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## **Strategic business planning and success in small firms**

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**Abstract:** This paper attempts to identify the degree and the methods of strategic business planning in small enterprises. A broad literature review on strategic planning in small enterprises in entrepreneurship and strategy journals within the last 25 years reveals that strategic planning in small enterprises is still in its infancy, and the reports of its relationship regarding success are not consistent. This literature review serves as a starting point for the development of hypotheses. Using a sample of 248 small Austrian enterprises from various industries, we test if the time horizon of strategic plans, the degree of formalisation, the use of strategic planning instruments and the frequency of control relate to firm performance. We discover that the degree of formalisation has a positive, and highly significant, impact on firm performance. As a result, this paper seeks to provide a new conceptual definition of strategic planning in small enterprises.

**Keywords:** strategy; strategic; planning; entrepreneurship; success; SME; small enterprises; literature review.

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## 1 Introduction

Small and Medium-sized Enterprises (SMEs) play a key role in Europe's economies. They employ as much as two thirds of the private sector's total personnel, and account for more than half of the total revenues in the EU (Ackelsberg and Arlow, 1985). Therefore, it is of interest to identify factors that contribute to the success of these firms. Specifically, research investigates the relationship between strategic planning, which can be defined as the number of processes undertaken by a firm in order to develop strategies that will contribute to achieve performance (Tapinos et al., 2005), and firm performance in SMEs.

In previous research, arguments for and against positive performance implications of strategies in the context of SME have been put forward. On the one hand, strategic planning is said to generate new ideas, to broaden opportunities and to reduce uncertainty through better understanding of the corporate environment (Hodgetts and Kuratko, 2001). On the other hand, many decision makers within SMEs are convinced that "real entrepreneurs do not plan" (Posner, 1985, p.1), but should, moreover, use their scarce resources for activities like sales (Stone and Brush, 1996). Accordingly, authors like Bhidé (2000) or Mintzberg (1993) argue against formalised strategic planning in SMEs and in favour of more flexible approaches.

Empirical research on the performance implications of strategic planning in SMEs seems to be limited and contradictory. While some studies suggest a positive relationship between strategic planning and firm performance (e.g., Bracker et al., 1988; Lyles et al., 1993; Schwenk and Shrader, 1993), other research found no or negative correlations (e.g., Gibson and Cassar, 2002).

A possible reason for such differing results may be that previous studies investigated varying aspects of strategic planning in isolation. However, strategic planning can be regarded as a multi-attributive process (Rue and Ibrahim, 1998). Thus, we define strategic planning as a formalised, long-term, structuring process of planning, aided by specific instruments and being followed by frequent controls.

This paper seeks to contribute to the debate on the performance implications of strategically planning SMEs in two ways: first, it structures present research on strategic planning in small firms by means of a literature analysis covering the last two decades. Second, this paper analyses the performance implications of strategic planning based on a conceptual definition of strategic planning in SMEs that consists of a continuum of the

four elements *time horizon, degree of formalisation, use of strategic instruments and degree of control*.

The analysis will be based on a multi-industry sample of 248 small firms from Austria.

## **2 Literature review**

The literature analysis is based on a review of empirical studies that deal with strategic planning in SMEs. The analysis covers the last 25 years (1981–2005) and is based on a keyword search in leading entrepreneurship journals (Katz, 2003 names *Entrepreneurship Theory and Practice, Journal of Business Venturing, Journal of Small Business Management* and *Small Business Economics* as the most important ones) and strategy journals (e.g., *Strategic Management Journal, Long Range Planning, Journal of Business Strategy, Journal of Economics and Management Strategy*), as well as on further studies that resulted from a database search (EconLit, Business Source Premier, Academic Search Premier, SSCI, Science Direct, Emerald Management Xtra). The search was performed by scanning for the keywords ‘strategy’, ‘strategic’, ‘planning’, ‘SME’ and ‘young ventures’ in the titles and abstracts of empirical studies. Sources containing these key words were analysed in order to discover empirical research on the relationship between planning and performance in SMEs. Even though we believe that we have chosen an adequate basis for discovering empirical research on strategic planning in small firms by focusing on the most relevant journals in related disciplines, we discovered only 24 empirical studies. For such a long period of time, this seems to be a rather low number. This would indicate that empirical research on strategic planning in small firms is still in its infancy.

