

Thesis
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**Strategic Planning and Strategic Awareness in Small Enterprises -
A Study of Small Engineering Firms in Bangladesh**

By

A F M Abdul Moyeen
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Department of Management and Organisation
Faculty of Management
University of Stirling
United Kingdom

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To my father

to whom this would have been the happiest event in his life as all that he ever dreamt of was his children to be highly educated

To my sister

who was very special to me and passed away while I was writing-up my thesis

To my mother

without whose sacrifice and struggle, I would never have reached where I am today

To my wife

whose love and support especially during the difficult days and times of frustrations kept me going

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Abstract

This thesis explores the practice of strategic planning and its effect on the performance of small engineering firms in Bangladesh. Small businesses play an important role in the economy of Bangladesh. Despite substantial efforts on the part of the government, such as provision of hardware and software support and many promotional incentives, the growth and performance of small industry in general and engineering industry in particular, appears to be unsatisfactory. Although the research findings are inconclusive, the literature in the developed industrialised countries generally recommends that small firms need to use strategic planning as an essential tool for improving their performance. It was therefore hypothesised that the lack of strategic planning is one of the major factors responsible for under-performance of small engineering firms in Bangladesh.

To address the research issues about strategic planning practice and its link with performance, a conceptual framework was developed incorporating certain characteristics of firms, the personal backgrounds of owner-managers and of the environment that could influence the relationship. Adopting both quantitative and qualitative approaches, this study has examined the research issues based on the data collected through interviews with 141 owner-managers of small engineering firms in the Dhaka city, where most of the engineering firms are located.

Overall, the findings of the study indicate that even though strategic planning in a formal sense is unlikely to exist in small firms, owner-managers of successful firms are well aware of opportunities and threats in their environment, their strengths and weaknesses as well as the implications (strategic awareness) of their project. Small firms can improve their performance through strategic planning, but only if it is based on an understanding of the opportunities and threats in the environment, and of their own strengths and weaknesses which enable them to assess both the short and long-term implications (strategic awareness) of the project. The present findings highlight the dangers of assuming that the process of strategic planning (normative/formalisation) will, by itself, lead to improvements in performance.

Researchers who have concluded that strategic planning does not generally benefit the performance of small firms appear to have been incorrect. It can be said that conceptual and methodological differences across studies have been largely responsible for the debates concerning the value of strategic planning in small business. The present study thus highlights the importance of heightening the awareness of small firms about the environment, and of triggering their portfolio of ideas, and in doing so, seeking also to encourage effective exploitation of ideas by heightening the strategic awareness of the firms.

This strategy emphasises the importance of 'software' support such as provision of information, counselling, training, and education. For providing such services the implications of the research are that this should be as proactive as possible, maximising personal contact with the owner-managers, possibly by setting up agencies on regional basis and manned by experienced staff, particularly in the provision of market and other environmental information.

Chapter 1

Introduction

1.1. Introduction and Background to the Research

The literature on planning in small business has grown considerably over the past decade. With a few notable exceptions, many scholars have recommended that small firms need to use strategic planning as an essential tool for their improved performance. Support for the planning process in small firms comes from a variety of writers in a number of forms (Gibb and Scott, 1985 p.598). Firstly, it is often asserted that long range planning is essential for a small as well as a large business for no other reason than that it helps them to take better advantage of the opportunities which lie in the future and to forestall the threats that it contains (Steiner, 1967, p.4). Secondly, strategic planning is seen as a necessary attribute of entrepreneurship. For example, Timmons (1978) noted that one of the most striking characteristics of successful entrepreneurs is their attitude towards and their use of planning. Similarly, Carland, Hoy, Boulton and Carland (1984) used the term 'entrepreneur' to mean the innovative owners of small firms who use strategic management practices. Finally, strategic planning is also assumed to be associated with success. As Bamberger (1980) noted, "*We can assume that there is a positive relationship between the existence of a more or less formal strategic planning system and the firm's growth*" (cited in Gibb and Scott, 1985, p.598).

Partly responsible for the assumption that formal strategic planning enhances performance were early studies of large firms (e.g., Thune and House, 1970; Herold, 1972) that indicated a positive relationship between these two concepts. A number of

empirical studies of small business can also be cited: they have provided support to the view that the performance of small firms which use formal strategic planning is better than that of other firms which use informal planning or no plan at all. Robinson (1982), for example, found that small firms that employed consultants to help with strategic planning performed better than firms that did not. Similarly, Bracker, Keats, and Pearson (1988) reported that small electronics firms that engaged in sophisticated strategic planning performed better than unstructured planners. Several other studies reporting a positive relationship between formal strategic planning and performance in small firms include Shuman (1975), Sexton and Van Auken (1985), Acklesberg and Arlow (1985), Backer and Pearson (1986), Kelmar and Noy, (1990), Watts and Ormsby, (1990), Lyles *et al.* (1993). A recent meta-analytic study¹ (Schwenk and Shrader, 1993) confirmed a significant, although not strong, positive relationship between strategic planning and performance in small business.

Although it appears that strategic planning has a positive effect on the performance of business firms, some studies have provided frustrating results. For example, Shrader *et al.* (1984) found no systematic relationship between formal strategic planning and financial performance. Other studies reporting little or insignificant relationship include Unni (1981), Robinson and Pearce (1983), Lindcamp and Rice (1983), Gable and Topol (1987), Shrader *et al.* (1989), Watts and Ormsby (1990a).

¹Meta-analysis (Glass *et al.*, 1978; Hunter *et al.*, 1982) reviews a body of empirical work, and estimates a weighted 'average' correlation between two variables. It uses summary data usually available in published papers, and does not require access to the original data. Schwenk and Shrader (1993) maintained that meta-analysis allows researchers for the comparison of findings across studies, while Hunter *et al.* (1982), argued that meta-analysis is less biased than a narrative or verbal integration.

Thus Hanlon and Scott (1993) remarked that "*there is a tension between normative statements and the findings of empirical research*". Thus because of the controversial findings of empirical studies, there is by no means universal agreement that strategic planning (or formal strategic planning) is either necessary or desirable for small business.

This controversy between writers on this issue has rooted on an inability to agree on what constitutes planning, strategic planning, small business, and performance (Gibb and Scott, 1985; Robinson and Pearce, 1984; Pearce et al, 1987; Boyd, 1991)². There has also been no agreed conceptual model that takes into account the relevant, moderating variables relating to firm, industry, and the personal backgrounds of owner-manager that could have affected the planning-performance relationship (Bracker *et al.*, 1988; Matthews, 1991; Carland *et al.*, 1989; Orpen, 1993; Miller and Cardinal, 1994).

Most of the writers seemed to apply concepts derived from large firms and thus placed greater emphasis either implicitly or explicitly on 'sophistication' or 'formalisation' to measure strategic planning in small firms and to relate it to their improved performance. The assumption underlying this approach is that planning documents are valid indicators of a firm's commitment to and involvement in strategic planning. They argued that formal strategic planning follows improved performance. Another view is that formal strategic planning provides a structure for decision making, helping small businesses to take a long term view, and that in

general, it benefits small firms. Others have claimed that formal strategic planning enables organisations to better prepare for, and to deal with the rapidly changing environments that most of them face. Further, strategic planning is supposed to yield objectives that provide criteria against which organisational attainments can be measured (Orpen, 1993). This process of comparing attainments against objectives will usually reduce the chances of the organisation proceeding erratically or incorrectly, since it enables deviations being picked up and corrected before things get too bad or major mistakes are made (Macmillan, 1975). In another recent work, Lyles *et al.* (1993) argued that as small business owners adopt a more formal planning processes, there is a significant increase in the thoroughness of their decision process, the breadth of strategic options emphasised in their business activity, and their overall performance. Strategic planning can almost certainly influence the growth of the company and provide a framework for enhancing this or it can also help maintain the existing size and capability of the firm (Gibb and Scott, 1985, p. 600). However, their excessive focus on formalisation and ignorance of the value of strategic thinking and awareness have led a controversial explanation of the planning-performance relationship.

Several methodological problems are also noted. The adoption of the triangulation research strategy, i.e., the use of combination of methodologies, has hardly been used in practice in studying strategic planning in small business. Most studies collected data via mail questionnaires to CEOs³. The low response rate of these mailed surveys is particularly stressed (Mintzberg, 1994). For example, in Bracker and Pearson's

³A complete analysis of the definitions of planning and strategic planning and from the analysis an

study (1986), fifty-three percent of the association members surveyed did not respond, despite repeated contacts by mail and even telephone. Starbuck (1985) documented the low response rates of these mailed surveys, generally in the range of 20 percent, but some as low as 7 percent. Both the planning and performance data were mainly self-reported without being triangulated. Since planning is generally thought of as desirable, owner-managers often exaggerated both the amount of time they had spent on strategic planning and its impact on the firm's performance in the many previous research (Orpen, 1993, p.17). Poor reporting of statistical data in previous research has also been noted (e.g., See Greenlay, 1986, p. 105 for a detailed discussion).

Finally and perhaps most importantly there is a problem of inferring cause (Mintzberg, 1994, p.94). A positive relationship between planning (formal) and performance allows no one to conclude that planning pays. Causation may also go to the other way: only the rich organisations can afford planning, or at least planners. *Starbuck (1985; pp. 370-71) raised another possibility: firms that do well naturally emphasize their planning activities⁴ (since they made or exceeded their targets) while those that do poorly become unsure of them and so underemphasize them. And then again, planning and performance may be independent of each other, both driven by some common third force (say, smart managers, who improve performance by other means and also know that they better have planning, even if only to impress the stock market analysts) (Quoted from Mintzberg, 1994, p. 94).*

operational definition of strategic planning have been provided in Chapter 2, Section 2.2.

³Chief executive officers

⁴Used the term planning to indicate formal planning.

This raises the question whether formal strategic planning in small firms is really desirable or suitable. Research indicated that strategic planning in small business is informal, unstructured, and irregular, supported by insufficient and ineffective information, usually obtained through informal sources, and reactive rather than proactive (Still, 1974; Gibb and Scott, 1985; Sexton and Auken, 1985; Robinson and Pearce, 1984; Flavel, 1992). It was found that although managers in small firms engage in strategic thinking, such deliberation is seldom formal (Sexton and Auken, 1982; Robinson and Pearce, 1984; Gibb and Scott, 1985; Mintzberg, 1994). Many reasons have been cited in the literature for the absence of formal strategic planning in small business. These include lack of time, cost, lack of expertise, information, training, education and skills of owner-managers (Robinson and Pearce, 1984; Boyd, 1985; Shrader, Mulford, and Bluckburn, 1989; Sexton and Dable, 1976). Moreover, other problems which might emerge with a high level of formality, such as ignorance of important innovations, and suppression of creativity and spontaneity, are also important considerations for the unsuitability of formal strategic planning in small business, as it has been argued that strategy may emerge outside the formal process of planning and that these emergent strategies are often successful and may be more appropriate than intended (planned) strategies (Mintzberg, 1994).

In the absence of an explicit strategic planning process in small business, the importance of the awareness of environment and strategic awareness- **the ability to make an assessment of the total impact of any particular change-** have been found to be crucial to the development, and survival and growth of small business (Gibb and Scott, 1985; Rice and Hamilton, 1983). This means that environmental awareness,

making timely changes and most importantly, the awareness of the implications of their strategic actions are more important in small business than merely formalisation of their thinking and awareness. This may appear more naturally with some owner-managers. However, others inputs may also influence the process.

In summarising and concluding the preceding discussion, strategic planning is widely held to improve performance of small firms, although empirical research provides inconclusive results in support of this view. The controversy on this issue in many studies has been due to failure to agree on what constitutes planning, strategic planning, small business and performance. Many studies seemed to apply concepts from large firms, and thus placed more emphasis on 'formalisation' and 'sophistication' to measure the firm's commitments to and involvement in strategic planning. The controversial findings about strategic planning and performance have been also due to the use of a straightforward bivariate model that did not take into account the relevant moderating variables relating to firm's environments and the personal backgrounds of owner-managers that could have affected strategic planning practices and their effect on performance. Some methodological shortcomings such as lack of triangulation in examining the strategic planning and performance and the low response rate of the mailed surveys are also evident.

Strategic planning can certainly influence the growth of a company and provide a framework for enhancing this or it can also help maintain the existing size and capability of the firm. However, the possibly excessive focus on formalisation has raised the question about the suitability of formal strategic planning in small

business. Research on small business suggests that although managers in small firms engage in strategic thinking, such deliberation is seldom formalised. It also indicates that firms that are more aware of the environment and of their strategic decision perform better.

1.2 Strategic Planning, Strategic Awareness, and Performance of Small Firms in Developing Countries and in Bangladesh

There have been few studies of planning in small business in developing countries. These studies tend to emphasise the importance of the strategic planning in small firms. Owner-managers in some countries, such as Jamaica, South Pacific, and Hong Kong regarded planning as one of the important competencies needed for small business success (Huck and McEwen, 1991; Yusuf, 1995; Luk, 1996). This view has also been supported in another recent study in Singapore (Theng and Boon, 1996). The study has found that owner-managers' short-sighted view of the future is one of the important factors, causing failure. However, and in a way similar to the results of research in industrial countries, one recent study of the rural entrepreneurs in Mexico also placed more emphasis on awareness of entrepreneurs about the financial and market position of their firms than on their merely adopting any formal method of strategic planning (Luisa, 1996).

In Bangladesh, as in many other developing country, small enterprises play an important role in socio-economic development. The economy of Bangladesh is predominantly agriculture-based and rural in nature. Over 86 per cent of the population lives in the rural areas where agriculture is the main occupation of the

people, contributing over 46 per cent to the GDP and employing about 65 per cent of the total labour force. Industries are few in numbers and their performance is shocking - accounting for only about 10.5 per cent of GDP, and employing about 14 per cent of the work force (GOB⁵, 1993). The literacy rate is very low - 24.8 per cent in 1991 (presently, 37 per cent). The rate of savings is poor and the inflation rate is around 4 per cent in April 1997. Unemployment is about 30 per cent of the labour force and this huge number of unemployed people cannot be absorbed in the already saturated agriculture sector. The industrial sector has, therefore, been considered as the only hope for solving the unemployment problem of the country at least partly in the foreseeable future (Sarder and Rosa, 1994).

The small industry sector represents over 90 per cent of units which provides over 87 per cent of the total industrial employment in Bangladesh (GOB, 1993). This sector is responsible for the creation of over 46 per cent of industrial value added (GOB, 1993). Because of the employment offered by small enterprises and its particular suitability for development, special emphasis has been placed in government policies to produce rapid growth in this sector. It was declared as a 'priority' sector for development in the mid-1980s (GOB, 1986). This emphasis in policy has resulted in creation of a wide range of support services for this sector. Apart from the hardware (loan, allocation of land) and software support services (such as training), many other promotional incentives, like tax exemptions, duty-free importing of raw materials and machinery have been provided for the growth of industries in general and small enterprises in particular. Despite these substantial efforts, the growth and

⁵Government of Bangladesh.

development of the small enterprises appear to be very slow and unsatisfactory (Reza *et al.*, 1990, p.140). There was one death per four new births of small firms during the period of 1974-75 to 1983-84 (Reza *et al.*, 1990, p.81). The performance of a large number of engineering firms, according to industry operators, is very poor (The Financial Express, 02 June, 1997). The contribution of small enterprises to the economy cannot be regarded as satisfactory by any standard, especially when compared to the neighbouring countries, namely, India (Sandesara, 1992).

Research in industrially developed countries suggests that owner-managers' awareness of environment in exploring new opportunities and in identifying threats, timely action, and the ability to assess the implications of their strategic action are crucial for the success of small firms. It was, therefore, hypothesized that lack of strategic planning, or more specifically, environmental awareness, timely action and strategic awareness of owner-managers, is one of the major factors responsible for the under-performance of small firms. The value and importance of planning is often discussed in management seminars and publications to improve the performance of manufacturing enterprises.

However, the issues surrounding the nature and effect of strategic planning in Bangladesh are unaddressed in empirical research. This study, therefore, is an attempt to investigate if and how small engineering firms in Bangladesh practise strategic planning, and with particular focus on their environmental awareness and strategic awareness⁶. It will also look at the relationship between strategic planning and performance, and at the factors that might influence the practice of strategic planning

⁶The reasons for choosing engineering firms will be discussed in detail in Chapters 3 and 5.

and its impact on performance. It will attempt to redress the conceptual and methodological problems found in the past studies. The study also builds on the strength of prior empirical work on strategic planning on large, small and entrepreneurial firms in other countries.

