improve their business management effectiveness and consequently, enhance their competitiveness, sustainability and success.

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## APPENDIX A : QUESTIONNAIRE



**Vaal University of Technology**

**Kempton Park Campus**

**24 Plane Road**

**Spartan 1619**

**July 19 2011**

**Dear Respondents**

I am a Doctoral Degree student in the Logistics Department at Vaal University of Technology. In fulfilment of the requirements for the degree, I am conducting a study of **Strategic Planning and its relationship with the performance of Small and Medium businesses (SMEs)**. The objective of this thesis is to obtain a better understanding of the effect of the practice of strategic planning on business performance. The results of this study will provide recommendations that may assist in improving the effectiveness of strategic planning and sustainability of SMEs.

Enclosed with this letter is a questionnaire that requires you to respond to a series of statements. The items in the questionnaire focus on your business' strategic planning practices. In addition, the items also ask you if the practice of strategic planning has improved or not improved the performance of your business. Finally, the questionnaire includes statements evaluating your future intentions about strategic planning in your business. In case you need to know the results of the study please feel free to contact me so that I can avail them to you.

May I stress that your participation is voluntary and confidential.

After completing the questionnaire may you please kindly e-mail it back to me. If you have any problems or concerns about completing the questionnaire, please contact me on contacts indicated below.

Thank you in advance for your valuable time and effort taken in completing this questionnaire.

**Yours sincerely**

**Maxwell Sandada**

**011 929 7400**

**0731916802**

**maxwells@vut.ac.za or maxwell.sandada@yahoo.com**



*Questionnaire*  
**STRATEGIC PLANNING AND ITS RELATIONSHIP WITH BUSINESS PERFORMANCE**

The purpose of this study is to investigate the relationship between strategic planning and the business performance of small and medium businesses.

**SECTION A**  
**GENERAL INFORMATION**

The section is asking your background information. Please indicate your answer by ticking (✓) on the appropriate box.

A1 Please indicate your gender

Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
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A2 Please indicate your age category

20-25	<input type="checkbox"/>	26-35	<input type="checkbox"/>	36-45	<input type="checkbox"/>	46-55	<input type="checkbox"/>	56 & older	<input type="checkbox"/>
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A3 Indicate your current position in your organisation

Owner	<input type="checkbox"/>
CEO	<input type="checkbox"/>
Senior Manager	<input type="checkbox"/>
Junior Manager	<input type="checkbox"/>
Other (Specify)	<input type="checkbox"/>

A4 Please indicate your highest academic qualification

Matriculation	<input type="checkbox"/>
Certificate	<input type="checkbox"/>
Diploma	<input type="checkbox"/>
Degree	<input type="checkbox"/>
Post graduate degree	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>

A5 Please indicate the number of employees in your business

1-49		50-200		200+	
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A6 Please indicate the type of industry that your business belongs

Agriculture	
Mining/quarrying	
Manufacturing	
Electricity/gas/water	
Construction	
Wholesale/Retail	
Motor trade & repair services	
Commercial agents	
Tourism/Catering	
Transport/storage/communications	
Finance & business services	
Community/social/personal services	

A7 Please indicate the number of years that your organisation has been in business

5yrs or fewer		6 to 10yrs		11 to 20yrs		21yrs or more	
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**SECTION B**

**STRATEGIC PLANNING PRACTICES**

Below are statements about strategic planning practices. You can indicate the extent to which you agree or disagree with the statement by ticking the corresponding number in the 5 point scale below:

1	2	3	4	5
strongly disagree	disagree	moderately agree	agree	strongly agree

*Please tick only one number for each statement*

To what extent do you agree with the following statement?