### *2.1 The scope of strategic planning in small firms*

Various empirical studies show that small firms do, in fact, plan. The scope, i.e., the extent, long-term horizon and formalisation of strategic planning in small firms is as follows: In a study from the 1990s, 83% of 115 SME managers stated that they plan formally and set functional goals (Naffziger and Kuratko, 1991). In another study on 159 small firms, 70% of the entrepreneurs responded as having a planning horizon of 1–3 years and 92% reported that they plan strategically (Stonehouse and Pemberton, 2002). Most entrepreneurs in the respective studies reported concentrating on short-term sales, cost and profit targets rather than longer-term goals. In addition, they reported that planning activities are rather intuitive or exist at a less sophisticated level.

### *2.2 Strategic planning and firm size*

The scope of strategic planning in small firms seems to depend on firm size (independent of whether size is measured by total capital, revenues, or number of employees) (Stonehouse and Pemberton, 2002). A study of 152 small firms showed that strategic planning was rarely undertaken by firms with fewer than five employees (Perry, 2001). The author argues that planning could be of limited value to micro-firms. For micro-firms, simple and intuitive approaches to planning could be more efficient, especially when only a few people are involved, i.e., where the communication of plans

does not require extensive written documents to be sent throughout the company. According to Perry (2001), there might be a minimum employment level (of e.g., 5–10 employees) below which formal planning has only limited value. He proposes that sophisticated strategic planning is likely to work best in firms with at least 15–20 employees.

Similarly, a study of 1211 small businesses in the Netherlands confirms that planning activities intensify with increasing firm size (Risseeuw and Masurel, 1994). Additional support is given by an investigation of small firms from Vietnam which found that larger firms are more involved in planning and use more sophisticated planning procedures than small ones (Masurel and Smit, 2000).

### *2.3 The role of the entrepreneur for strategic planning in small firms*

The role of the entrepreneur for strategic planning in small firms is substantial (Bracker and Pearson, 1986; Naffziger and Mueller, 1999). Specifically, the better educated the entrepreneurs are, the more likely it is that they think and act strategically. A study of small US firms determined that the founding members in 'planning' firms were more experienced and better educated than those in 'non-planning' firms and their firms, in turn, were more successful (Jones, 1982). A recent survey of Australian small firms discovered that firm leaders with university degrees plan more frequently than others (Gibson and Cassar, 2002). Their study additionally revealed that founders who are business administration graduates are more likely to apply business planning than founders who graduated in other disciplines. Because of the relation between the human capital of the founder/manager and planning, human capital was included as a control variable in our analysis.

### *2.4 Strategic planning and success*

Several empirical studies show that survival rates of small firms which use strategic planning techniques are higher than those of non-planning firms (Sexton and van Auken, 1982; Capon and Farley, 1994; Birley and Niktari, 1995). This holds true particularly for start-ups (Castrogiovanni, 1996; Delmar and Shane, 2003). Ineffective strategic planning is regarded as one of the main reasons for firm failure (Noble, 1999), and can be reduced by a higher degree of strategic planning (Perry, 2001). These results seem to contradict the perspective that SMEs could neglect planning because they might lack the required time and resources (Robinson and Pearce, 1984).

In addition to the probability of survival, strategic planning can also increase profitability, turnover growth, employment growth or reputation (Vesper, 1980; Sexton and van Auken, 1985). In sum, 79% of the studies of the literature review identified a positive correlation between strategic planning and success, whereas 21% found no, or mixed, relationships. This tends to suggest that there is broad support for a positive relationship between the degree of strategic planning and firm performance (Table 1).