1.3. The Purpose and Objectives of the Research

The purpose of the research is to shed light on the key debates about strategic planning practices and on its effects on the performance and growth in small business in a developing country, called Bangladesh. Thus it will confirm if the strategic planning practices relate to the preconceived notions of planning described in the literature. Specific issues include:

1.3.1. To describe if and how small engineering firms in Bangladesh practice strategic planning.

1.3.2. To explore the factors of firm, the personal background of owner-managers, and environment that influence the practices of strategic planning.

1.3.3. To study the relationship between the indicators of strategic planning and performance in small engineering businesses in Bangladesh.

1.3.4. To determine if planning-performance relationship (if any) is influenced by factors of firm, the personal background of owner-managers, and the environment.

1.4. The Justification of the Research

The processes and effects of strategic planning have been investigated more for large firms than for small firms (Robinson and Pearce, 1984). Further, most of the literature in this area is prescriptive and lacking a rigorous empirical base. Gibb and Scott (1985) noted that, *"Much of the literature is normative without being extensively empirically grounded; at the very least, planning is assumed to be desirable and associated with success"* (pp. 597-598). Part of the justification for studying the impact of strategic planning in large organisations, according to Acklesberg and Arlow (1985), is that the performance data on publicly held large firms are easily available. They noted that the lack of research effort concerning the relationship between planning and performance in small business may be attributable to the lack of economic data, to limited interest in small firms, or a belief that small businesses do little formalised planning (p.61). Contrary to the frequently encountered notion that strategic management is solely a large firm phenomenon, Robinson and Pearce (1983) argued that the small firm is an important arena for strategic management research (p.206).

Support for research focusing on the effect on performance has come from many authors. For example, Hambrick (1980) argued that the most obvious and useful set of research questions should address the link between strategy and performance. Along the same line, Todor, Spendolini, Fielding, and Porter (1981) also maintained that the organisational performance is the single most important dependent variable in both private and public sectors. Further, Lentz (1981) acknowledged the need to identify enterprise level factors that influence organisational performance.

Although it appears that although strategic planning can influence the performance of small business, the research findings are still inconclusive. This might be due to lack of an integrative conceptual model and to some methodological shortcomings. Researchers therefore recommended more research in different contexts and/or with improved methodological approaches (Shuman *et al.*, 1985; Pearce *et al.*, 1987; d'Amboise, 1991; Boyd, 1991; Schwenk and Shrader, 1993; Miller and Cardinal, 1994). This study is an attempt to deal with some of the methodological problems found in the past studies.

It is recognised that small businesses in developing countries make significant economic contributions, as do small businesses in developed countries. The SSIs⁷ represent more than 90 percent of industries in Indonesia, Philippines, Thailand, Korea, India, and Sri Lanka. They provide 98 percent of employment in Indonesia, 61 percent in Philippines, 78 percent in Thailand, 87 percent in Bangladesh, and 71 percent in Sri Lanka. SSIs share 54 percent of total national production in Bangladesh, 51 percent in India, 40 percent in Sri Lanka, 34 percent in Korea (Akhouri, 1990, p. 280). In my literature review, however, I have found a lack of knowledge about how small businesses in developing countries practice strategic planning and the effects that it has on their performance and growth, even though some studies have indicated a need for planning in small business if they are to achieve success. For example, in a more recent study in South Pacific countries (Papua New Guinea, Solomon Islands, and Vanuatu), entrepreneurs perceived good management, one feature of which is the ability to develop and effect good business

⁷Small-scale Industries

plans, as the most critical success factor for small business (Yusuf, 1995). Orpen (1985), Kelmar and Noy (1991), and Flavel (1992) noted that, so far, the bulk of research has been restricted to large businesses, chiefly in developed countries, notably the USA. No research has yet been conducted in Bangladesh to examine the strategic planning practices and its effect on company growth and performance. Therefore, an investigation into the practices and effects of strategic planning in small business is timely and justified in a developing country like Bangladesh.

1.5. The Structure of the Thesis

The thesis will be presented in nine chapters. A brief description of the contents of the chapters follows.

Chapter 1 begins with an introduction to the research topic to be investigated. Then it shows how loosely the concepts of planning and strategic planning have been used in previous research. It presents the purpose and objectives, and the justifications for undertaking the study, and finally, concludes this opening chapter with the plan for the rest of the thesis.

Chapter 2 will review evidence on the nature and practice of strategic planning in small business and their effect on performance and growth in those businesses, as depicted in the literature. The chapter will define the concepts of strategic planning and identify the factors that influence the practices of strategic planning in small business as well as the relationship between strategic planning and performance. Writings on these issues has provided contradictory evidence. Most of the previous studies could be criticized on

methodological grounds. Further, the literature review has identified specific gaps in existing knowledge about the nature and effect of strategic planning in small businesses in the developing countries in general, and in Bangladesh in particular.

Chapter 3 will present the context and background against which the present study has been carried out. This will include an overview of the socio-economic and political situation in Bangladesh, its industrial development and especially the role and development of small firms. Emphasis will be placed on the importance of manufacturing industry in general, and on small engineering companies, in particular. The importance of strategic planning, particularly, owner-managers' awareness of the environmental changes, making timely action, and the awareness of the implications of their strategic action, for the small engineering firms which are currently operating in a highly competitive market will be outlined here. It is revealed that the key issues, identified in Chapter 2, remain unanswered and unresolved in Bangladesh. Therefore these issues need to be studied empirically.

A conceptual framework will be developed in Chapter 4 to address the research issues identified in Chapters 2, and 3. A number of major hypotheses will be developed to test empirically, using data to be generated from the field study. Chapter 5 will describe the choice of research methods, the procedures for selecting the sample, the procedures employed to gather the data, the procedures for operationalising the key concepts and variables in the study. The chapter will also discuss about the analytical tools used to realise the objectives of the study.

Chapters 6, 7, and 8 will present the analyses of data gathered from the field study and the results obtained therefrom. Chapter 6 will report the results of empirical investigation about the practices of strategic planning in small engineering firms in Bangladesh. Chapter 7 will present the analyses toward the influences of strategic planning elements in small engineering firms in Bangladesh; while Chapter 8 will report the effect of strategic planning elements on performance and the moderating effects of factors relating to firm, environment, and personal background of owner-managers on the strategic planning-performance relationship.

Finally, Chapter 9 will summarise major findings and their theoretical, methodological and practical implications. After outlining the limitations of the study, the chapter will end with some suggestions for future research.

Chapter 2

Strategic Planning, Strategic Awareness and Performance in Small Business

2.1 Introduction

In this chapter, I review literature on strategic planning practices and on their effects on organisational performance. The aim of this review is to identify key issues of concern and debates about the nature and effects of strategic planning in small business. To this end, existing available literature on this subject, both descriptive and empirical, is reviewed. The process of strategic planning, in general, and in particular, the issue of formalisation and its applicability in small business are discussed. The importance of strategic planning, and especially the aspects of environmental awareness and strategic awareness⁸ are explored. Empirical studies which have examined the nature and effects of strategic planning are assessed in greater detail. The variables which influence strategic planning practices in small business and which may moderate the impact of strategic planning are also identified. Finally, I have identified a number of unresolved issues of debates and concern which need to be studied empirically.

2.2 Definitions of Planning and Strategic Planning

Planning and strategic planning have been defined in different ways. It has been suggested that future research should define the concept of strategic planning clearly (d'Amboise 1991, p.66; Snow and Thomas, 1994, p. 470). Mintzberg (1994) made an attempt to provide what is a probably more meaningful definition of strategic

⁸Ability to assess the total immediate and long term impact of any change in the firm.

planning than others. The discussion which follows comes mainly from Mintzberg (1994), and it seeks to arriving at a more meaningful operational definition of the concept of strategic planning.

To some, (1) **planning is future thinking**, that is, simply taking the future into account. For example, Bolan (1974, p.15) wrote that "*Planning denotes thinking about the future*". Similarly, Sawyer noted that "*Planning is action laid out in advance*" (1983, p.1). The problem with this definition is that it cannot be bounded. As Mintzberg (1994) asked, "*What organisational activity, no matter how short-term or reactive, does not take the future into action?*"(p.7). Newman acknowledged the problem back in 1951 when he quoted Dennison that "*Almost all work, in order to be done at all, must be planned, at least informally and a few minutes ahead*" (p.56). By this definition, planning includes ordering a sandwich for lunch as much as establishing a division to flood the market with sandwiches (Mintzberg, 1994, p.7). He (1994, p.7) cited that "*In fact, Fayol understood this breadth of the term back in 1916 when he wrote that:*

The maxim, 'managing means looking ahead', gives some idea of the importance attached to planning in the business world, and it is true that if foresight is not the whole of management at least it is essential part of it. (1949, p.43, published in French in 1916)".

But if this is true - if as Dror put it more badly, '*planning, in a word, is management*' (1971, p.105) - why bother to use the word '*planning*' when management works just fine.

To others, (2) **planning is controlling the future**, not just thinking about it but acting on it. Thus *"Planning is the design of a desired future and of effective ways of bringing it about"* (Ackoff, 1970, p.1). Galbraith, in *The New Industrial State*, argued that big businesses engage in planning to "replace the market", to "exercise control over what is sold... and what is supplied" (1967, p.24). Mintzberg (1994) felt that this definition of planning, really just the other side of the coin from the first, suffers from the same problem of excessive breadth (p.8). By associating planning with free will, it becomes synonymous again with popular uses of the word management and so loses distinctive meaning. As Wildavsky (1973, p.173) noted

"Since practically all actions with future consequences are planned with future consequences are planned actions, planning is everything, and non-planning can hardly said to exist.... If everybody plans (Well, almost), it is not possible to distinguish planned from unplanned actions".

A number of authors have suggested sometimes inadvertently, that (3) **planning is decision making**. This definition is different from the other two, because it does not tell us about future thinking or controlling the future but about how these things are done. In this view, planning is defined here by the process it represents. As far back as 1949, Goetz defined planning as "fundamentally choosing" (cited in Steiner, 1979, p.366), and in 1958 Koontz defined it as "the conscious determination of courses of action designed to accomplish purposes. Planning is then deciding" (1958, p.48). Likewise, Snyder and Glueck, without labelling it decision making, defined planning as "those activities which are concerned specifically with determining in advance what actions and/or human and physical resources are required to reach a goal. It includes identifying alternatives, analysing each one and selecting the best ones" (1980, p.7). In a study of strategic decision making in small business, Rice equated planning with

decision making. *"By looking at the existence of strategic decisions, it is possible to infer that strategic planning actually occurred, even though that strategic planning may not have been extensive, formalised or accurate"* (1983, p.60). Others tried to nuance this definition. Drucker, for example discussed the "futuraity of present decisions" (1959, p.239), and Ozbekhan described the "future directed decision process" (1969, p.151). But unless anyone can think of a decision process that is not future-directed, these nuances are of little help (Mintzberg, 1994. p.8). Assuming that decision means commitment to action, every decision takes the future into consideration by a vow to act, whether it be to market a product in ten years or ship one in ten years or ship one in ten minutes. Rice recognised this when he argued that "all decisions are made with forethought", that every decision maker has "a reason for making his decision", which amounts to a "plan" (1983, p.60).

Thus the third definition really reduces to the first and, because commitment is an act of free will, to the second as well (Mintzberg, 1994, p.10). Accordingly, planning again becomes synonymous with everything that managers do, "part of the intellectual process the policy makers employs to reach his decision", even if "informal, unstructured (Cooper, 1975, p.229). George (1972) pointed out that:

planning, of course, is not a separate, recognisable act.... Every managerial act, mental or physical is inexorably intertwined with planning. It is as much a part of every management act as breathing is to the living human (1980, p.75).

Mintzberg, therefore, questioned that "if it is true, why describe what organisations do as planning, any more than describe what people do as breathing? In other words, who needs planning label when decision making or even managing does the job"? (p.10).

Therefore, some authors considered more bounded definitions of planning as a process. They defined (4) **planning as integrated decision making**. To Schwendiman, it is an "integrated decision structure" (1973, p.32). To Van Gunsteren, it means "fitting together of on-going activities into a meaningful whole" (1976, p.2). This definition of planning may seem close to the preceding one (i.e., to 3). However, this definition is fundamentally different from the preceding one because it is concerned with conscious attempts to integrate decisions already made, rather than with the making of decisions. In Acoff's words,

Planning is required when the future state that we desire involves a set of interdependent decisions; that is, a system of decisions.... the principal complexity in planning derives from the interrelatedness of the decisions rather than from the decisions themselves... (Acoff, 1970, pp.2-3).

This view of planning takes us into the realm of strategy making, since that process also deals with the interrelationships among important decisions in an organisation (Mintzberg, 1994, p.11). But because this normally has to take place over time, such co-ordination among decisions is rendered difficult. If different decisions have to be batched, they may come to resemble a single decision. Hence planning writers have tended to confuse decision making with strategy making by assuming that the latter necessarily involves the selection of a single course of action - the choice of an integrated strategy at one point of time. Normann, in fact, made this point about Ansoff's well known writing on planning:

"Ansoff regards the choice of strategy and the formulation of policy chiefly as a decision process: first goals are established, after which (using a series of analytical techniques) alternatives are evolved and (still using analytical techniques) a choice is made among them, possibly after some adjustments in the original goals." (Normann, 1977, pp.8-9).

But there are other ways to make strategy, notably dynamically *over* time. Hence the process of integrating decisions at a point in time becomes, not strategy making, but simply *planning's approach* to strategy making, the situation to which it restricts itself (Mintzberg, 1994, p.12). Thus its position becomes clearer.

However, it is still not clear enough. Mintzberg (1994, p.12) maintained that visionary leaders likewise integrate decisions, in their cases informally or, intuitively. Yet to encompass their behaviour under the planning label would again seem to broaden it beyond reasonable (and current) usage. Therefore, he (1994) argued that something more is needed to identify planning, and that this is the key to understanding planning-formalisation. **(5) Planning is a formalised procedure to produce an articulated result, in the form of an integrated systems of decisions.** Thus, Bryson referred to strategic planning as a "disciplined effort", in fact, "simply a set of concepts, procedures and tests" (1988, p.512). Gibb and Scott (1985) noted that "Strategic planning would seem to imply a more systematic and formal approach" (p.599). In some literature (e.g., Pearce, Freeman, and Robinson Jr., 1987), the term *FSP* has been substituted for strategic planning, with the *F* for formal.

Formalisation would seem to mean three things: a. to decompose, b. to articulate, and especially c. to rationalize the process by which decisions are made and integrated in organisations (Mintzberg, 1994, pp.12-13). An emphasis of formal *rationality* permeates the literature of planning. Steiner argued that "plans can and should be to the fullest possible extent objective, factual, logical, and realistic in establishing objectives and devising means to obtain them" (1969, p.20). Mintzberg maintained that rationality

of this formal kind is rooted in analysis (1994a). Above all, planning is characterized by the decompositional nature of analysis - reducing states and processes to their component parts. This may seem curious, given that the intention of planning is to *integrate* decisions. Mintzberg (1994, p.13) finds this view of planning similar to the old "machine" assumption, the one that underlies the design of the manufacturing assembly line. The old "machine" assumption implies that if every component is produced by the machine as specified and assembled in the order prescribed, an integrated product will appear at the end of the line (Mintzberg, 1994, p.13).

Along with rationality and decomposition, articulation is the third key component of formalisation. It means that the product of planning- the plan themselves- after being carefully decomposed into strategies and substrategies - programmes, budgets, and objectives, must be clearly and explicitly labeled by words and, preferably, by numbers on sheet of papers. This component advocates the idea that the plan (and thus, the strategy) should be written. Thus Zan (1987, p.193), in a paper called "What is Left for Formal Planning?", concluded that the common characteristics of various planning systems is "the process of rendering things explicit," in terms of both processes and their consequences. Steiner (1969, pp.5-6) noted that the word planning comes from the Latin word, *Planum*, "meaning flat surface" and that it entered the English language in the seventeenth century, referring principally to forms, such as maps or blueprints, that were drawn on flat surfaces. Thus the word has long been associated with formalised documents.