B1	The business has a formal written mission statement	Strongly disagree	1	2	3	4	5	Strongly agree
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B2	There is a clear vision statement about the future of the business	Strongly disagree	1	2	3	4	5	Strongly agree
B3	Everyone is aware of the mission of the business	Strongly disagree	1	2	3	4	5	Strongly agree
B4	Everyone is aware of the vision of the business	Strongly disagree	1	2	3	4	5	Strongly agree
B5	The business has medium/long term objectives in place	Strongly disagree	1	2	3	4	5	Strongly agree
B6	All business activities are objectives driven	Strongly disagree	1	2	3	4	5	Strongly agree
B7	Top managers are responsible to establish business mission, vision, objectives and strategies	Strongly disagree	1	2	3	4	5	Strongly agree
B8	Supervisors are responsible to establish business mission, vision, objectives and strategies	Strongly disagree	1	2	3	4	5	Strongly agree
B9	Employees are responsible to establish business mission, vision, objectives and strategies	Strongly disagree	1	2	3	4	5	Strongly agree
B10	Employees are consulted in the strategic planning process	Strongly disagree	1	2	3	4	5	Strongly agree
B11	Formal meetings are used to convey information about strategic planning	Strongly disagree	1	2	3	4	5	Strongly agree
B12	Written memorandums are used to communicate information about strategic planning	Strongly disagree	1	2	3	4	5	Strongly agree
B13	The business prepares an up to 3 years strategic plan	Strongly disagree	1	2	3	4	5	Strongly agree
B14	The business prepares an up to 4 years strategic plan	Strongly disagree	1	2	3	4	5	Strongly agree
B15	The business prepares an up to 5 years strategic plan	Strongly disagree	1	2	3	4	5	Strongly agree
B16	There is open dialogue of the strategic planning procedures	Strongly disagree	1	2	3	4	5	Strongly agree
B17	The strategic plan can be adjusted when the need arises	Strongly disagree	1	2	3	4	5	Strongly agree
B18	Formal methods (facts, figures) are used to present the strategic plan	Strongly disagree	1	2	3	4	5	Strongly agree
B19	Information about the business environment is conducted on a continuous basis	Strongly disagree	1	2	3	4	5	Strongly agree
B20	The business conducts environmental scanning in order to be informed about technological advances	Strongly disagree	1	2	3	4	5	Strongly agree
B21	The business conducts environmental scanning in order to be informed about customers and their needs	Strongly disagree	1	2	3	4	5	Strongly agree
B22	The business conducts environmental scanning in order to be informed about competitors	Strongly disagree	1	2	3	4	5	Strongly agree
B23	The business conducts environmental scanning in order to be informed about economic trends	Strongly disagree	1	2	3	4	5	Strongly agree
B25	The business conducts environmental scanning in order to be informed about social changes	Strongly disagree	1	2	3	4	5	Strongly agree
B27	Trade meetings are the main source of information about changes in the business environment	Strongly disagree	1	2	3	4	5	Strongly agree

B28	Watching competitors is the main source of information about changes in the business environment	Strongly disagree	1	2	3	4	5	Strongly agree
B29	Media is the main source of information about changes in the business environment	Strongly disagree	1	2	3	4	5	Strongly agree
B30	Suppliers are the main source of information about changes in business environment	Strongly disagree	1	2	3	4	5	Strongly agree
B32	Formal methods (computers, manual files) are used to store information	Strongly disagree	1	2	3	4	5	Strongly agree
B33	The business conducts the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis	Strongly disagree	1	2	3	4	5	Strongly agree
B34	The business conducts the PEST (Political, Economic, Social and Technological) analysis	Strongly disagree	1	2	3	4	5	Strongly agree
B35	The business uses the value chain analysis technique to gather information	Strongly disagree	1	2	3	4	5	Strongly agree
B36	The organisation uses benchmarking to assess the conditions in the market	Strongly disagree	1	2	3	4	5	Strongly agree
B37	The organisation uses Porter's five forces to assess the conditions in the market	Strongly disagree	1	2	3	4	5	Strongly agree
B38	The business rewards employees with bonuses to enforce commitment towards carrying out the strategic plan	Strongly disagree	1	2	3	4	5	Strongly agree
B40	Profit shares are used to motivate employees to be committed to strategy implementation	Strongly disagree	1	2	3	4	5	Strongly agree
B41	Non-monetary rewards are used to motivate employees to be committed to carry out the plan and accomplish goals	Strongly disagree	1	2	3	4	5	Strongly agree
B42	Benchmarking against set objectives is used to check progress in the plan implementation	Strongly disagree	1	2	3	4	5	Strongly agree
B43	To monitor progress in plan implementation, the business compares the previous year performance with that of the current year	Strongly disagree	1	2	3	4	5	Strongly agree
B44	A formal method is used to monitor and evaluate progress	Strongly disagree	1	2	3	4	5	Strongly agree
B46	Half year reviews are used to evaluate progress	Strongly disagree	1	2	3	4	5	Strongly agree
B47	Quarterly reviews are done to monitor progress	Strongly disagree	1	2	3	4	5	Strongly agree
B49	Feedback about progress in goal achievement is done during regular scheduled meetings	Strongly disagree	1	2	3	4	5	Strongly agree
B50	Memorandums are used to provide feedback to employees	Strongly disagree	1	2	3	4	5	Strongly agree
B51	Feedback about progress in goal achievement is done in Company Performance Results Postings	Strongly disagree	1	2	3	4	5	Strongly agree