Most of the empirical literature shows that strategic planning contributes significantly to success in SMEs. In one of the first reviews of studies about the relationship between strategic planning and financial success, Armstrong (1982) examined the performance impact of systematic business planning (i.e., having objectives, generating strategies, evaluating strategies, monitoring the process and commitment to the process) and concluded that planning positively affects success.

**Table 1** Strategic planning and performance in small firms (chronological)

<i>Author(s)</i>	<i>No. of firms</i>	<i>Firm type/ employees</i>	<i>Industry</i>	<i>Country</i>	<i>Relation</i>
Robinson and Littlejohn (1981)	67	Small	Cross-industry	USA	+
Jones (1982)	69	Small	69% manufacturing, 31% service	USA	+
Sexton and van Auken (1982)	357	SME	Cross-industry	USA	+
Robinson and Pearce (1983)	85	Small	Banks	USA	0
Robinson and Pearce (1984)	Meta-analysis (50 studies)*	SME	Cross-industry	USA	+
Robinson et al. (1984)	85	Small	Cross-industry	USA	+
Ackelsberg and Arlow (1985)	135	Small	Cross-industry	USA	+
Orpen (1985)	58	Small	Cross-industry	AU	+
Bracker and Pearson (1986)	188	Small	Cleaning industry	USA	+
Gable and Topol (1987)	179	Small	Retail	USA	0
Bracker et al. (1988)	217	SME (<100)	Electronics	USA	+
Shrader et al. (1989)	97	Small	Manufacturing, retail, service	USA	+/-
Lyles et al. (1993)	188	SME (<500)	Cross-industry	USA	+
Schwenk and Shrader (1993)	Meta-analysis (26 studies)*	SME	Cross-industry	USA	+
Risseeuw and Masurel (1994)	1211	Small	Real estate agencies	NL	+
Kargar and Parnell (1996)	47	Small	Banks	USA	+
Rue and Ibrahim (1998)	253	Small	Cross-industry	USA	+
Masurel and Smit (2000)	900	SME	Cross-industry	VN	+
Gibson et al. (2001)	2956	Small	Cross-industry	AU	0
Perry (2001)	152	SME (<500)	Cross-industry	USA	+
Gibson and Cassar (2002)	3554	SME (<200)	Cross-industry	AU	+
Griggs (2002)	137	SME	Cross-industry	AU	+
French et al. (2004)	127	Small	Service	AU	0
Wijewardena et al. (2004)	168	SME (<300)	Manufacturing	LK	+

+Significant positive relationship; +/-: mixed relationships; 0: no significant relationship.

\*Some of the investigated studies within the meta-analyses were distinctly older than 20 years and were, therefore, not included in the literature analysis.

Meta-analyses by Robinson and Pearce (1984) and by Schwenk and Shrader (1993) showed that strategic planning is positively and significantly related to success. An American study of 67 small firms discovered a positive relationship between strategic planning and financial success (Robinson and Littlejohn, 1981). Even simple planning activities can have a positive influence on small firm performance (Jones, 1982; Robinson et al., 1984). The process of (formal) planning itself seems to result in a better understanding of the business and in a broader range of strategic alternatives. Another study revealed that firms that plan strategically achieve better financial results (Ackelsberg and Arlow, 1985).

The evidence on the positive relationship between strategic planning and success was discovered in studies of small firms from different industries and regions, and can, therefore, be regarded as being generalisable for these kinds of companies (Bracker, Keats and Pearson, 1988; Masurel and Smit, 2000; Bracker and Pearson, 1986; Orpen, 1985; Griggs, 2002). However, there were also mixed results. A study on 97 small firms found that the direction of the relationship between strategic planning and success depends on the industry (Shrader et al., 1989), whereas several other studies did not find a relationship at all (e.g., Sexton and van Auken, 1985; Robinson and Pearce, 1983; Gable and Topol, 1987; Gibson et al., 2001; French et al., 2004). Possible reasons for the latter could e.g., be the fact that only single aspects of strategic planning have been investigated or that diverging definitions of strategic planning itself have been used.