So now we seem to have a more operational definition of planning, since the word can be identified with two observable phenomenon in organisations: the use of formalised procedures and the existence of articulated results, specifically concerning an integrated system of decisions (Mintzberg, 1994, p.14). This is not a restricted definition. As it has been mentioned before, planning is one proposed approach of strategy making among several that are possible. Planning certainly does not encompass the whole process. Mintzberg, therefore, noted that "To some people, when corporate executives go off to a mountain retreat to discuss strategy, that is planning. To others, adapting to external pressures informally over time is also planning. In principle, there is no problem with this. In practice, however, it creates all kinds of confusion. For example, the planners may not understand why the executives at the retreat did not structure their discussions more systematically" (p.14). Because the word planning, implicitly or explicitly, is associated with formalisation, use of it presupposes the requisite decomposition, articulation, and rationalization (Mintzberg, 1994, pp.14-15).

Finally, Mintzberg (1994) argued that formalisation is obviously a relative, not an absolute, term. Obviously planners carry out a range of activities, some more, some less formal. Nevertheless, and as a process, planning sits toward the formal end of the continuum of organisational behaviour. Mintzberg (1994, p.15) therefore concluded that, "It (planning) must be seen, not as decision making, not as strategy making, and certainly not as management, or as the preferred way of doing any of these things, but simply as the effort to formalize parts of them - through decomposition, articulation, and rationalization"

2.3 Strategic Planning and Performance

For a substantial group of writers, strategic planning has been recommended as an essential management tool for successful organisational performance. Armstrong (1982) for example, argued that an explicit planning process rather than haphazard guesswork results in the collection and interpretation of data critical to creating and maintaining organisation-environment alignments. Similarly, Ansoff (1991) argued that planning generally produces better alignment and financial results than does trial-and-error learning. In a paper of Orpen (1993) it has been argued that it is through strategic planning that managers or owners define the basic mission of organisations and are thus able to employ resources more efficiently and effectively. Another advantage claimed for strategic planning is that it enables organisations to prepare better for, and to deal more competitively with, the rapidly changing environments that many of them face. Finally, strategic planning is supposed to yield objectives that provide benchmarks or criteria against which organisational attainments can be measured. According to Macmillan (1975) and Kirk and Schell (1990), this process- of comparing attainments against objectives- will usually reduce the chances of the organisation proceeding erratically or incorrectly, since it enables deviations to be picked up and corrected before things get too bad or major mistakes are made. A large number of empirical studies provided strong support for the view that strategic planning improves performance while the others have found tenuous links, or no link, between the two concepts.

2.3.1 Empirical Research on Strategic Planning and Performance in Large Firms

Thune and House carried out one of the first studies on the relationship between strategic planning and performance, published in 1970, probably the most widely cited in literature (Mintzberg, 1994, p.95). It used a sample of thirty-six firms in six industries: drugs, chemicals, machinery, oil, food, and steel. Five financial performance measures - sales growth, stock prices, earnings per share, return on equity, and return on total capital - were adopted as measures for determining the value of formal planning for organisational performance. The degree of planning was determined by whether firms had prepared written policies for determining corporate strategy or goals for at least three years in advance, and these were accompanied by specific action programmes, projects, and procedures. The approach taken in this study was to examine the performance of each company both before and after formal strategic planning was initiated. Thune and House(1970) concluded that:

Formal planners significantly outperformed informal planners regarding ROI, ROE, and EPS; they equalled or slightly surpassed the informal planners regarding sales growth. Formal planners in certain industries (drugs, chemicals, and machinery) consistently outperformed the informal planners, whereas no clear associations could be established in other industry categories (food, oil, and steel). Since the advent of formal planning, the formal planners significantly exceeded their performance prior to the initiation of formal planning.

Herold (1972) extended the Thune and House's study with a new variable, pre-tax profits, used to validate planning conclusions of the original research. Herold's results did not only support the findings of Thune and House (1970), but also added that formal planners even extended their margins of difference in sales growth and pre-tax profit growth.

Gershefski (1970) also applied the same approach as did Thune and House (1970) and Herold (1972) of examining the performance (growth of sales) before and after the introduction of strategic planning. He found that companies with formal strategic planning significantly outperform companies with little planning, and this result led him to conclude that strategic planning is effective.

Ansoff, Avner, Brandenburg, Portner, and Radosevich (1970) published another study that examined the relationship between strategic planning and acquisition strategies implemented by ninety-three large U.S. firms. The study indicated that the firms engaging in acquisition activity in a "systematic planned" way achieved higher and more predictable performance on average, although "several of the non-planners had performances that surpassed the best performance in the group of planners" (1970, p.6). The assessment of planning formality used in this study was more sophisticated than that found in Thune and House's (1970) study or in Herold's (1972) one, because they incorporated eight measures to describe the search, evaluation, and integration process characteristics of acquisition planning in their methodology (Pearce *et al.*, 1987). The study used both objective, thirteen variables in twenty-one measures of financial performance, and subjective measures of performance.

Five years later, Karger and Malik (1975) tested two groups of nineteen companies each by using Ansoff *et al.*'s twenty-one performance measures. They concluded that companies with formal planning systems outperformed the companies without formal planning. The sample of thirty-eight firms operating in machinery, electronics, and

chemical- drugs industries were classified as planners if they had a written formal plan for a minimum five years time horizon for both the overall organisation and for each division, and if they had one to two-year operational plans for each organisational level. Financial performance of the planners exceeded that of non-planners on nine of thirteen financial performance variables.

In a quasi-experimental study of planning and performance, nine groups of formal planners, characterised by high levels of participant involvement in the planning process, significantly outperformed the control groups of nonplanners on numerous dimensions of effectiveness in the introduction of community child care programmes (Van de Ven, 1980).

Although the preceding studies apparently demonstrated positive relationships between strategic planning and performance, some studies have provided contrary evidence (e.g., Sheehan, 1975; Shapiro and Kallman, 1978). Sheehan (1975) demonstrated inconclusive performance among categories of low, medium, and high formal planners. Sheehan examined the planning-performance relationship for a cross section of Canadian businesses. Similarly, the research results of Shapiro and Kallman (1978) revealed no association between planning and performance. Among two hundred and ninety-eight firms operating in the motor freight industry, planning was not associated with superior performance on the financial measures of revenue, net earnings, earnings/ revenues, return on shareholders' investment, and return on total investment. Kulda (1978) found that strategic planning had a negligible effect on the level of shareholders' earnings, with the result being statistically significant.

Kulda, therefore concluded that strategic planning and performance are not related, although he observed that planning did seem to provide a "transitory" reduction in riskiness (1980, p.5). In a study of 212 banks, Whitehead and Gup (1985) found no support of performance difference between planners and non-planners.

The preceding discussions suggest, in general, that strategic planning helps managers to achieve better performance. In doing so, many of the authors placed emphasis on formality of strategic planning activities. However, the lack of a uniform and rigorous conceptual base about strategic planning led researchers to use different classification schemes to measure planning formality. This, along with some methodological limitations, such as, use of noncomparable organisational size ranges, inconsistent planning-performance time horizons, and conflicting performance measures resulted in controversial findings from some studies.

2.3.2 The Importance of Strategic Planning in Small Firms

With a few notable exceptions, scholars have generally recommended that small firms need to regard strategic planning as an essential tool for improved performance. Steiner (1967, p.4), for example, in an early paper, argued that long range planning is as essential for a small as well as for a large business for no other reason than that it presents them to take a better advantage of the opportunities which lie in the future and to forestall the threats it contains. Deakins noted that an entrepreneur who wishes to achieve growth need to adopt business planning methods and analyses of market and competition before deciding on best strategy to exploit an opportunity and achieve growth (1996, p. 199). Barton and Matthews (1988) argued that there is a little

margin for trial and error in case of small business and that failure to identify and act on environmental threats may result in business failure. Schwenk and Shrader (1993) also recommended that strategic planning should be considered seriously by small firms managers. Schwenk and Shrader (1993) argued that strategic planning promotes long-range thinking, reduces the focus on operational details, and provides a structured means for identifying and evaluating strategic alternatives, all of which improve firm performance. A large number of empirical studies have provided support for this argument.

2.3.3 Empirical Research on Strategic Planning and Performance in Small Firms

Gibb and Scott (1985) undertook a longitudinal study of sixteen small companies in the U.K. The study was concerned with the way in which the companies pursued different lines of product and market development. The research was characterised by experimental 'action inputs' designed to allow observation of the impact of different types of 'software' (information, counselling, education/training) support on the development process. Observation of the development process enabled a characterisation of methods of planning used and evaluation of their influence.

Gibb and Scott (1985) adopted a strategic or 'planning' perspective because they believed that planning provided the means by which businesses can take systematic advantage of their environment. They saw planning '*...as the process by which management quite logically and systematically sets where it is determined to go, identifies the means of getting there and coherently focuses its operational activity on the necessary tasks*'.

The companies in the study were divided into four groups and different action inputs were provided. The first group was subjected to a sustained attempt to provide an education and training programme, together with counselling and proactive information provision, linked with the use of an unemployed manager. The second group was provided with counselling support linked with information provision where this led on from the counselling. The third group was only provided with reactive information support as and when requested. The fourth group received no support. Although the research was concerned primarily with gaining insights into the effect of the action input on the process of development, some relationship between the inputs and the projects results were found. It was found in the study that these action inputs led to the creation of strategic awareness of the owner-managers, lack of which might have led the companies into blind alleys.

In another longitudinal study, Sexton and Auken (1985) found that strategic planning can help firms to survive and prosper. They developed and tested a four-part questionnaire which was personally administered to the owner or chief executives of three-hundred and fifty-seven small businesses in retailing, manufacturing, services, and wholesaling in Texas in 1981, and reported the results in their article in 1982 (Sexton and Auken, 1982). The instrument contained questions relating to anticipation of the respondent firm's future sales, local industry sales and net profit of the respondent firm, and plans to implement the anticipated sales and profit. Depending on the respondents ability to satisfactorily answer (the answer was satisfactory if it was numerically specific and definite) of successive questions on the instrument, each business was classified according to one of the five levels of

strategic orientation : i. Strategy Level 4 -the respondents answered all four questions of the instrument satisfactorily, reflecting effort on all four levels of strategising, i.e., anticipation of future company sales, local industry sales, company profit and implementation plans; ii. Strategy Level 3- the respondents answered questions 1-3 satisfactorily but not question 4, reflecting effort on the first three levels of strategising, i.e., company sales, local industry sales, and company profit, but not the fourth level, i.e., implementation plans; iii. Strategy Level 2- the respondents answered questions 1-2 satisfactorily, reflecting effort on the first two strategy levels, i.e., company sales and local industry sales, but not the last two levels, i.e., company profit and implementation plans; iv. Strategy Level 1- the respondents answered only the first of the four questions satisfactorily, reflecting effort on anticipating future company sales but not local industry sales, company profit, or implementation plans; v. Strategy Level 0- the respondent was unable to answer even the first question relating to anticipation of company sales. The firms that belonged to Strategy Level 4 were considered as formalised strategic planners. Two years later in 1983, interviews were again held with the same sample, but nine percent of the original sample declined to participate in the second survey, resulting a total of two-hundred and seventy-eight sample firms.

Sexton and Auken (1985) found that the percentage of failures in business was greater for firms at the lowest strategic level than that of the firms for highest strategic level, which implies that strategic planning helps many firms to survive in a competitive market. However, the study indicated that small firms do not usually experience significant short-term (within two years) financial gains because of

strategic planning, but that the changes which do occur during a period of strategic planning are likely to benefit the firm. They found further that decline in sales and employment was greater for the firms which fell from the highest strategic level to the lowest strategic level than that of the firms which rose to highest strategic level from lowest strategic level.

Many other studies have provided similar findings to that of Gibb and Scott (1985) and Sexton and Auken (1985).

Ackelsberg and Arlow (1985) found that the more a small firm uses analytical aspects of planning - assessing strengths and weaknesses, identifying and evaluating alternatives, reviewing and revising plans - the better its economic performance. They sent mail questionnaire to one hundred and thirty-five small businesses firms from different industries. The questionnaire contained seventy items based on questions used in previous studies (Najjar, 1966; Flumer and Rue, 1974; Kallman, 1977). It was used to assess the frequency of various planning activities in the areas of goal-setting, forecasting and the execution of planning functions on a five-point Likert-type scale. The economic performance information consisted of two questions concerning the percentage change in sales and profits over the previous three-year period. Formalising the plans - keeping goals and plans in a written form and preparing budgets - did not affect performance, except for those in manufacturing. It was found that the more the manufacturers formalised their planning activities, the poorer their sales performance. They pointed out that too much formality could deter the flexible responses and entrepreneurial thrust of firms facing a volatile

environment. However, they found a non-significant positive relationship for retailing and construction firms.

Bracker (1982) conducted a study of two hundred and twenty-four dry cleaners with a view to assess the relationship among entrepreneurial type, planning sophistication, and performance. The author found that small dry cleaners using 'structured' strategic planning performed significantly higher in relation to industry standards than other dry cleaners who used other types of planning. In another study, Bracker and Pearson (1986) examined the relationship between planning process sophistication and the financial performance of five hundred and fifty-five owners/managers of dry cleaning businesses. The authors indicated that the financial performance of firms employing structured strategic plans were better than the firms employing any other types of planning. They (1986) concluded that firms that employ most sophisticated strategic planning are able to define their business, evaluate their internal and external capabilities, and to select specific strategies. This help them achieve significant growth in revenue and entrepreneurial remuneration.

Two years later, Bracker, Keats, and Pearson (1988) found the same relationship to be true in a dynamic industry environment (small electronics firms) and supported the findings of their previous research (Bracker, 1982; Bracker and Pearson, 1986) that structured strategic planning is positively related to financial performance in both the stable and growth environment.

Matthews (1991) used financial statements and ratio analyses to measure the sophistication of small firm strategic planning and found that although both small business firms and entrepreneurial ventures were positioned to benefit from the effort of more sophisticated planning, however, small business ventures might derive as much or more benefit from planning than entrepreneurial firms.

Boyd (1985), in his study of twenty-eight small business firms in a metropolitan area (country not mentioned) found that strategic planning benefited small firms to facilitate the continuity of the business, enhance the morale and commitment of key employees and to increase profitability.

Kelmar and Noy (1990) interviewed ninety-four owner/managers of small business firms in different sectors in Australia using a structured questionnaire. Although the authors could not report any conclusive findings about strategic planning and performance, subjective examination of benefits indicated that the undertaking of strategic planning activities may well benefit the small businesses through the enhancement of intrinsic variables, rather than showing a direct result in the quantitative variables associated with business performance.

Robinson (1982) examined the impact of outsider-based strategic planning on the effectiveness (growth in sales and employment, profitability and productivity) of small firms. The sample in this study consisted of one hundred and one small firms that had received strategic planning consultation (outsider-based strategic planning) and two control groups not engaging outsider-based planning. The study indicated

significant improvements in profitability, growth in sales, and growth in employment for small firms engaging in 'outsider-based' strategic planning. Shrader, Mulford, and Bluckburn (1989) found that strategic planning improved the performance of small retail firms.

Lyles, Baird, Orris, and Kuratko (1993) examined the relationship between planning formality, strategic decision process, strategy content, and performance in small business. The study included one-hundred and eighty-eight different independent firms that had been in the business for at least five years. The data were gathered by interviewing the owners or managers using a structured questionnaire. The authors found higher growth rates of sales for formal planners than that of nonformal planners, and concluded that a large number of co-operative and competitive strategies are important to the success of small firms. In a recent study, Orpen (1993) also indicated that there is a positive impact of formal strategic planning on financial performance of small firms.

Although it appears that strategic planning has a positive effect on the performance of business firms, the research evidence is still inconclusive. For example, Shrader *et al.* (1984) found no systematic relationship between formal strategic planning and financial performance. Several other studies have found relationships which were small or insignificant (Unni, 1981; Robinson and Pearce; 1983; Lindcamp and Rice; 1983; Gable and Topol; 1987; Shrader et al, 1989; Watts and Ormsby, 1990a). Hanlon and Scott (1993), in describing the contradiction between the normative statements about planning and the mixed results of the empirical studies, commented

that, "there is a tension between normative statements and the findings of empirical research". Because of the controversial nature of research findings, questions have arisen about the need for strategic planning in small business.