## **SECTION C**

### **BUSINESS PERFORMANCE**

Below are statements about the effect of the practice of strategic planning on your business performance where you are required to indicate the extent to which you agree or disagree with the statement by ticking the appropriate number where:

**1=strongly disagree 2= disagree 3= moderately agree 4= agree 5= strongly agree**

***Tick only one number for each statement.***

1	2	3	4	5
strongly disagree	disagree	moderately agree	agree	strongly agree

C1	Customers satisfaction has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C2	The business has introduced new products	Strongly disagree	1	2	3	4	5	Strongly agree
C3	The image of the business has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C4	The number of employees has increased	Strongly disagree	1	2	3	4	5	Strongly agree
C5	The volume of sales has increased	Strongly disagree	1	2	3	4	5	Strongly agree
C6	The business' market share has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C7	Employee satisfaction has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C8	The ability to attract and keep qualified /experience employees has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C9	The quality of product/services has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C10	Employee motivation has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C11	Innovative activities have increased	Strongly disagree	1	2	3	4	5	Strongly agree
C12	The business has improved its ability to obtain loans	Strongly disagree	1	2	3	4	5	Strongly agree
C13	Trust by suppliers has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C14	Contacts with key players in the industry have improved	Strongly disagree	1	2	3	4	5	Strongly agree
C15	Ability to get government approval has improved	Strongly disagree	1	2	3	4	5	Strongly agree
C16	Productivity levels have improved	Strongly disagree	1	2	3	4	5	Strongly agree

## **SECTION D**

### **FUTURE PLANS**

*Below are statements about your business' future plans on the practice of strategic planning. You may agree or disagree with each statement by ticking the appropriate number provided where:*

1	2	3	4	5
strongly disagree	disagree	moderately agree	agree	strongly agree

*Please tick only one number for each statement*

D1	There are plans to expand the organisation	Strongly disagree	1	2	3	4	5	Strongly agree
D2	Plans are in place to increase market share	Strongly disagree	1	2	3	4	5	Strongly agree
D3	The organisation will in the near future export products or services	Strongly disagree	1	2	3	4	5	Strongly agree
D4	There are plans to increase the use of more strategic planning technique and tools	Strongly disagree	1	2	3	4	5	Strongly agree
D5	Plans are underway to make use of more and latest information and computer technology in business operations	Strongly disagree	1	2	3	4	5	Strongly agree
D6	The business intends to acquire more modern machines and equipments	Strongly disagree	1	2	3	4	5	Strongly agree
D7	The levels of productivity are going to be increased	Strongly disagree	1	2	3	4	5	Strongly agree
D8	Branches in other countries will be established	Strongly disagree	1	2	3	4	5	Strongly agree
D9	The organisation will employ more staff	Strongly disagree	1	2	3	4	5	Strongly agree
D10	There are serious efforts to retain experienced and qualified staff	Strongly disagree	1	2	3	4	5	Strongly agree
D11	The organisation intends to apply for long-term loans	Strongly disagree	1	2	3	4	5	Strongly agree

**THE END**