### *2.5 Limitations of existing research*

While previous studies have already contributed substantially to the investigation of the performance implications of strategic planning in SMEs, there might be serious shortcomings. In particular, in most studies, the definitions of planning in general and strategic planning in particular that are used remain unclear. For example, some studies do not differentiate between strategic and operational planning, short- and long-term planning, the degree of formalisation (Hofer and Schendel, 1982) or planning sophistication, i.e., the extent of the refinement of a firm's planning process (Rue and Ibrahim, 1998). In addition to this, some studies investigate only one aspect of strategic planning, mostly regarding the degree of formalisation, e.g., the study by Lyles et al. (1993). Since strategic planning consists of many different aspects, these studies only highlight the performance implications of particular aspects of strategic planning, but not of strategic planning as a whole.

## **3 Development of hypotheses**

Even though there are different definitions of strategic planning in the literature, Rue and Ibrahim (1998) argue that the following criteria are most frequently used: long-term orientation, written form, the formulation of goals and strategies, evaluation and control. Based on this consensus, we analyse the performance impact of the time horizon of plans in Section 3.1, the degree of formalisation in Section 3.2, the use of instruments for strategic planning in Section 3.3 and the degree of control in Section 3.4, which we conceptualise as the constituent elements of strategic planning. We particularly assume that firm planning is more strategic: The longer the time horizon, the more formal the planning process is, and the more instruments are used and the more frequent the controls are.

### *3.1 Time horizon*

Long-term goals help to identify resource requirements at an early stage. Procurement becomes more flexible, and the firm might be able to wait for good offers. Moreover, long-term goals help to select resources which will actually be needed in the future, which thus avoids unnecessary purchases. In addition to that, long-term goals can motivate entrepreneurs and employees (Collins and Porras, 2005).

Usually, a time horizon of about three years is used to define strategic planning in larger firms (Rue and Ibrahim, 1998). However, for smaller firms, a shorter time horizon can also be considered as strategic. Generally, smaller firms are said to be more flexible than larger ones, but they often do not yet possess the experience and knowledge needed to plan ahead for such a long time (Ramanujam and Venkatraman, 1987). Accordingly, Robinson and Pearce (1984) found in their meta-analysis that the time horizon of business planning in smaller firms is significantly shorter than with larger ones, on average less than two years. Yet, a study of 150 young firms in Scotland found a positive correlation between long-term formal planning and performance (Smith, 1998). Another study on 58 small Australian firms revealed that the 'high performers' used a time horizon of their plans that was twice as long as those of the 'low performers' (Orpen, 1985). Thus, it can be assumed that the length of the time horizon of plans is positively related to firm performance. The following hypothesis is formulated:

*H1: The longer the time horizon of strategic planning, the more successful the firm is.*

### 3.2 Formalisation

Formalisation is the process of writing down the company targets and (corporate and functional) strategies to reach those targets (McKiernan and Morris, 1994).

There are arguments in favour of, and against, positive performance implications of formal plans. On the one hand, formal business planning can lead to a better understanding of the business and to the discovery of a broader range of strategic alternatives (Schwenk and Shrader, 1993). A formal plan is a document, and thus also tangible knowledge, which can be duplicated and shared with more than one person at a time. Therefore, formal plans can generate more feedback than informal plans. Moreover, formal plans allow for a synopsis of multiple planning areas. Thus, the entrepreneur is able to see connections which otherwise would have gone unnoticed in informal planning. On the other hand, formal planning might be more time-consuming than informal planning. For example, the average time to write a business plan is 36.6 man-days (Kraus, 2006). The time for formalised planning, as Stone and Brush argue, might be more efficiently spent on operations rather than on planning activities.