2.4 Limitations of Previous Research that Led the Controversy on Relationship Between Strategic Planning and Performance

This controversy between writers on the issue of the planning-performance relationship has been due to a failure to agree on what constitutes planning, strategic planning, small business, and performance (Gibb and Scott, 1985; Robinson and Pearce, 1984; Pearce et al, 1987; Boyd, 1991). There has also been no agreed conceptual model that takes into account the relevant, moderating variables relating to firm, industry, and personal background of owner-manager that could have affected the planning-performance relationship (Bracker *et al.*, 1988; Matthews, 1991; Carland *et al.*, 1989; Orpen, 1993; Miller and Cardinal, 1994). Several methodological problems are also noted. The limitations are described as well.

Gibb and Scott (1985) felt that the differences which existed between writers on the issue of the strategic planning-performance relationship almost certainly owe much to the absence or failure to agree on what constitutes planning and strategic planning, particularly in respect of degree of formality as well as failure to standardise on the size of small firms being studied. Pearce *et al.* (1987, p.659) pointed out in their review of eighteen studies that '*the authors of only one of the eighteen studies provided a conceptual definition*'. Most of the writers seemed to apply concepts derived from large firms and used different measures on the basis of their degree of

formality to measure the existence of strategic planning in small business. The implicit assumption underlying this approach is that written planning documents are valid indicators of a firm's commitment to and involvement in strategic planning. Their excessive focus on formalisation and ignorance of the value of strategic thinking and awareness has led to a controversial explanation about the planning-performance relationship.

Because of the lack of an agreed conceptual base, the definitional and measurement validity emerges as one of the central issues in the research. Many different approaches were used to measure the existence of strategic planning and performance. Miller and Cardinal (1994, p.1655) indicated that most of the previous studies obtained planning data for a given firm by having an executive informant assess strategic planning. The most commonly used question to measure the existence of planning in business firms in the previous research was : "*Does your company develop formal strategic plan on a regular basis?*" (Capon *et al.*, 1994). As we will see later, the strategic planning processes of small firms differ from those of large firms. Therefore, the use of large firm planning orientation to operationalise the planning in small firms and the lack of uniformity of the measures may have led to confusion about 'true' planning-performance relationship.

Similar to the use of different measures of strategic planning, researchers have also used different criteria to measure business performance. They are usually restricted to conventional short-term measures of economic performance (Mintzberg, 1994, p.92; Gibb and Scott, 1985). Gibb and Scott (1985) demonstrated that growth may not be

the appropriate criterion, and survival through "bad" times may also be a relevant performance measure. Most of the previous research measured performance using the financial data only. However, obtaining accurate financial data from small businesses is often very difficult (Dess and Robinson, 1984, p.256). Fiorito and LaForge (1986) have further noted that small firms are "*....notorious for their inability and unwillingness to provide desired information*" (cited in Orpen, 1993, p.65). Moreover, some studies have used only cross-sectional data, despite that fact that strategic decision making might only have an impact after several years (Sexton and Auken, 1985).

Questions also arise about the reliability of data in previous research. Most studies collected data via mail questionnaires to CEOs; they were probably completed by others. As Starbuck (1985, p, 370) noted, "Nearly all of the studies gathered their data by mail questionnaires, that could be filled out quickly ('in a few minutes), and that were filled out by self-selected respondents who had little reason to respond accurately and who may not have known what they are talking about". The low response rate of these mailed surveys is particularly relevant. For example, in Bracker and Pearson's study (1986), fifty-three percent of the association members surveyed did not respond, despite repeated contacts by mail and even telephone. Starbuck (1985) documented the low response rates of these mailed surveys, generally in the range of 20 percent, but some as low as 7 percent. Mintzberg (1994) put the weakness of mail survey in previous research in this way: "*you simply mailed a questionnaire to the head of planning, asking the respondent to tell you on seven-point scales or the like how much planning took place in the firm....You never even*

had to leave your office at the university". He thus added that in this process the researchers do not have to face the distortions inherent in such research (p.93). Both the planning and performance data were mainly self-reported, without being triangular in nature. In criticising the self-report data, Orpen (1985, p.17) noted that since planning is generally thought of as desirable, owner-managers often exaggerated both the amount of time they had spent on strategic planning and its impact on their firms' performance in the many previous studies.

Poor reporting of statistical data in previous research has also been noted by some researchers. For example, Boyd (1991) mentioned, "Early and recent papers are equally at fault for poor reporting. While recognising space limitations of academic journals, the necessary statistics could be added very easily: it requires no more space to include the value of a non-significant correlation than an 'NS' in a table".

Finally and perhaps most important is the problem of inferring cause (Mintzberg, 1994, p.94). A positive relationship between planning and performance allows no one to conclude that planning pays. Causation may also go to the other way: only the rich organisations can afford planning, or at least planners. Starbuck (1985) raised another possibility here: firms that do well naturally emphasise their planning activities (since they made or exceeded their targets) while those that do poorly become unsure of them and so underemphasise them.

Thus strategic planning can certainly influence the growth of the company and provide a framework for enhancing this or it can also help maintain the existing size

and capability of the firm (Gibb and Scott, 1985, p. 600). This relationship has been concealed in some of the previous studies because of their varying ways of defining and measuring strategic planning. The overemphasis on sophistication or formality of strategic planning in a number of research is particularly noted. Some methodological problems are also evident in investigating the issue.

2.5 Formalisation in the Process of Strategic Planning and Importance of Strategic Awareness in Small Business

It comes as no surprise that the planning process has received so much emphasis since the discipline of strategic management has its historical roots in the normative (planning) model of strategy (Hanlon and Scott, 1993, p.2). Chandler (1962, p.13) defined strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals. Similarly, Quinn (1980) defined strategy as the pattern or plan that integrates an organisation's major goals, policies, and action sequences into a cohesive whole.

The planning theme has guided much of the empirical research. Many authors (e.g., Bracker, 1982; Bracker and Pearson, 1986; Bracker, Keats, and Pearson, 1988; Matthews, 1991; Lyles, Baird, Orris, and Kuratko, 1993; Orpen, 1993) have categorised firms on the basis either of '*formality*' or '*sophistication*' of planning and thus placed more emphasis on the formal (written) planning process in demonstrating the influence of strategic planning on firms' performance. Although strategy can be formulated either with or without written documents, some scholars argued that it is

unlikely that genuine commitment, especially in complex organisations where decision making is often collective, could be won for any plan which is not committed to paper (Reid, 1989, p. 555)⁹. This idea has also been discussed by some writers in small business. Lyles *et al.* (1993), for example, argued that as small business owners adopt more formal planning processes, there is a significant increase in the thoroughness of their decision process, the breadth of strategic options emphasised in their business activity, and the overall performance. Although, strategic planning has been found to have a positive effect on business growth and survival, the question remains there if the use of formal strategic planning process or for that matter just formalisation of strategies in small firms is either desirable or suitable. This issue can be discussed in many different ways:

A. Debates about Strategy Formulation and Formation

The normative model, the planning model, seeks to describe how firms should go about formulating their strategies as opposed to how organisations actually make strategy (Hanlon and Scott, 1993). It treats strategy as explicit, as developed consciously and purposefully, and as made in advance of the specific decisions to which it applies. The planning approach incorrectly assumes that organisational strategy is always the outcome of rational planning, and ignores the fact that strategies can emerge from within an organisation without any formal plan (Mintzberg, 1978).

Making a subtle but powerful distinction between strategy formulation and strategy formation, Mintzberg (1978) argued that strategies could form gradually and

⁹However, he also argued that the exercise of strategic planning must not be merely an exercise in

sometimes unintentionally. He thus distinguished between 'intended strategies' and 'realized strategies' (Figure: 2.1). Mintzberg also distinguished between i.) deliberate strategies, which are intended strategies that get realized, and ii.) unrealized strategies, which are intended strategies but do not get realized. The literature on planning recognizes both, with an obvious preference for the former (the deliberate strategies), but it does not recognize a third one, which Mintzberg calls emergent strategies, which are realized strategies that were not intended. For example, rather than pursuing an intended strategy of diversification, a company simply makes diversification decisions one by one, in effect testing the market. First, it buys an urban hotel, next a restaurant, then a resort hotel, then another urban hotel with restaurant, and then another of these and so on until the strategy (pattern) of diversifying into urban hotels with restaurants finally emerges.

Mintzberg and Waters (1985) further identified eight strategies lying along the continuum between deliberate and emergent strategies: planned, entrepreneurial, ideological, umbrella, process, unconnected, consensus, and imposed. In referring to the perfect planned strategy, Mintzberg noted that leaders at the centre of authority structures formulate their intentions as precisely as possible and then strive for their implementation, with a minimum of distortion, 'surprise-free'. To ensure this, the leaders must first articulate their intentions in the form of a plan, to minimize confusion, and then elaborate this plan in as much as detail as possible, in the form of budgets, schedules, and so on.

report generation but must also include a measure of strategic thinking.

Figure 2.1
The Strategic Management Process for Intended and Emergent Strategies



Source: Hill and Jones (1995), p.10.

For a strategy to be perfectly deliberate at least three conditions must be satisfied: i. the existence of precise intentions, articulated in a relatively concrete level of detail, so that

there can be no doubt about what was desired before any actions were taken, ii. because organisation means collective action, the intentions must be shared or completely accepted by all actors within the organisation, and iii. the collective actions must have been realized exactly as intended, which means that the environment must be perfectly predictable, totally benign, or capable of being fully controlled by the organisation (Mintzberg and Waters, 1985; Mintzberg, 1994). But Mintzberg postulated that it would be highly unlikely to find situations where the three stated conditions are fully met so that a perfectly planned strategy would be found; equally rare, however, would be the purely emergent strategy. Thus most strategies would tend to fall somewhere between, sharing characteristics of both. Mintzberg stated, "I believe that all viable strategies have emergent and deliberate qualities" (1994, p.111).

After reviewing 1,495 publications on strategic management, Mintzberg (1990) identified ten schools of thought: the design, planning, positioning, entrepreneurial, cognitive, learning, political, cultural, environmental, and configurational schools. Three of these, the design, planning, and positioning schools, are prescriptive in orientation, treating strategy as a process of conceptual design, of formal planning, and of analytical positioning (1990b, p.171). Mintzberg (1990) argued that *the design school*, where strategy is supposed to be derived from deliberate thought, and *the learning school*, where strategy is taught as emerging from a pattern in a stream of intuitive actions, represent two extreme ends of a spectrum.

Referring to planning as a more calculating than usual style of management, Mintzberg (1994) noted that the assumption of formalisation implies a rational sequence, from

analysis through administrative procedure to eventual action. But strategy making, as a learning process, can proceed in the other direction too. Mintzberg (1992) maintained that strategy is what happens in a person's mind continuously as he or she is mulling over issues and recombining all the things that are happening. Therefore it can be argued that most successful strategies are visions, not plans (Mintzberg, 1994, p.107). It can be argued further that formal procedures cause managers to confuse real vision with the manipulation of numbers and that they thus often spoil strategic thinking (Mintzberg, 1994, p.109). Too much formalisation in strategic planning may tend to suppress creativity and spontaneity, and to paralyse or splinter an organisation. It often may drive out important innovations that are not part of the plan. After differentiating the concept of thinking from the concept of planning, Mintzberg (1994) maintained that strategic planning (formal) involved separating thinking from doing, like Taylor's "*scientific management*" did. Thus, Mintzberg highlighted the importance of strategic thinking over strategic planning, and noted, "I personally prefer the phrase strategic thinking to strategic planning", in an interview with Bruce Lloyd (1992) about his book *The Rise and Fall of Strategic Planning*. Mintzberg (1994) thus termed strategic planning as '*strategic programming*', i.e., the articulation and elaboration of strategies, or visions, that already exist.

This line of thought followed earlier work by Mintzberg and other management thinkers from the 1970s onwards. In his first book, Mintzberg (1973) argued that there was 'no science in managerial work' because of its inherent and actual 'variety, brevity and fragmentation'. Later, and on decision making, Mintzberg and colleagues pointed to the way in which many so-called decisions simply consist, in reality, of the working

through of more or less inevitable events conceived in order to build or defend job holders' empires (Mintzberg, Raisinghani and Theoret, 1976). In a discussion of the relationship between culture and organisation, Sorge (1982-83; see also Sorge and Warner, 1986, Chapter 2, and Sorge and Hartmann, 1980) emphasized the emergent and nonrational character of most or all organisational practice and points out that to 'neglect the nonrationality of problem-solving, i.e., specifically to try to make practice rationally dependent on theory, would be irrational and alien to the species' (p. 133). A decade or so later, Wentworth and Glover (1998; also see Kotter, 1982) distinguished between 'calm, rational planners and decision-makers' and 'active, intuitive wheeler-dealers' as examples of extremes on the main continuum of management work contrasting the rational planning approach of the former with the unpredictable ingenuity of the latter, but arguing that competent people needed to deploy both approaches and mixtures of them at different times and in different situations. These views are all far from incompatible with those of other recent writers on business strategy and decision-making other than Mintzberg and his co-authors, or with the conceptual framework used for this study (see Chapter 4, especially section 4.3). Regarding the other recent writers just mentioned, while Porter (1980) for example, strongly favours formalising strategy through explicit discussion and planning, this is not really incompatible with Mintzberg's superficially very different stress on the emergent nature of strategy and decision-making, because both express faith in the importance of managers talking to each other in order to evolve and articulate their decisions, strategies and so on.

Another writer on strategy, also influential in recent times, whose views are compatible with those described above and with the present study's conceptual framework is Kay (1993). His concern is with the origin of industrial success. Whereas Chandler (1962) suggested that strategy determines structure, which in turn determines performance, this study suggests that the characteristics of a company and of its management (these include its structure) along with that of its environment, lead to the strategy/planning process and that this influences performance. This more 'emergent' in Mintzberg's terms view is in accord with Kay's, which also emphasizes the characteristics of firms and of their relationships with the environment, notably markets, and also stakeholders, meaning employees, customers, shareholders and suppliers, according to Kay, as the major influences on strategy formulation - or strategic programming in Mintzberg's terms and implementation, and thus on performance. Less sophisticated, more pragmatic, approaches to strategy such as the use of SWOT and PEST analyses and the Boston Matrix are also all compatible with the main ideas just discussed. However, the general thrust of those ideas concerns the way in which, even in the advanced industrial countries, and even in the hands of top business school professors, strategy and planning are increasingly thought of in terms which are relatively practical and humble rather than unrealistically normative and grandiose.

The above discussions appear to suggest more for the need for learning, strategic thinking and continuous awareness as opposed to the use of too many formalised procedures in strategic planning. This is largely true for small business where formal strategic planning may be too costly and where too much formality could detract from the flexible responses and entrepreneurial thrust of the firm.

B. Peculiarities of Small and Medium-sized Business

A number of unique characteristics of small business can be pointed out which often make formal strategic planning impracticable for small firms. These are:

- 1. The small business firm conducts a limited number of types of performances (products, technologies, services, expertise) normally within a narrow geographical area and is consequently vulnerable to any business downturn.**
- 2. Limited resources and capabilities (notably capital, staff and management) result in inadequate skills and information for strategic management; management's attitudes often constitutes a real barrier.**
- 3. The frequent concentration of information-gathering responsibilities into one or two individuals, rather than specialisation of scanning activities among top executives (Hambrick, 1981). The nature of strategic information is more qualitative than quantitative; management lacks the necessary administrative procedures and techniques to evaluate the strategic position (market analysis, financial position, competitors and budgeting).**
- 4. The management is carried out in a personal way without any formal method or structure. It is unsystematic and implicit.**
- 5. Because shares are held by a few relatives of the company founders, the firm displays the 'close-knit family character'. The owner-managers in these firms**

are usually free from outside control in taking their principal decisions. The absence of such outside control does not oblige them to formulate any formal plan of the kind usually required in those business units which are subject to external control.

A number of other reasons, like lack of time, minimal exposure to knowledge of the planning process, lack of expertise, training, education and skills of owner-managers and lack of trust and openness, and cost can also be identified as reasons for their inability to use formal strategic planning (Robinson and Pearce, 1984; Boyd, 1985; Shrader, Mulford, and Bluckburn, 1989; Sexton and Dable, 1976).

2.6 Empirical Research on Strategic Planning Process and the Importance of Environmental Awareness, Strategic Awareness and Thinking

Gibb and Scott (1985) found an absence of formal strategic planning in small businesses for the organisation as a whole, in the large company planning sense. However, the process of development of a specific project is characterised by varying degrees of strategic awareness. The development process is highly dynamic and highly iterative, and it is characterised by a great deal of learning by the owner-manager and is influenced considerably by his or her personal appraisal, knowledge and attitudes. External information is likely to be acquired personally by the owner-manager rather than by formalised 'sweeps' of secondary sources. Thus owner-managers learn all the time usually by coming up against problems and solving them rather than anticipation. This reactive behaviour is very common even when there is a high level of strategic awareness although such awareness would facilitate anticipation. The study underlines

the importance of strategic awareness and the personal commitment of the owner-manager in pursuing objectives developed from observations of the environment. They concluded that achievement of objectives within small and medium firms is not so much dependent upon formal strategic planning as upon environmental scanning, strategic awareness and making timely changes in response to the envisaged environment.

Mintzberg and Waters (1985) indicated that strategies in small business are unlikely to exist in an articulated form. Intentions in small firms are both more difficult to identify and less specific than those of planned strategies. Mintzberg and Waters (1985) called these entrepreneurial strategies which are more emergent in nature than deliberate and which appear without any formal process. Mintzberg and Waters (1985) indicated that emergent strategies can be found in any organisations where personal control is feasible and which are able to find relatively safe niches in their environments. They argued that an entrepreneurial strategy represents the characteristics of emergent strategy in two respects: i. visions provide only general sense of direction; within it there is room for adaptation: the details of the vision can emerge *en route*; and ii. because the leader's vision is personal, it can be changed completely. As it has been mentioned before, since here the formulator is the implementer, step by step, that person can react quickly to feedback on past actions or to new opportunities or threats in the environment (Mintzberg and Waters, 1985, p.261).

Sexton and Auken (1982, 1985), in another longitudinal study, found a "*rather anaemic level*" of strategic planning among the small businesses. They interviewed

owner-managers of three-hundred and fifty-seven independently owned and operated small businesses in the central Texas region. The authors disclosed that nearly a quarter of the sample firms carried on strategic thinking (i.e., estimation of future sales and profit fluctuations). However, only rarely was this thinking translated into active plans.

More empirical studies have confirmed that although managers of small firms engaged in strategic thinking, such deliberation is seldom formalised. Thus Robinson and Pearce (1984) concluded that comprehensive planning is conspicuously absent in small firms. They noted that "*Planning in small firms were described as unstructured, irregular, and uncomprehensive. It occurred segmentally over time with a reactive rather than proactive orientation. Although small firm managers engaged in 'strategic thinking', such deliberation was seldom formalised, never communicated beyond a very few personal contacts, and the search for alternatives typically was passive and characterised by acceptance of the first attractive option*".

Hastings (1961) conducted a questionnaire survey of 106 manufacturing firms and found that in most small businesses planning are informal. Similarly, in investigating management practices in small service firms, Anderson (1970) found that owners/managers practically do not follow formal planning.

Still (1974) conducted a study of ninety-two manufacturing and construction firms using a questionnaire based on initial, semi-structured interviews of a pilot sample, so as to identify empirically the nature of strategic planning behaviour in small businesses. He found that i. strategic planning in small firms is unstructured, irregular, and

incomprehensive, ii. that strategies develop segmentally and evolutionarily over time in response to an intermittent stream of major problem situations, iii. that strategic planning is more incremental than synoptic, iv. that basic company goals are seldom considered, and v. that the search for alternatives is passive, and planners have a strong tendency to limit search once an attractive alternative is found. Similarly, Sexton and Dable (1976) found that planning is informal, and sporadic.

In investigating the decision making approaches (rational approach versus social or satisfactory approach) of small business managers, Rice and Hamilton (1979) conducted structured interviews with owner-managers of thirty-five service, wholesale, and retail firms where they found that the planning approach was nonrational, and nonsystematic.

Flavel (1992) indicated that complex, formal, structured and detailed prescriptive planning frameworks, which may be suited to larger enterprises, are not appropriate for small and medium-sized ones. He examined the planning and control practices within a sample of 419 business enterprises, the majority of which were located in South Australia.

Shuman, Shaw, and Sussman (1985) conducted a major study on the role of the strategic planning practices in rapid growth companies. They developed a survey questionnaire consisting of sixty-one questions and mailed them to all the companies of a population of the 500 fastest growing privately held smaller companies (The INC. 500) in the United States. These companies were America's growth leaders, recording

major increases in sales, profits, employment, and productivity. The CEOs in the survey felt that growth can be attained by planning. The authors, however, concluded that smaller company strategic planning is still in its formative period and that its development will continue as more practical experience is acquired.

Stoner (1983) found that small businesses used reasonably extensive long-range planning, but that the plans existed only in the minds of owner/managers in small firms. The author suggested that although many firms were aware of the benefits of the planning activities and, thus, are willing to commit a portion of their time and resources to such activities, planning is much less prevalent among smaller firms than larger ones. However, the study did not incorporate any large firm in the sample. Small firms prepared short-term objectives more than long-range plans (nearly twenty-one percent and over fifty-one percent of the surveyed firms prepared long-range plans and short-term objectives respectively). However, most of the respondents failed to present their objectives and long-range plans in a written form (approximately only eighteen percent of the firms had developed written, long-range plans).

Gable and Topol (1987) conducted a mail survey of the 179 small retail firms of the North-east region in the United States. The authors reported that while a majority (fifty-seven percent) of the firms were engaged in planning (thinking), only a very small percent of them (sixteen percent of the respondents who perceived themselves as planners) committed their plans to writing (formalisation of thinking). Shrader, Mulford, and Bluckburn (1989) also found that most of small firms do not have formal strategic long-range plans.

Contrary to the findings of many studies that suggest that formal strategic planning is non-existent in small business, a study in the United States (Naffziger and Kuratko, 1991) reported that a majority of the small business owners set formal goals for periods of a year or more, while a largest majority set goals for periods of less than one year. The authors (1991) conducted a survey of 115 very small firms in the United States to examine their planning systems and activities using a seven-point Likert scale. The study used a too-broad and vague definition of planning and the existence of planning was measured by the self-reported response using structured questionnaire.

To sum up, it can be said that complex, formalised, structured and detailed prescriptive planning frameworks which may be suited to larger enterprises may not be appropriate for small and medium enterprises. Environmental scanning, strategic awareness, thinking, and timely action are more relevant and related to enterprise performance in these firms than complex and detailed formal plans. Owner-managers who have a high degree of awareness of their firms' external environment and their strategic decisions perform well. Therefore, rather than putting much effort into formalizing their strategies, owner-managers of small firms should be aware enough of the environmental happenings, and they should explore the opportunity and threats in the environment as well as be aware of the implications of their strategies. In other words, continuous environmental scanning, development of strategic awareness, thinking and timely action are often more important in small business than complex, detailed, written plans.

It should however, be mentioned here that this thinking and awareness should be as much as proactive as evidence from small business research suggests that failure of proactive anticipation about the consequences of present actions can create unwanted problems (Gibb and Scott, 1985). In describing the importance of proactive awareness, Gibb and Scott (1985) noted that owner-managers who do not project into the future the consequences of their present actions face more problems with the successful materialisation of their strategies. Owner-managers with a sense of strategic awareness will not only explore the effects of any specific strategic actions on all aspects of firm's business, noting where the changes will be needed in the quantity or quality of marketing, production or financial and physical resources, but will also use strategic action as a means of reflection on the overall longer term situation of the company (Gibb and Scott, 1985, p. 619). Unni (1981) maintained that all businessmen, even 'lucky' ones need the right kind of imagination to foresee the future with some degree of accuracy. Therefore, the essence of planning in small firms lies in its ability to project into the future the consequences of its present actions and to think strategically about these (Gibb and Scott, 1985).

The ability of owner-managers to think about the environment, to explore opportunities and threats, and to assess the effects of any change in a proactive manner may appear more naturally with some owner-managers than others. Some inputs, however, may also influence the process. The following section will draw out those parameters which seem to be major influences on this process.

2.7 The Influences of Environmental Awareness, Strategic Thinking and Awareness in Small Business and Their Effects on Performance

The influences on the capability of owner-managers to explore opportunities and threats and to assess the impact of any changes have been the subject of a limited number of studies (Gibb and Scott, 1985; Matthew, 1991). Some factors have been found to play a moderating role on the relationship between strategic planning/awareness and performance. The following section will discuss the factors that influence the strategic planning activities of small firms as well as the factors that moderate the relationship between strategic planning and performance.

2.7.1. Environmental Uncertainty and Complexity

The literature on organisational environments reflects three dimensions of an environment: (i.) dynamism, often called uncertainty, which is characterised by the extent of unpredictable change in environmental elements (Dess and Beard, 1984; Lawrence and Lorsch, 1967; Thompson, 1967); (ii) complexity, which is characterised by heterogeneity of and range of environmental activities (Dess and Beard, 1984; Mintzberg, 1979; Thompson, 1967); and (iii) hostility, which represents the degree of threat to the firm posed by the multifacetedness, vigour and intensity of the competition and downswings and upswings of the firm's principal industry (Miller and Friesen, 1978, 1983, Mintzberg, 1979). These three dimensions synthesize two approaches to conceptualizing environments (Aldrich, and Mindlin, 1978): i. as a source of information, and ii. as a source of scarce resources. As Tan and Litschert (1994) maintain, environmental complexity and dynamism have been closely linked to the information uncertainty perspective, while hostility has been tied to the resource

dependence perspective (p.2). With uncertainty, information is limited and it is difficult to predict future environmental conditions.

Organisation theorists emphasize the need for organisations to adapt flexibly or to buffer themselves from increasingly turbulent environmental conditions (Lawrence and Lorsch, 1967). Steiner (1963) was among the first to call for increased planning in business in order to deal with environmental uncertainty. He (1963) thought that planning would allow managers to experiment mentally with ideas that represent the valuable resources of a business before committing the actual resources to risk (cited in Mulford *et al.*, 1988, p.6). It has been argued that executives in firms facing high turbulence must rely on extensive strategic planning to cope with changing, unpredictable conditions, while executives in firms facing low turbulence need less strategic planning (e.g., Ansoff, 1991; Miller and Friesen, 1983). As Miller and Friesen argued, 'A dynamic environment must be studied more carefully and diligently to afford executives with an adequate degree of mastery' (1983, p.223). However, an argument that runs counter to the preceding reasoning is that executives in firms facing turbulent environments should not arrange for high levels of planning because future states of turbulent environments are impossible to predict (e.g., Mintzberg, 1973). It has been further added that comprehensive planning in uncertain and complex environments may cause more inter-organisational contradiction than resolves it, and therefore, low levels of planning extensiveness should be associated with complex and uncertain environments (Bresser and Bishop, 1983; Fredrickson, 1984; Fredrickson and Mitchell, 1984).

A number of empirical studies, although few, have been conducted to examine the relationship between environmental uncertainty and the strategic planning process in small business. On the results of a study with a sample of 198 firms, Lindsay and Rue (1980) indicated a positive relationship between environmental uncertainty and planning extensiveness among large corporations. The results for small firms were not significant. They categorised the companies in three groups: i. Firms that had no formal planning process, ii. Firms that had written long-range plans with specific objectives; and iii. Firms that had formal environmental scanning and a review process.

On the other hand, Mintzberg and Waters (1985) observed that planned strategy was more likely in an environment that is, if not benign or controllable, then was at least rather predictable (p.259). Shrader *et al.* (1989) also observed that because of unpredictable environments, strategic planning in small business is very uncommon. Similarly, Naffziger and Kuratko (1991) have found widespread prevalence of planning activities in a majority of small businesses of which environments are relatively stable. Similarly, Frank, Plaschka, and Roessl (1989) maintain that the dynamic environmental situation of a new venture makes the 'far future' probably unplannable.

In a free enterprise system, opportunities are spawned when there are changing circumstances, chaos, confusion, inconsistencies, lags or leads, knowledge and information gaps, and a variety of other vacuums in industries and markets (Timmons, 1994, p.88; Matthew 1991, p.77). Changes in the business environment and therefore, anticipation of these changes, are so critical that constant vigilance for changes is a

valuable habit for the entrepreneurs. Timmons (1994) maintained that an entrepreneur with credibility, creativity and decisiveness can seize an opportunity.

Kukalis (1991) found in a study of large businesses that planning extensiveness is significantly related to level of environmental complexity. He concluded that environmental complexity imposes restriction on how far ahead a company can plan. Thus, it can be said that while environmental uncertainty and complexity seems to increase the need for more environmental and strategic awareness, a complex environment makes formal longer-range planning more difficult (p.155).

Environmental uncertainty, however, is not uniform and may vary from one business to another (Mulford, Shrader, and Hansen, 1988, p.18). Further, for a given organisation, the environment is 'enacted' (Weick, 1979) through members' attention to segments of the environment. Thus, it is also important to distinguish between objective environment and perceived environment because the behaviour of the firm is related to the 'perceived' environment as opposed to the objective environment (Gibb and Scott, 1985).

Environmental uncertainty as a moderator of strategic planning and performance relationship

Environmental uncertainty and complexity have been thought of moderating the relationship between strategic planning and performance. Numerous researchers (Armstrong, 1982; Pearce *et al.*, 1987) suggest that the effect of strategic planning on performance is contingent upon the level of turbulence that firms face. Consequently,

the correlation between planning and performance may be stronger in a turbulent environment, and weaker in a placid environment (Armstrong, 1982). Miller and Cardinal (1994) found that planning is positively related to profitability when the environments faced by the firms are turbulent. Fredrickson and Mitchell (1984), however, by conducting a study which incorporated both large and small firms, found a positive relationship between planning comprehensiveness and performance in a stable environment, but a consistently negative relationship between planning comprehensiveness (planning comprehensiveness in this study means that strategy is consciously developed) and performance in an unstable environment.

In small business research, some researchers (i.e., Sexton and Auken, 1982; Matthews, 1991) found that the higher levels of perceived environmental uncertainty lead to poorer performance. However no difference was evident between planning-performance relationship in stable (Bracker and Pearson, 1986) and dynamic industry environment (Bracker *et al.*, 1988).

2.7.2. Size of Organisation

Small and large firms both can benefit from adaptive thinking and acting. However, large firms may have more ability to scan the environment and adapt the firm with the environment as they have more human resources, tools and financial capability than small firms. The increasing size provides the large firms with an opportunity to benefit from increased division of labour. For example, a separate department is often set up with expert people who continuously monitor the environmental changes in large firms. This is, however, not usually possible in small firms as they lack required resources,

both human and financial. This view is supported in some research. Lindsay and Rue (1980) found positive relationship between size of organisation and planning extensiveness. Similarly, Sexton and Auken (1982) indicated that larger firms may be more prone to strategic thinking. Further, Stoner (1983) indicated a positive relationship between size of firms and presence of planning activities.

Size as a moderator of strategic planning and performance relationship

Miller and Cardinal (1994) suggest that both small and large firms can benefit from strategic planning. Large firms, however, appear to gain more because they can derive considerable benefits not only from adaptive thinking, but also from integration and control. Robinson and Pearce (1983) concluded that 'firm size' is a critical contingency variable in strategic management research and theory development (p.204). Lindecamp and Rice (1983) found that there is a positive relationship between planning formality and size of the firm (number of regular, full-time employees). However, the influence of the size of firm on the planning-performance relationship was rejected in other studies (Bracker *et al.*, 1988; Miller and Cardinal, 1994).

2.7.3. Age of Firm

The ability of a small firm to scan the environment, to explore opportunities and to translate them into strategic action, and to forecast the implications may well depend on the age of the firm. With the accumulation of experience in varying areas over a longer period of time, owner-managers of older firms may become more capable of scanning the environment and projecting the implications of any action with a high degree of

accuracy. Moreover, old firms generally possess more experts other than owner-managers who can contribute to the process of environmental scanning and strategic awareness. Lindsay and Rue (1980) found a positive relationship between the age of firms and the completeness of the planning process.

Age of firm as a moderator of strategic planning and performance relationship

Strategic planning-performance relationship is contingent on the age of the firms (Bracker and Pearson, 1986). Some researchers therefore, did not select new firms as samples on the assumption that the short operating time-frames of these young firms may not lead to adequately developed strategic planning systems (Unni, 1981; Bracker and Pearson, 1986; Lyles *et al.*, 1993). It is found that young firms outperformed old firms (Bracker and Pearson, 1986).