Empirical support for the positive performance implications of formal planning is given by Lyles et al. (1993). The authors split their sample into *formal* and *non-formal* planners. Turnover growth of the formal planners was twice as high as that of the non-formal planners. The authors concluded that firms which plan in a formal way also attach great importance to the quality of the strategic decision-making processes, and that decision-makers develop greater knowledge of the strategic issues through the process of planning.

Based on the conceptual arguments and on the empirical evidence, the following hypothesis is postulated:

*H2: The higher the degree of formalisation of planning, the more successful the firm is.*

### 3.3 Use of strategic instruments

Strategic instruments are tools which help to align strategic thinking. They can be used for the identification of a firm's goals and strategies (Christensen et al., 1982).

Among the instruments which might be able to be used in SMEs are the analysis of financial data, analysis of the environment (industry, legal issues, etc.), and the SWOT analysis (the analysis of the own strength/weaknesses in comparison to competition as well as the chances/risks in the market). Other well-known strategic instruments, such as e.g., benchmarking, gap analysis (a tool that visualises the firm's performance trajectories depending on various strategic actions) or balanced scorecard (a tool that translates an organisation's mission and strategy into operational performance metrics), which could presumably be used in smaller enterprises as well, are often unfamiliar to SME managers or owners, especially when they do not have an educational background in business administration (Gibson and Cassar, 2002). Since the use of several strategic instruments can be regarded as beneficial for the strategic planning process in SMEs as well (McKiernan and Morris, 1994), the following hypothesis is postulated:

*H3: The more that strategic instruments are used for planning, the more successful the firm is.*

### *3.4 Control of plans*

Control enables long-term plans to be adjusted in a flexible way. This is needed when current developments diverge from the predicted trends that were underlying the previous plans. Frequent check-ups help to change the plans and to respond to the new circumstances quickly and, therefore, in a cost-efficient way (Helms et al., 2005). Control not only helps to detect irregularities, but also to handle complex situations, cope with uncertainty, or identify opportunities. Furthermore, it can serve as a motivating factor for employees when e.g. achieved goals result in gratification or awards (Collins and Porras, 2005).

In empirical studies on strategic planning in small firms, little attention has been given to the performance impact of the control aspect of strategic planning. A recent study shows that the control of plans and goal achievement contributes significantly to firm success. The authors conclude that control is a major part of any effective planning system (Wijewardena et al., 2004).

A study of 207 large American firms revealed that companies which analyse the reasons for past performance and actively seek possible reasons for deviations from plans were more successful than those who did not (Ramanujam and Venkatraman, 1987). The high performers seemed to learn from past errors better than other firms. It can be concluded that the frequency of control of strategic planning is positively correlated with firm success in SMEs as well. Therefore, the following hypothesis is formulated:

*H4: The more frequent the control of strategic plans, the more successful the firm is.*

## **4 Methods**

### *4.1 Sample*

Our analysis is based on data of young Austrian SMEs. The basic population of 19,477 firms contains all firms that were founded in Austria in 1999. The database was provided by the Austrian Chamber of Commerce. Out of this database, a random sample of 1497 firms was drawn in a first cross section. In 2002, 634 structured telephone

interviews (42.4%) were conducted with the founder or CEO as the key informant. 863 firms (57.7%) could not be contacted, refused to be interviewed, or had closed between 1999 and 2002. Eighty seven percentage of the firms are start-ups, 11.3% take-overs and 1.7% were sourced out. In this study, only independent start-ups are considered.

In the second cross section (2005), 468 (74.1%) of the 634 firms that were interviewed three years before could be reached a second time. From these 468 firms, 398 (84%) were still active in 2005, while 75 (16%) had gone out of business in the meantime. The latter were interviewed in order to reduce a possible survivor bias and to find out their reasons for going out of business.

Because of listwise deletion of cases with missing data, the number of complete cases that were used for analysis was reduced to  $n = 248$ . However, the missing cases did not differ significantly from those that were included in the analysis (based on industry affiliation, growth and experience of founders), nor from the original 1497 firms (Kraus, 2006).