2.7.4. Capital Intensity

Mintzberg and Waters (1985) suggest that strategic planning can be found in organisations that commit large quantities of resources to particular missions and so cannot tolerate an unstable environment (p.259). High capital intensity creates a situation in which unpredictable changes in the environment can cause considerable risks and *ad hoc* changes can not be realised except at a high cost (Keppler, Bamberger, and Gable, 1979). It has been stated earlier that there is little margin for trial and error in case of small business (Barton and Matthews, 1988). This therefore suggests that owner-managers of small firms most certainly should make sure to scan the environment and assess the impact of any project before the project is launched.

Kukalis (1991) found a positive relationship between capital intensity and planning extensiveness in large firms.

Capital intensity as a moderator of strategic planning and performance relationship

Strategic Planning is critical for capital-intensive firms because capital asset requirements must be accurately determined in advance (Grinyer *et al.*, 1986; Kukalis, 1991). Clearly, this is not the arena for guess-work (Miller and Cardinal, 1994). Changing the composition or size of the labour force in most labour-intensive firms tends to be easier than changing plant and equipment in typical capital-intensive ones (Grinyer *et al.*, 1986; Kukalis, 1989). Thus long-term adaptive thinking is probably less critical in labour-intensive firms than in capital intensive firms. This might have an effect on the planning-performance relationship. Available empirical research suggests that the relationship between planning and performance is highly and significantly positive in capital-intensive firms (Kukalis, 1991).

2.7.5. Slack Resources

Gibb and Scott (1985) maintain that organisational slack in terms of time and resources is an important factor for facilitating a proactive approach to planning in small business (p.621). Many other researchers (Robinson and Pearce, 1984; Mulford *et al.*, 1988; Shuman and Seegar, 1986; Shrader *et al.*, 1989) have also identified similar factors like, lack of time, expertise, trained personnel, and cost as the important impediments to strategic planning in small business. Mulford, Shrader, and Hansen (1988) argued that firms that are successful in acquiring slack resources enable managers to plan and

to pursue divergent and competing goals. They also argued that firms experiencing increasing financial performance are more likely to have slack resources available. However, they (1988) found no significant correlation between strategic planning and past financial performance.

2.7.6 Education and Training

Gibb and Scott (1985) observed that the capability of small firm owner-managers for exploring opportunities, identifying threats and assessing the implication of any project was increased when they were provided with education, counselling and training. Jones (1982) also found that planners have a higher education level than non-planners. Naffziger and Kuratko (1991), however, found little relationship between the formal education of owner-managers and planning activities in small firms.

Education and training as a moderator of strategic planning and performance relationship

Some researchers (Van de Ven, Hudson, and Schroeder, 1984; Cooper, Woo, and Dunkelberg, 1989; Bates, 1990) have found significant relationships between levels of education obtained by business owners and subsequent venture success, but Stuart and Abetti (1990) found a significantly negative relationship between those two variables in a study of technology-based firms. No relationship was found between education level and firm performance in two other studies (Keely and Roure, 1990; Dyke, Fischer, and Reuber, 1992). Bracker *et al.* (1988) observed that the financial performance of

opportunistic entrepreneurs¹⁰ with high levels of planning sophistication was higher than that with such entrepreneurs with low level of planning sophistication.

2.7.7 Experience

Shuman, Shaw, and Sussman (1985) concluded that smaller company strategic planning and its development will continue as more practical experience is acquired.

Experience as a moderator of strategic planning and performance relationship

From their study of the relationship between owner's experience and performance, Dyke, Fischer, and Reuber (1992, p.72) argued that the experience of owner-managers should be used as a control variable on further research studying the factors influencing firm's performance. They (1992) found that certain types of experience, like previous experience in management and in industry, as well as the experience with previous start-ups, had positive relationships to various aspects of performance. Experience in running an entrepreneurial firms was found to be relatively unrelated to firm performance

2.7.8 Small Business, Entrepreneurship and Strategic Planning

Not all small firms are alike. They differ in management style and sophistication, in their stage of development, and in performance. Bracker and Pearson (1986) noted that "Many researchers and practitioners assume that entrepreneurs are a homogenous group and that the term 'entrepreneur' refers to one type of individual. However,

¹⁰Who perceives and reacts to a broad range of environmental impacts, exhibits breadth in education and training, has high social awareness and high social involvement, is flexible and confident in his/her ability to deal with economic and social environments, and exhibits an awareness and orientation toward the future.

numerous types of small firms and entrepreneurs are identified in the literature (e.g. Carland, Boulton, and Carland, 1984; Smith, 1967)".

Three personality attributes of business owners - the need for achievement (McClelland, 1961; Hornaday and Aboud, 1971; DeCarlo and Lyons, 1978), risk taking propensity (Kilby, 1971; Mill, 1848; Timmons, 1978), and preference for innovation (Schumpeter, 1934; Drucker, 1985) - are dominant in the literature which seeks to explain entrepreneurship. In the literature it is argued that there is a relationship between entrepreneurship and strategic planning in business firms (Pleitner, 1989; Carland *et al.*, 1989). Carland *et al.* (1984) distinguished entrepreneurs from non-entrepreneurs as follows: *"An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business.The small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires"* (1984, p.358). This definition assumes that entrepreneurs, as opposed to small business owners, are involved in high level strategic planning. Further, Matthews (1991, pp.71-72) argued that a small 'income substitution' or 'mom and pop' (static) type firm will have different strategic planning needs than a more dynamic growth oriented 'entrepreneurial' type of firm. Entrepreneurial firms are concerned with the managerial objective of achieving growth, while non-entrepreneurial 'life-style' businesses are

concerned with survival and maintenance of the life styles of owners (Deakins, 1996, pp. 186-87). Matthews (1991) found that owners who involve in high level of strategic planning have a significantly higher preference for innovation, a higher propensity for risk taking, and a greater need for achievement than do owners who engage in informal planning and who do not engage in planning.

It should, however, be noted that even a non-growth oriented, income substitution small business has environmental perceptions and specific strategic planning needs in order to enhance the firm's chances of survival (Matthews, 1991, p.72). As such, scholars (Matthews, 1991; Bracker and Pearson, 1986; Bracker *et al.*, 1988) suggest that the type of small business firm - entrepreneurial versus small business venture - needs to be considered in strategic planning theory. Carland *et al.* (1989) made a plea for more research on this issue.

Type of firm as a moderator of strategic planning and performance relationship

Research relating to the effect of type of firm (entrepreneurial or small firm) on strategic planning and performance is very limited. In one study, it was found that both small business firms and entrepreneurial firms benefit from more sophisticated planning. Small businesses did however tend to derive more benefit than entrepreneurial ventures (Matthew, 1990).

2.8 Research on Strategic Planning, Strategic Awareness in Small Business in Developing Countries

Studies of planning in small businesses in developing countries are very few in number. The available research has indicated that owner-managers in some of those countries, such as Jamaica, some in the South Pacific, and Hong Kong perceive planning as one of the more important competencies needed for small business success (Huck and McEwen, 1991; Yusuf, 1995; Luk, 1996). This view also gets support from a recent study in Singapore (Theng and Boon, 1996). There it was found that owner-managers' short-sighted views of the future are one of the important endogenous factors perceived by them as causing failure. However, and in a similar fashion to the results of research in industrially developed countries, one recent study of rural entrepreneurs in Mexico also placed more emphasis on the awareness of entrepreneurs of the financial and market positions of their firms for their success than merely on their adopting formal methods of strategic planning (Luisa, 1996).

2.9 Summary and Conclusion

In this chapter I have reviewed the literature relevant to strategic planning practices and on its effects on performance. Although differences exist, several studies have found positive relationships between strategic planning and performance in small as well as large businesses. Differences that exist between the writers on this issue almost certainly owe much to failure to agree on what constitutes planning, strategic planning, performance and small business. Because of the disagreement among the writers on the definition of strategic planning, question has arisen about the applicability of the normative model of strategic planning which suggests that all firms

should engage in formal strategic planning. Scholars have argued that formal strategic planning is inappropriate in small business, and this view has received support in many empirical studies in industrially developed countries. Research has indicated that strategic planning in small business is typically informal, unstructured, and irregular, supported by insufficient and ineffective information, usually obtained through informal sources, and that it occurs systematically over time with a reactive rather than a proactive orientation.

Many reasons have been cited in the literature for the absence of formal strategic planning in small businesses. These are lack of time, cost, skills, and information. Moreover, other problems which might emerge when a high level of formality is used, such as neglect of important innovations, suppression of creativity and spontaneity, and the emergence of strategy outside the formal process of planning are also important considerations for not supporting high levels of formal strategic planning in small business.

In the absence of explicit strategic planning in small business, the importance of the awareness of environment and strategic awareness - the ability to make an assessment of the impact of any particular change - have been found to be critical to the development and survival and growth of small business. The ability of owner-managers to think about the environment, to explore opportunities and threats and to assess the impact of change may appear naturally. However, it has been found to be dependent upon various factors of firm, industry, environment, and the personal background of

owner-managers which has also been seen to moderate the effects of strategic planning on performance.

A number of key issues of concern and debate have been identified. These can be summarised and presented broadly under :

A. The Nature and Practices of Strategic Planning

How do small firms practice strategic planning? i.e.,

- i) Do small firms scan their environments? and if so, how?
- ii) Are they aware of the events in their environments?
- iii) Do they have any future strategic course of action (strategic orientation) intended to cope with environmental changes?
- iv) And if so, are these strategic course of actions articulated explicitly (formalised)? And if so, why and if not, why not?
- v) Are they aware of the implications of their future strategic actions?
- vi) What sources of information do small businesses use for environmental awareness ?

B. Influences of the Incidence of Strategic Planning Elements

What factors influence the incidence of strategic planning elements? In other words, what influences the owner-manager's capability to scan and think about the environment, to explore opportunities and to identify threats, and to assess the implications of their future strategic action?

Is the incidence of strategic planning elements higher among those firms that are larger in size, more entrepreneurial, that have been in the same business for a relatively long time, that are more capital-intensive, and with better performance?

Is the incidence of strategic planning elements higher among those firms whose owner-managers have training and education, more slack time and more varied experience?

Is the incidence of the strategic planning elements more important for small firms operating in an uncertain and complex environment?

C. The Effects of Strategic Planning on Performance

What is the effect of strategic planning on performance of small business?

i. Is there any relationship between strategic planning and performance of small firms?

ii. Is there any difference between performance of firms which differ in different degrees with the incidence of elements of strategic planning?

iii. Is the relationship between strategic planning and performance moderated by environmental factors, the personal backgrounds of owner-managers and the characteristics of firms?

It has been found that all of these issues remain largely unresolved and unaddressed in developing economies. Therefore, these issues will be addressed empirically by the present study. Care will be taken to resolve the methodological shortcomings found in past studies. The forthcoming chapter will describe the background against which the research issues will be addressed empirically.

Chapter 3

The Development of Small Enterprises in Bangladesh

3.1 Introduction

The chapter sets out the background against which the present study has been carried out. It will introduce Bangladesh by briefly outlining the contemporary social, economic and political situation of the country. The chapter will then present the scenario of industrial development in general, and the role, importance, growth and development of the SME sector in detail. As the study deals with the small engineering firms, focus will, therefore, be placed on the importance of manufacturing industry in general, and that of small engineering industry, in particular. The importance of strategic planning, particularly, that of owner-managers' awareness of the environmental changes, making timely action, and the awareness of the implications of their strategic action, important for small engineering firms operating in highly competitive market, will be outlined here.

3.2 Bangladesh - A Profile of Contemporary Situation

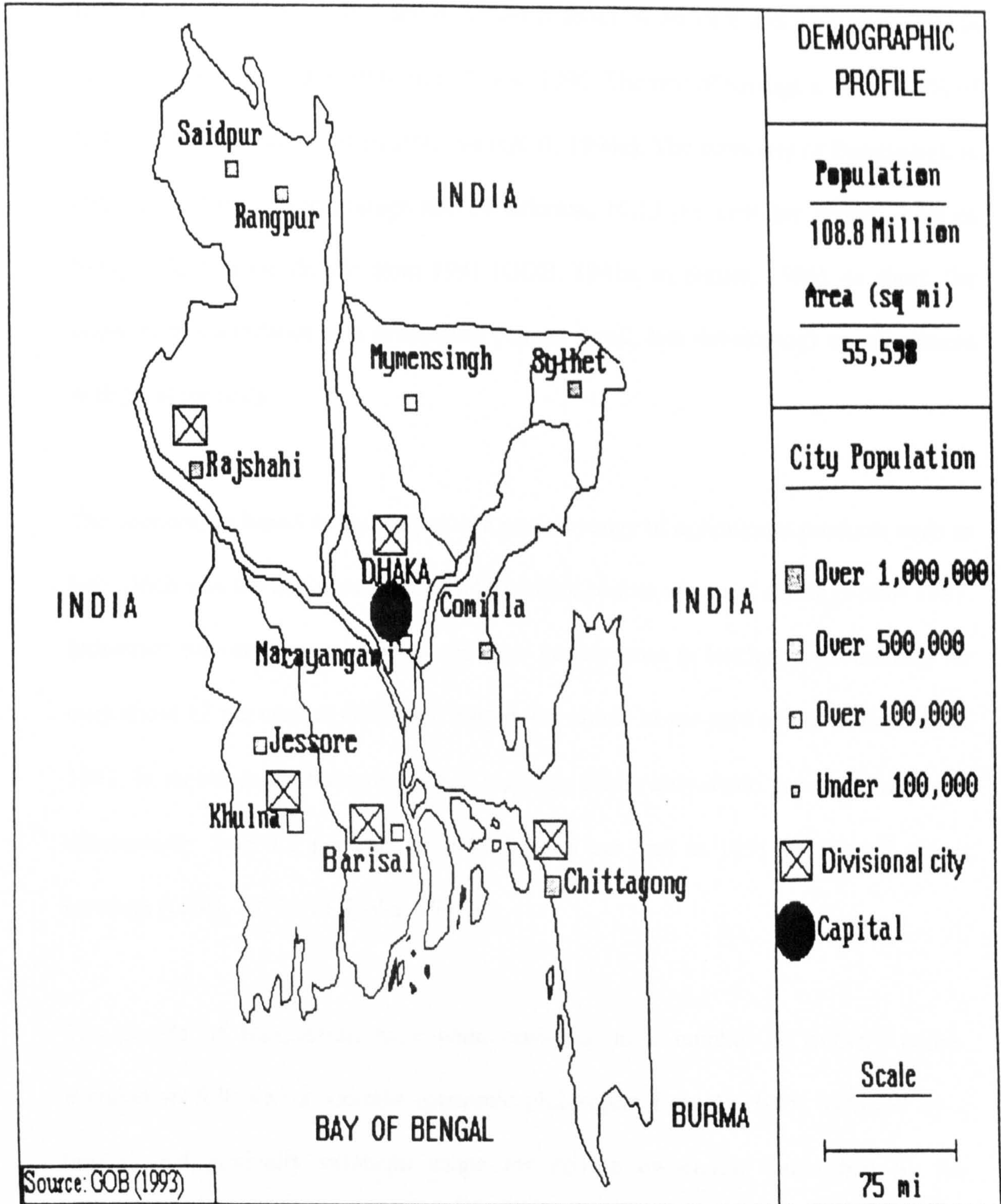
Bangladesh, officially the People's Republic of Bangladesh, emerged on the world map as an independent state on December 16, 1971. The territory of the present Bangladesh was historically under Muslim rule from 1201 to 1757 A.D. Subsequently, it was part of British India, when the British ruled over the entire Indian sub-continent, including this territory, for nearly 190 years from 1757 to 1947. During that period, Bangladesh was a part of the British Indian provinces of Bengal and Assam. With the termination of British rule in August 1947 the sub-continent was partitioned into India and Pakistan. Bangladesh was then a part of Pakistan, known as East Pakistan, and

remained under the internal colonial regime of Pakistan for 24 years from 1947 to 1970. It appeared on the world map as an independent and sovereign state on December 1971 following its victory of the war of liberation against Pakistan from March 25 to December 16, 1971.

Bangladesh, a country with an area of 143,999 sq. k. m., lies in the north eastern part of South Asia. It is bounded by, as shown in Figure 3.1, India on the west, the north, and the north-east, and by Burma on the south-east, and the Bay of Bengal on the south. Bangladesh is one of the most densely populated countries in the world, with a population of 108.8 million, according to the population census in 1991. This population is growing fast at a rate of 2.17 per cent per annum. It was estimated that the country is expected to reach a population of 139.69 million by 2000. As for gender distribution, there was a ratio of 106 males per 100 females. The density of population is 750 per sq. k.m. In 1991, the composition of population was respectively 86.6 per cent Muslim, 12.1 per cent Hindu, 0.6 per cent Buddhist, 0.3 per cent Christian, and 0.1 per cent Animists and believers in tribal faith.

The country of a riverine delta terrain, is characterised by acute poverty, with a current annual per capita GDP of US \$224, extreme political and economic instability, widespread unemployment and underemployment, and a very low industrial base. The economy is predominantly agricultural and rural in nature. Over 84 per cent of the population live in the rural areas, where agriculture is the main occupation of the people. Farming contributes around 46 per cent to the Gross Domestic Product (GDP),

Figure 3.1
Map of BANGLADESH



two-thirds of the country's exports, and employs over 61 per cent of the total labour force (GOB, 1993, pp. 4-6). Unemployment is about 30 per cent and the literacy rate is very low, 24.8 per cent in 1991 and 37 % in 1996. The rate of savings is poor, 4.3% of GDP in 1990-91, and 7.7% in 1993 -94 (GOB, 1994a). The economy of Bangladesh is characterised by a high average rate of inflation, 10.13 per cent per annum (cost of living index) in the decade from 1981 (GOB, 1991a, in Sarder, 1995). In short, the classical characteristics of a developing country (well, less developing) are all present with great intensity.

The economy is based on the output of a narrow range of agricultural products such as jute which was the major cash crop and the main source of export earnings until 1987. Industries are very few in number and their performance is lacklustre, accounting for only about 12 per cent of GDP, and employing about 14 per cent of the work force in 1991. In recent years, however, export earnings from ready-made garments increased substantially from 1.2 per cent in 1981 to 54.6 per cent in 1991-92 of total export earnings (GOB, 1993a, in Sarder, 1995).

The people of Bangladesh have been subjected to a number of military coups. Bangladesh followed a socialist economic philosophy from 1971-75, followed by a limited and gradually extended scope for private ownership established by the subsequent military regimes until 1991. Parliamentary democracy has been taking shape for the last few years. After a period of 15 years of military rule from 1975 to 1990, two governments were elected democratically. One was in 1991 and the other in 1996. The economic policies adopted by the democratically elected governments were

made to provide all-out co-operation to the private investors to ensure their maximum participation in the economy. Presently, apart from the five reserved sectors, all other sectors have been opened to private investment, both local and foreign.

Throughout the colonial period, the economic and social development of the country was continually neglected, and whatever development strategies there had been were biased towards colonial powers. The economic condition of the country, just after the war of liberation, can be understood from the following lines of Sobhan (1981, p.1).

“The systematic drainage of Bangladesh's resources through the mechanism of foreign and internal colonial exploitation left the economy at the outset of liberation with a large external resource gap. This manifested itself through a deficit in the availability of food grains, low levels of internal savings and a high proportion of its population living below the poverty line. The parameters of poverty and dependence bring out a scenario of secular increase in external dependence during the decade of 1960”.

Bangladesh is hampered by a relative lack of natural resources and a limited infrastructure. It is highly vulnerable to natural disasters such as flood, tornado, cyclone and drought. The economy of Bangladesh is heavily dependent on foreign aid. It has received a total disbursement of US \$ 26 531.69 million during the period from 1971-72 to 1993-94 (GOB, 1994b). Because of its high dependence on foreign aid, Bangladesh remains highly vulnerable to pressure from aid donors to influence its external alignments and the course of its domestic policy. Indeed, there is no area in the development field where donors do not choose to exercise a say (Hoque, 1991, p.223). Sobhan (1982) observed that *“the donors have attempted to influence policies on state*

ownership, the role of private sector, the monetary and fiscal policies, pricing policy, distribution policy, the use of administrative controls, the structure of development structure, the pattern of development administration and a variety of the operational policy oriented and ideological issues" (p.146).

The country, once it became independent, inherited a war-wrecked economy, having virtually no significant industrial base, and an industrial bourgeois class of little merit, a fairly small and highly differentiated middle class, and an almost non-existent working class (Sobhan, 1982). Even after two decades of independence, no significant improvement has taken place in the society. As a result, despite an average economic growth of about four per cent in the 1980s, the problem of 'poverty' is making its footprints on the faces of the large majority of people, and teeming millions of new as well as existing people are helplessly roaming about in the job market (Mannan, 1993, p.9).

3.3 The Scenario of Industrial Development

As mentioned earlier, centuries of colonial rule did not encourage the development and growth of a significant industrial or commercial base in the country. In 1947, when the British colonial regime ended and the present Bangladesh was made a part of Pakistan, called, East Pakistan, there was only a few large scale industries - a few cotton textile mills, sugar mills, a cement factory, and a number of jute bailing processing units. In 1949, the share of industries in GDP was only 3 per cent, of which the contribution of large scale industries was 0.5 per cent only against 2.5 per cent from the SME sector (Kamal, 1981, p.24).

During Pakistani rule, whatever industrialization took place was in the West Pakistan region. Gradually, due to political pressure and economic prospects, encouraged by government initiatives, some industrialists, mainly from West Pakistan came forward to establish jute industries in East Pakistan. In fact, bureaucracy played a very crucial role not only in regulating industrial activities but also their ownership. As a result, by 1964, the growth of industries took a definite shape and their contribution to GDP jumped from 5.5 per cent in 1949-50 to 12.29 per cent in 1964-65 (Kamal, 1981, p.25). The East Pakistan Industries Development Corporation (EPIDC) took the leading role in establishing industries and providing necessary support to both public and private sector industries (Sobhan and Ahmed, 1980, p.39).

Despite owning about three-quarters of the total industrial units (2,253 units of 3051), Bangladeshi entrepreneurs had control over less than one-fifth of total assets of the sector (TK.1119 million of TK.6138) before independence in 1969-70 (Sobhan and Ahmed, 1980, p.192). This picture not only reveals the weak position of the Bangladeshi entrepreneurs but also the West Pakistan-oriented industrialization of the Pakistani government. After independence in 1972, all major large-scale industries were nationalized, including banks and insurance companies, and were brought under the control and ownership of the government. Only small enterprises up to a total investment value of TK. 2.5 million (current exchange rate TK 70 = £1) were allowed to function under private ownership. The government owned 13 per cent of the industrial units, while it controlled nearly 92 per cent of the total fixed assets.

Very soon after independence, the country's inherited structural weaknesses were aggravated by mismanagement, inefficiency, corruption and labour trouble in the industrial sector. During the first few years after liberation, the country's industrialization meant re-organisation of the existing production capacity and resuming activities in the industries stopped during the war of liberation.

In 1975, the country's leader to independence and father of the nation was killed in a military coup. The new military government pursued a policy of disinvestment in some of the nationalized industries. Gradually, many barriers to private investment were removed and the ceiling of fixed capital for small industry was relaxed. This government was overthrown by another military coup in 1981 and the new military government further liberalized economic and industrial policies, including those for the financial sector, and the pace of the economy of moving towards 'free market system' was strengthened further. The government denationalized some more industries and also allowed private entrepreneurs to establish new industrial units. There was a rise in private investment from TK. 19.02 million (US \$ 0.8 million) in 1976-77 to TK. 61.8 million (US \$ 2 million) in 1984-85.

After 15 years of military rule, a democratically elected government took power and formulated a new industrial policy in 1991. The industrial policy of 1991 greatly simplified procedural obstacles to private investment. The government opened all sectors, except five reserved ones, to private investment, both local and foreign. The reserve sectors are arms, ammunition and other defense equipment and machinery; the

production of nuclear energy; forest plantations and mechanized extraction within the bounds of reserve forests; security printing (currency notes) and minting; and air transportation and railways. Air transport to certain specified areas within Bangladesh has also recently been opened to private investment. Another newly elected government took power in 1996 and it has also been in favour of liberalization of economic policy and to or even greater extent. A number of attempts, such as tariff reduction and rationalization, reduction of quantitative import restriction, and elimination of the investment sanctioning requirement, have been taken by the democratically elected governments to attract more capital investment, from both local and foreign entrepreneurs.

The contemporary Bangladesh economy is a model of macro-economic stability with potential for high growth. Realization of this growth potential and directing growth towards poverty alleviation are the principal considerations. In very broad terms, the principal features are reliance on competitive market forces, restricting government to a role of the provision and upkeep of infrastructure, human resource development and the provision of a social safety net.

3.4 The Contribution of Industry to the National Economy

The economic contribution of industry in terms of employment and output will be discussed here. In addition, trends in investment generated within manufacturing will be presented to give an idea about its importance to the national economy of Bangladesh.

3.4.1 The Contribution of Industry to the Gross Domestic Product

When the national accounts are used as a benchmark for comparison, the share of industrial value added of GDP is found to be only around 10 per cent, as shown in Table 3.1, with a situation of stagnation or a declining trend during 1986-92. However, the industry sector is the second largest contributor to GDP in the economy of Bangladesh. It is interesting to note here that the manufacturing sub-sector provides almost all, about 97 per cent, of the industrial share in GDP (GOB, 1993).

Table 3.1
Sectoral Share of GDP in Bangladesh, 1986-92

Economic Sectors	1986-87	1988-89	1990-91	1991-92 ^a
Agriculture	39.84 ^b	37.08	37.60	36.36
Industry	10.04	9.84	9.80	10.12
Large Scale	5.67	5.56	5.69	6.05
Small Scale	4.37	4.28	4.11	4.07
Others	5.12	53.08	52.60	53.52
Total	100.00	100.00	100.00	100.00

^ashows provisional figures

^bfigures in percentage

Source: GOB (1993, p.467).

The manufacturing value added (MVA) however, registered a declining trend during the 1980s, according to the World Bank (1992, p.16), but compared favourably with that of all the United Nation's Least Developed Countries, as shown in Table 3.2. The rates are too low, however, to bring any real change in the level of per capita MVA to the economy of Bangladesh.

Table 3.2
Manufacturing Value Added in Bangladesh and Other LDCs - 1980-90

Particulars	1981-85	1985-88	1981-88	1981-90
Average annual rate of growth				
Bangladesh	3.1	6.0	4.3	4.6
All LDCs	2.1	2.9	2.9	-
Per capita MVA				
	<u>1988</u>	<u>1990</u>		
Bangladesh	20	11		
All LDCs	20	-		
Growth of per capita MVA				
		<u>1981-90</u>		
Bangladesh		1.8		
All LDCs		0.04		

Source: World Bank (1992, p.17)

3.4.2 The Industrial Contribution To Employment

In terms of employment, the share of manufacturing industrial enterprises was estimated at about 13.9 per cent in 1989, as shown in Table 3.3. This sector contributed no more than 6 per cent to total employment before 1984. However, the data available in 1989 show that industry is presently the second largest provider of employment (14%) after agriculture (65%) (Sarder, 1995, p.81).

While the employment share of the agriculture sector gradually fell from 84.6 per cent in 1961 to 64.94 per cent in 1989, the share of manufacturing has shown a consistently increasing trend during the last two decades. There has been a noticeable increase in manufacturing employment from 5.76 per cent in 1984-85 to 13.91 per cent (more than double) in 1989. Therefore, it is clearly evident that the importance of the industrial sector as a '*provider of employment*', the only hope for solving at least partly the

unemployment problem of the country in the foreseeable future (Sarder and Rosa, 1994), is gaining increased attention from all corners of Bangladesh.

3.4.3 Investment Generation By Manufacturing Enterprises

The investment generation by the manufacturing sector in absolute figures, was TK. 6.6 billion in 1981 reaching a maximum at TK. 17.1 billion in 1987 but it again fell to TK. 6.1 billion in 1990. The annual growth rates were 23.6 per cent from 1980/81 to 1984/85 and negative (-17.0 per cent) from 1984/85 to 1989/90 (World Bank, 1992, p.21). It was estimated that during the last decade, there was an overall negative growth (-0.77 per cent per annum) in investment generated by manufacturing. This decrease in manufacturing investment in the economy was mainly due to the fall in investment in manufacturing in the public sector.

3.5 The Role and Importance of Small Enterprises

The small scale industrial sector plays an important role in the national economy of Bangladesh, although detailed quantitative evidence is very much lacking. There are three sub-groupings within this sector. These are i.) small industrial firms, which usually include all enterprises having employment between 10 and 20; ii) cottage industries, meaning establishments run by family members employing no more than 10 workers; and iii) handloom industries, meaning small and cottage establishments in the textile sub-sector. Some other terms, such as, 'microenterprise' and 'rural industries' are also in popular use. However, all these typologies can well be covered by referring to the term SME.

3.5.1 The Relative Importance of Various Sizes of SMEs¹¹

The relative numerical significance of the SME sector in the industrial structure of Bangladesh can be understood easily in terms of the number of units, number of employment, and value added as depicted in Table 3.3. Clearly, there is a superabundance of SMEs in numerical terms in the total industrial structure. For instance, if only the number of small industrial units is compared with that of large and medium firms, it can be found that over 90 per cent of units fall into the category of the SME sector.

Table 3.3
The Relative Importance of Various Sizes of SMEs in Bangladesh

	<u>Cottage</u>	<u>Small</u>	<u>Handloom</u>	<u>Medium</u>	<u>Large</u>
	<u>Value Added in Million Taka ^a</u>				
1977-78		2260 (3.11)			
1980-81	2988 (2.41)		1713 (1.38)		
1981-82				1215 (0.85)	12 194 (8.51)
	<u>Employment in Number of Persons in '000 ^b</u>				
1977-78		322.13 (1.10)	847.60 (2.88)		
1980-81	861.9 (2.74)				
1981-82				51.63 (0.16)	387.46 (1.21)
	<u>Number of Establishments</u>				
1977-78		24 005	197 280		
1980-81	393 670				
1981-82				1 302	497

^aat current market price and figures in parentheses show value added as per cent of GDP;

^bincludes part-time workers and figures in parentheses show employment as per cent of civilian labour force;

Source: Reza *et al.* (1990, p.73), Table 1.1, in Sarder (1995, p.83), Table 3.5.

¹¹Small and Medium Enterprises

Even in the employment size of 10 or more, over 78 per cent of the total industrial units fall in the 10 to 49 employment band, and about 56 per cent fall in the 10-19 employment bracket in the manufacturing sector of Bangladesh (GOB, 1993, in Sarder, 1995, p.82).

As to the total civilian labour force, the contribution of the industrial sector to employment is quite small, not over 9 per cent during 1978-82. The SME sector, however, as a whole provides over 87 per cent of the total industrial employment in Bangladesh (GOB, 1993). This sector is also responsible for the creation of over 46 per cent of industrial value added (GOB, 1993).

According to a World Bank (1992) study, it was estimated that the real contribution of MVA would be much higher, from 30 to 50 per cent higher than the Census of manufacturing Industries (CMI) and 10 to 20 per cent higher than Bangladesh Bureau of Statistics (BBS), if underestimation in the official statistics is accounted for. One study recently reported that the contribution of SMEs appeared to be over 52 per cent of the total MVA in the year 1989-90 (Microenterprise News, 1993, p.2).

3.5.2 The Growth of Small Enterprises

Although data on the number of units, employment and value added for small, cottage and handloom industries are severely lacking, Sarder (1995) tentatively calculated the annual growth rates of those indicators. In terms of the number of establishments, the annual growth rates of SMEs were respectively 2.96 per cent, 2.04 per cent, and 1.88

per cent for small, handloom and cottage industries. In terms of employment, during 1961-93, based on the available data, small industry sub-sector is again the top performer with a growth rate of 4.55 per cent, followed by handloom with 2.75 per cent, and the cottage enterprises with 2.48 per cent per annum. In terms of the value added, the average annual growth rates were estimated at 4.12 per cent for cottage industries during 1961-1978, and 0.57 per cent for the small industries. However, these growth rates cannot be regarded as satisfactory by any standard, especially when compared to that of the neighbouring Indian ones (Sandesara, 1992, pp. 180-81).

3.5.3 The Composition of Small Enterprises

The Importance of SME sector in the economy of Bangladesh can be understood better by examining the sectoral structure as shown in Table 3.4. All the sources quoted here demonstrate that the four sectors, namely, food and allied, textile and apparel, engineering and fabricated metal are more dominant than the others in the SME structure.

3.5.4 The Birth and Death Scenario of Small Enterprises

There are no data covering the SME sector concerning the birth or death of enterprises. Using the data from CMI¹² about the entrants and exiters during the period of 1974-75 to 1983-84, it was calculated that about 59 per cent of the net addition in the number of new enterprises was from the SME sector. This is shown in Table 3.5.