#### *4.2 Operationalisation*

Even though most empirical studies on the performance implications of strategic planning use financial indicators as a dependent variable (Rue and Ibrahim, 1998; Pearce et al., 1987), we opted instead for employment growth. Here is why: First, financial data are found to be unreliable in the context of small and young firms. Second, growth is an important goal for young firms, and third, employment growth is a more stable indicator than turnover growth, since firms only add employees when a higher level of business volume can be stabilised in the future (Delmar, 1997). More precisely, we measure employment growth as the change in the number of employees, including the founder(s), in full-time employment equivalents between 1999 and 2005. Because the distribution of employment growth differs significantly from the normal distribution, the variable was dichotomised in group 0 (decline or stagnation) and group 1 (positive growth).

As independent variables, we chose the time horizon, the degree of formalisation, the use of strategic planning instruments, and the degree of control. The respondents were asked to provide information about the average time horizon of their strategic plans (years, metric). To assess the degree of formalisation, a summed index composed of the degree of formalisation (written planning, informal planning, or no planning) in five different functional areas and in pre-start-up planning was calculated. This index ranged from zero to twelve, with higher values indicating a higher degree of formal planning. The use of strategic instruments was measured by a summed index that counts the number of strategic planning instruments such as SWOT or competitor analysis. This index ranged from zero to five. The degree of control of plans was assessed on a five-point scale with higher values indicating more frequent control.

We used an indicator for the degree of human capital of the founder(s), and the degree of education of the owner/manager, as the control variable. In cases where multiple founders were actively contributing to the firm, the highest degree of education within that team was used. Also, we used industry characteristics as controls. Particularly, industry growth and the degree to which actions of the competitors seemed to be predictable were included.

### 4.3 Method of analysis

The analysis is based on a cross-sectional design. The planning activities and performance were measured at a time when the firms were six years old. This time span for measuring the dependent variable is longer than in most studies on strategic planning in young firms (McKiernan and Morris, 1994; Parnell, 1994).

Due to a deviation of the distribution of the dependent variable from the normal distribution, and the high number of firms with no growth, we chose to use a binary hierarchical logistic regression for analysis. In a first step, the control variables were entered. In a second step, the planning variables were entered. The change in model quality and the overall model quality are reported in Table 3.

## 5 Results

### 5.1 Descriptive statistics

Some descriptive statistics will highlight a few key characteristics of our sample. The firms in our sample are rather small, with over 90% having fewer than ten employees. Based on the definition of the European Union, the majority of firms in the sample could even be classified as micro firms. Concerning industry affiliation, 74 firms are in manufacturing (15.8%), 253 in services (54%), 135 in retail (28.8%), and six firms (1.3%) could not be assigned. With regard to employment growth, 62 firms (15.4%) reported a decline in employment, 143 firms (35.6%) reported zero growth and 194 firms (49%) reported increasing employment. In Table 2, frequencies for the independent variables are reported.

**Table 2** Descriptive statistics for key independent variables

<i>Time horizon</i>			<i>Formalisation</i>		
<i>Months</i>	<i>n</i>	<i>Percentage</i>	<i>Degree</i>	<i>n</i>	<i>Percentage</i>
0–3	35	11.2	0–1	95	23.9
> 3–12	165	52.7	2–3	96	24.2
12–24	54	17.3	4–5	90	22.7
>24	59	18.8	6–7	56	14.1
–	–	–	8–9	35	11.4
–	–	–	9–12	15	3.8
<i>Total</i>	<i>313</i>	<i>100</i>	<i>Total</i>	<i>397</i>	<i>100</i>
<i>Strategic instruments</i>			<i>Control</i>		
<i>No.</i>	<i>n</i>	<i>Percentage</i>	<i>Frequency</i>	<i>n</i>	<i>Percentage</i>
0	308	76.8	Never	24	8
1	36	8.9	Yearly	35	11.65
2	30	7.5	Quarterly	83	27.7
3	25	6.3	Monthly	123	41
4	2	0.5	Weekly	35	11.65
<i>Total</i>	<i>401</i>	<i>100</i>	<i>Total</i>	<i>300</i>	<i>100</i>

The average time horizon of strategic plans is 1.7 years. About one quarter of the firms had a planning horizon of only up to half a year (11.2% even only of up to three months), 52.7% of three months to one year, 17.3% of one to two years and 18.8% of more than two years. With regard to formalisation, 70.8% of the respondents had a formalisation index below the median of possible values, while about a third of all firms scored above that value. This indicated that formalisation is not very pronounced in small firms. This is validated by the use of strategic planning instruments, where more than 75% claim to use no strategic planning instruments, and only a minority (6.8%) use three or more strategic planning instruments. Control is also an important element of planning. More than half of the firms report checking their goal achievement at least on a monthly basis. This can be considered as frequent. However, almost 20% of the respondents say that they only check up on an annual basis or, even, not at all.

## 5.2 Analysis of strategic planning

In Table 3, the results of the logistic regression are shown.

**Table 3** Hierarchical logistic regression for factors pertaining to strategic planning

	Variable	Coefficient	
		B	Std.
Step 1: control			
	Firm size at startup	-0.045	0.046
	Education of entrepreneur(s)	0.012	0.097
	Industry growth	0.043	0.165
	Predictability of competitor's actions	-0.028	0.106
Step 2: planning			
	Time horizon of plans	-0.032	0.147
	Degree of formalisation	1.072	*** 0.186
	Use of strategic instruments	-0.043	0.141
	Control of plans	0.245	# 0.141
Model parameters	-2Log Likelihood (full model): 329.751; $n = 248$		
	$R^2$ (Cox and Snell/Nagelkerke); (full model): 0.169/0.226		
	Chi <sup>2</sup> (full model): 50.903***/ $\Delta$ Chi <sup>2</sup> (after step 2): 50.776***		
	Percentage correct (control model/full model): 51.6%/65.8%		

Dependent variable: growth in turnover (dichotomised).

\*\*\*<0.001.

#<0.1.

The overall model quality can be regarded as quite good. The Chi<sup>2</sup> statistic was significant on a level of under 1%, so that the hypotheses that all coefficients are zero can be rejected. The Pseudo-R<sup>2</sup> (Nagelkerke) is 0.226, which can still be regarded as acceptable. The proportion of firms that are predicted correctly by the full model is 65.8%. After inclusion of the planning variables, the proportion of firms that were predicted correctly rises by 14.2%, and model quality increased significantly ( $\Delta$ Chi<sup>2</sup> 50.776, significant on a level of under 1%).

The results show that the control variables did not seem to be associated with the probability of growth. Pertaining to the planning variables, the degree of formalisation is significant on a level of under 1%. The more formal the strategic planning process, the higher the possibility of belonging to the group of the growing firms.

Since the impact of the degree of formalisation might, in part, result from the fact that its operationalisation has a higher variability than the operationalisations for the use of strategic instruments and the control of plans, an additional logistic regression analysis was run. In this analysis, the indicators for the time horizon and for formalisation were grouped into five categories so that all variables could have the same variability. The results of this second regression show that the degree of formalisation remains significant on a level of under 1%, the control of plans remain significant on a level of under 10% and the other two variables remain insignificant.

## **6 Discussion and implications**

Strategic planning might very well contribute to performance in SMEs. The results of our literature analysis on strategic planning in SMEs show that it seems to contribute to success in smaller firms. However, the literature analysis as well as our descriptive statistics show that strategic planning in small firms is rather informal and short-term oriented.

We were interested to see if a more 'professional' way of strategic planning in SME would contribute to performance. Thus, hypotheses on four elements of strategic planning, namely the time horizon, the degree of formalisation, the use of strategic instruments, control and their relationship to firm success were formulated.

Our empirical results only partially support the positive relationship between strategic planning and success in small firms. Out of the four hypotheses, a significant positive relationship to success was identified only for the degree of formalisation, i.e., the functional areas of planning, including the question of explicit vs. implicit planning, as well as the existence of a written business plan. The empirical results suggest that formalisation and explicitness, e.g., in the form of written business plans or functional plans, can be important factors for corporate success. No relationship to success could however be identified for the time horizon of strategic planning. A possible reason might be that the optimal time horizon of strategic planning varies in small or especially young firms because they need to be and often also can be more flexible than larger firms. The use of strategic instruments was not related to success either. A possible reason for this finding might be that only a few firms actually use instruments for strategic planning. Thus, a potential impact on performance could not be detected statistically, even though it might, in fact, exist. If this were the case, awareness of strategic planning instruments among managers of SMEs should be increased. It seems that the process of planning, rather than the use of specific instruments, contributes to performance. The same applies to control, which is also not related to success. Nevertheless, we plead for the inclusion of control in any strategic planning process, since it is one of the most effective ways of taking action and re-adjusting plans when unforeseen circumstances undermine planned and actual goal achievements.

The descriptive statistics hint at the fact that the time span for strategic planning in SMEs might be shorter than for larger enterprises. A time horizon of three years or more does not seem to be realistic for small firm planning. A more flexible definition of the

time span for strategic planning might be more adequate. A preferably high degree of planning process formalisation, beginning with the development of a written business plan, can be regarded as a further constituent element of strategic planning in smaller enterprises. The use of strategic instruments, as well as the frequency of control, seem to, however, be elements of a more accompanying nature for strategic planning in smaller enterprises.

A positive relationship between strategic planning and success might be expected if the small firm uses the *right* kind of planning – one that makes the entrepreneur more aware of the firm's actual strengths and weaknesses and enables an anticipation of alternative future scenarios. Because SMEs *are not smaller versions of larger enterprises* but have distinctive characteristics and needs, existing definitions of strategic planning that were coined for larger enterprises need to be adapted to SMEs. Strategic planning should not be confined to the business plan only; it can also provide assistance in post-start-up planning and in optimising processes in the firm's functional areas. In this respect, formalised planning instruments, such as a business plan and formal functional plans, could contribute to support small business success.

The results should be interpreted in the light of the shortcomings of this study. One such shortcoming could be the use of employment growth as a single indicator for firm performance. For example, by using this variable, a firm with declining profits and stable employment would be regarded as equally successful as one with rising profits and stable employment. Therefore, a multi-dimensional measure of success that incorporates other measures such as profits or turnover growth could be included in further research. Another shortcoming might be that the study relied upon self-reported data, which are always subject to respondent biases such as the desire to create a favourable image of the own firm. Third, even though a multi-industry sample provides a more complete insight into the landscape of small and young firms, it could be that the impact of strategic planning varies from industry to industry, e.g., from high-tech or growth industries to the manufacturing industry. Fourth, although the results indicated that those firms engaging in more formalised strategic planning have achieved higher employment growth, it cannot be concluded that the results empirically resolve the causal relationship between the variables. Our methodology could only prove association, not causality. The question remains whether it is really formalised strategic planning that benefits corporate success, or probably more that the latter generates conditions where formalised strategic planning becomes more important. Firms that do well might emphasise the formalised strategic planning more, or have more time to do so.

The question of causality could be investigated in further research that uses longitudinal research designs. Other suggestions for further research would be to investigate the relationship between strategic planning and success under consideration of certain mediating factors, such as e.g., the influence of the founding member and his or her attitude towards planning, different environments and dynamics in which small firms operate (e.g., by identifying clusters), or an optimal point of time for planning in the life cycle of small firms.

All in all, we hope to have contributed to the debate on the performance implications of strategic planning in SMEs.

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