¹²Census of Manufacturing Industries

Table 3.4
Sectoral Distribution of SMEs in Bangladesh

Industry Sectors	Small Industry Survey 1978	Directories of Manufacturing Industries 1993	Small Industry Survey 1993 ^a	SME listed with BSCIC during 1985-92
Food & Allied	17 358 (72) ^b	7 623 (31)	21 080 (55)	8 152 (50)
Textile & Apparel	1 391 (5)	5 714 (23)	3 196 (8)	741 (5)
Forest & Furniture	886 (4)	1 804 (7)	1 745 (5)	1 794 (11)
Paper, Printing etc.	1 092 (5)	1 078 (4)	2 385 (6)	590 (4)
Chem., Rubber etc.	527 (2)	1 903 (8)	2 864 (7)	1 026 (7)
Glass, Ceramics etc.	218 (1)	2 359 (9)	1 113 (3)	124 (1)
Basic Metal/eng. ^c	1 743 (7)	483 (2)	3 078 (8)	2 987 (19)
Fab. metal/electrical	646 (3)	3 455 (14)	1 880 (5)	1 989 (12)
Others	144 (1)	526 (2)	953 (3)	245 (2)
All Sectors	24 005 (100)	24 945 (100)	38 294 (100)	16 250 (100)

^ashows provisional figures

^bnumber of units (Percentage)

^cBSCIC considers basic metal/engineering and fabricated material/electrical as engineering industry (Khudra Shilpa Samprasaran Parikrama, 1985-90).

Source: Sarder (1995), Table 3.7, p.85.

Table 3.5
Birth and Death of Manufacturing Enterprises in Bangladesh, 1974/75-83/84

Employment Size	Number of Entrants	Number of Exiters	Net Addition
20-49	674 (60.2) ^a	186 (64.4)	488 (58.6)
50 and above	446 (39.8)	103 (34.6)	343 (41.4)
Total	1 120 (100)	289 (100)	831 (100)

^aNumber of units (percentage)

Source: calculated from Reza *et al.* (1990) Table 1.6, , p.81, in Sarder (1995), Table 3.8, p.86.

It was also estimated that there was one death per four new births in the economy during the period under consideration. The birth rate was found relatively higher in the 20-49 employment size, while death rates vary even more markedly, with the 20-49

and 50-99 employment size classes having even more disproportionately high percentages of deaths compared with the large size class (Reza *et al.*, 1990, p.81, in Sarder, 1995, p.86).

3.6 Small Engineering Industry and Importance of Strategic Planning

The contemporary macro economic policies in Bangladesh have been designed to increase investment and to stimulate the economic growth rate. As in many other developing countries, industrialisation in Bangladesh is considered necessary to achieve high rates of economic growth, as the expansion of industry offers a much better scope for the growth of output (Kholo, 1991, p.158).

The small engineering industry is an important and organised part of the Bangladesh economy (Mannan, 1992). It represents 32 per cent of small firms in the whole country (BSCIC, 1992), and save the country of some Tk 3 billion (TK. 70=£1) by producing import substitute machinery and spare parts worth about Tk 5 billion every year for large scale industries (The Financial Express, 02 June, 1997). The small engineering industry helps to build and maintain the industrial base of the country and to supply the machinery and spare parts to sugar mills, Bangladesh Railway, and various enterprises under Petrobangla, a public sector corporation under the Ministry of Energy and mineral resources. Some other heavy machinery, equipment and spare parts are also being used by various government and private organisation under sub-contracting system. As an important manufacturing sector, the government has put special emphasis on the development and promotion of this sector since 1986.

Because of the extended 'free market economy' policy, bars on import and export of most of the goods have been relaxed. This has expedited the free flow of imported goods to Bangladesh from other countries, resulting in a very competitive environment for the industry. Most of the engineering firms, according to industry operators are on the verge of closure due to further liberalisation of import policy (The Financial Express, 02 June, 1997). The relaxation of imports and exports has posed both opportunities and problems for industry in general, and for the engineering industry in particular. For example, the light engineering industry which mainly manufactures lathe has been suffering from lack of customers as the same type of product imported from the neighboring country, India, are cheaper and possibly better in terms of quality (The Financial Express, 02 June 1997). On the other hand, the transmission of cable TV has opened new market for dish antenna. Further, the development of information technology has made much scope available for them to find new and extended market outside Bangladesh with a very little cost. In order to explore the new opportunity and deal with the threat, the owner-managers must be aware about the changes in the environment. Owner-managers must make the timely changes and also make an assessment of the total impact of any particular project or change. It means that they should be aware not only of the immediate but also of the long term consequences of their actions and to think strategically about these.

3.7 Summary and Conclusion

The chapter has set out the background against which the study was carried out. It introduces Bangladesh by briefly outlining the contemporary social, economic and political situation of the country. It has discussed the overall industrial structure of the country focusing on the SME sector in particular. The policy aspects with regard to

industry have been briefly discussed. The role, importance and the growth and development of small firms has been reviewed. The role and importance of manufacturing industry in general, and of the small engineering industry, in particular have been outlined. The contemporary economic policy is a sharp deviation from its socialistic emphasis in the post-liberation period and aimed at extended free market economy with heavy reliance on competitive market forces. The concern for under-performance of industry as a whole, and small engineering industry in the present competitive and uncertain environment in particular was stressed.

Research in industrially developed countries suggests that owner-managers' awareness of environmental happenings to explore new opportunities and to identify threats, timely actions, and the ability to assess the implications of their strategic action are crucial for the success of small firms, particularly those which operate in such an uncertain environment. It was therefore hypothesized that lack of strategic planning, or more specifically, environmental awareness, timely action and strategic awareness of owner-managers, is one of the major factors responsible for the under-performance of small firms in Bangladesh. Although the importance of planning has often been discussed in management seminars, the issues surrounding the nature and effect of strategic planning are empirically unaddressed and unanswered in Bangladesh. Therefore, these issues and problems need to be addressed empirically in Bangladesh, to which the forthcoming efforts will be directed.

Chapter 4

Development of Conceptual Framework

4.1 Introduction

The aim of this chapter is to develop a conceptual framework designed to address the key research issues identified in the last two chapters. It will review a number of existing models relating to how small business owner-managers should conduct strategic planning and what factors influence this process. This review will lead to the development of an integrative conceptual framework to be used in this study. Some hypotheses will be developed in relation to the research issues and questions to be addressed.

4.2 Review of Existing Models

In recent years, an increasing amount has been written on strategic planning for small and medium-sized business, and a number of models have been proposed. Each of these models, however, is unique in terms of its composition, logic and emphasis; there seems to be no consensus on how strategic planning should be conducted or on whether a given plan is suitable for every small business. d'Amboise (1985) tried to make a typology of small business strategic planning models in order to reduce their numbers to a manageable size and to analyse them in terms of their applicability to small business. These models are discussed below.

4.2.1 The Signal Model

The signal model proposed by Nagel (1981) is based on the philosophy that the manager is not likely to sit down and plan without concrete signals. The manager

must perceive a threat, opportunity, strength or weakness indicating a gap that hurts and the need for a plan. The model is very simple. The manager i) notes that signals indicate the need for a plan; ii) gathers and orders information on the environment and the firm; iii) evaluates competitive firms; iv) selects important factors and forecasts sales per product-market segment, costs and wages; and v) develops alternative strategies.

The signal model is largely realistic in that many owner-managers of small businesses do not plan unless they absolutely have to. Ideally, however, the small business managers should be discouraged from adopting this rather short-sighted practice; this approach is close to fire-fighting and crisis management. It is reactionary, short term and does not advocate environmental scanning on a continual basis. The small business, given to its vulnerability to the environment, cannot really afford not to scan.

4.2.2 The Competitive Advantage Model

This model argues for the importance of maintaining a competitive advantage. Moyer (1982) underlined the importance of obtaining information (intelligence) on the competition and customer which will aid in recognising opportunities for segmentation, product line expansion and market share growth.

Both Cooper (1981) and Ragab (1983) argued that the small firm should choose a '*niche*' and avoid direct competition with large firms. According to Cooper, the small firm can concentrate on the area where it has a competitive advantage or where the

large firm is weak or complacent, on specialised markets, on opportunities arising from rapid market change or on short production runs, speedy delivery and extra service.

Ragab defines a niche as an '*intelligently chosen market segment where the small firm can create its own pseudo-monopoly with minimum destruction from competitors*' (Ragab, 1983, p.6). The choice of a niche will be based on the perception of a need, the number of persons or organisations that experience that need, the potential market segmentation, the monetary potential, and the positioning of the product. The capability of the firm in its chosen niche will depend on the use of its resource mix (human, financial and physical).

The best example of this model is given by Ragab (1983) as : i.) define the concept of the business; ii) select a niche; iii) identify the firm's capacity; iv) initiate manoeuvring of a. mission, b. objectives (that will assure the mission), c. zone of action (competition), and d. mode of action (attack, defend, branch out, retrench, withdraw) following identification of decisive weak points of the competition; v) blueprint the grand design (market strategy, product strategy, organisational strategy - financial strategy).

The competitive advantage models take the vulnerability of the small business to its external environment, particularly to competition into account. The model advocates constant surveillance of the competition in order that small business can take advantage of its size and manoeuvrability. It can present problems, however, if this

preoccupation with the competition prevents the firm from attempting ambitious strategies or if it blinds the firm to opportunities or threats that have nothing to do with the competition.

4.2.3 The Incremental Model

The incremental model is best defined by Wheelwright (1971) as*incremental procedures.... generally consist of identifying the firm's existing strategy, examining the strengths and weaknesses of the firm, and the threats and opportunities of the environment (particularly competition) and improving the existing strategy* (p.54). A two-tier example of this type of strategic plan is the model proposed by Robinson (1979) which aims to help the small business owner-manager to evolve from 'seat of the pants' style (crisis) management to specific decision-making management. Robinson thus provides the small business manager with a process for developing strategic plans as well as a method for changing his or her management style.

One of the best illustrations of this model is proposed by Gilmore (1971). It is i.) record the current strategy; ii) identify problems in the environment and operating situation : a. forecast, b. reappraise marketing, product, research and development and management organisation; iii) discover core elements; iv) formulate alternatives; v) evaluate alternatives; and vi) choose a new strategy based on factors of overriding importance.

The incremental models, therefore, depend on good scanning of the total environment in order to formulate strategy. The major difference between the

competitive advantage and the incremental models is that the former bases strategy on the positioning of the firm with respect to the competition while the latter makes a strategic decision based on a broad view of the internal and external environment.

The incremental model has the advantage of advocating a sustained scanning of the total environment and encourages the firm to use present strategy to formulate new strategy, allowing the firm to adjust incrementally to changes without making any radical moves that could jeopardise the well-being of the firm. It fails, however, to ensure that the firm will be able to depart from present strategy; with this model, present strategy always reflects, to a certain extent, the past. Management may resist change that departs radically from '*the way we did things in the past*', causing the firm to miss opportunities or to be blind to new threats.

4.2.4 The Synoptic Model

Wheelwright (1971) defines synoptic as procedures that are synoptic in nature emphasise setting corporate objectives, generating a range of alternative strategies, and then using the stated objectives to evaluate these alternatives and select the best one. This type of procedure focuses on examining the entire range of possible strategies for the company and selecting the one that will accomplish a stated set of objectives best (p.54).

Schollhammer and Kuriloff (1979) illustrate the type of model that bases its strategies explicitly on the objectives defined. The model includes the following steps: i.) resource, environmental and competition analyses; ii) specification of

organisational objectives, personal values of top management; awareness of firm's opportunities, risks, strength and weakness; iii) determination of appropriate strategies and tactics to achieve desired objectives economically; iv) development of a future course of action based on objectives set; v) implementation of plans; vi) comparisons of actual results and planned objectives; and vii) re-planning.

The synoptic model encourages the use of objectives to formulate and evaluate strategies; it deals with the problem of where the firm is going and provides the motivation to get there. These objectives, however, must be adhered to, not just shelved after the planning exercise is completed. This model might require a certain degree of formalisation of planning exercise, especially in business where there are several levels of management. The objectives should be well formulated. However, this model may prevent initiatives, block innovation or prevent the firm from changing those objectives if a change in the environment warrants such a move.

Wheelwright (1971) implemented the synoptic and incremental models in three companies: a computer peripheral equipment, an urban planning and a printing firm. He observed that the synoptic model was in use in the newly founded computer peripheral equipment firm, while the incremental approach was in use in other two firms which were in operation for many years, the owner-managers of which were qualitative in orientation.

4.2.5 The Futures-Creative Models

This model was initiated by Ackoff (1974) and was developed further by Murray (1984). The model, still in the conceptual stage, is not accompanied by a process. Murray makes the following distinction between proactive and futures-creative planning:

The need for entrepreneurial behaviour arises with the creation of a new organisation: it must innovatively establish itself in a configuration which will allow it to survive and prosper in its chosen environment. Once established, entrepreneurial behaviour by the organisation is evoked by potential or actual misfit between organisation and environment. Perception of potential misfit may lead the organisation to act proactively in adapting smoothly to environmental change; in affecting the course of environmental change to its own benefit; or indeed in choosing new environments in which to exist if these are more conducive to survival and growth than existing ones. Such behaviour perhaps represents an ideal since it entails conscious controlled and planned reformulation of the enterprise. It is based on the accurate understanding of environmental dynamics or on purposeful choice of more, or new environments which better serve the organisation's evolving ends..... Environmental change, precipitating misfit with organisational strategy, is seen as a primary force in stimulating entrepreneurial behaviour. However, it has also been noted that the organisation may itself be the cause of environmental change. Thus the chain of causation is not limited to one of environmental

change followed by strategy change, followed by structural change. It is equally plausible to suggest the reverse: a change in structure or process may lead to strategy adaptation which may result in turn in environmental change (pp.1,8).

This latter idea is revolutionary in the small business literature in that the firm shapes the environment rather than trying to fit into an existing one. It encourages not only the scanning of the environment but also the creation of the environment - an ambitious task for any firm, large or small. It requires a high degree of confidence, sustained and energetic follow-through and a contingency plan should the initial plan fails particularly as the model expects the firm to take considerable risks. The model is still in the conceptual stage and requires further research.

A continuum can be identified if we consider the five models one after another. The signal model is reactive to the immediate present; the competitive advantage and incremental models are more concerned with the present environment and somewhat tied to the past; the synoptic model is future oriented with set goals to achieve; and the futures-creative model is highly concerned with the future environment and the firm's advance preparation to work within the environment that it has influenced to its advantage.

Many of the models discussed above, although theoretically meaningful, are either normative or have addressed the issue of strategic planning in the small firm without being extensively empirically grounded. Moreover, many seem to be an attempt to

apply concepts which have been derived in the context of a large company model. One of the most important issues raised in connection with small business strategic planning is whether the process should be carried out formally or informally. Although partisans of the two sides have argued equally hard to justify their respective points of view, the models discussed above did not make any explicit recommendation on this issue.

4.2.6 Gibb and Scott Model

Gibb and Scott (1985) conducted a longitudinal study of sixteen small companies in the U.K. The study was concerned with the ways in which the companies pursue different lines of product and market development. The research was characterized by experimental 'action inputs' designed to allow observation of the impact of different types of 'software' (information, counseling, education/training) support on the development process. Gibb and Scott (1985) constructed a model of the development process of small firms. The observation of the change process witnessed the characterization of methods of planning and evaluation of their influence on the change process.

In their model, Gibb and Scott (1985) observed that the process of change and development starts with an assessment of the existing performance base of a small business, i.e., where the business is currently (performance). In terms of prediction of capability of the firm to cope with change a number of factors were grouped which describe the **BASE POTENTIAL FOR DEVELOPMENT**. Throughout the process of change, a number of critical **INTERNAL** and **EXTERNAL INFLUENCES** to the

company likely to impinge substantially on the capability of the company to pursue the process successfully. The internal factors are management time and commitment, strategic awareness and environmental awareness of the entrepreneur. The major external factors include overall state of demand, administrative and institutional blocks, the level of complexity and uncertainty in the market, influence of competition and influence of assistance. Gibb and Scott (1985) observed:

1. Planning in the small business is likely to take place around a specific (or number of specific) projects. It is unlikely to be formalised for the organisation as a whole in the large company planning sense.

2. Strategic planning in the formalised sense is unlikely to exist. But the process of development of a specific project is characterised by varying degrees of strategic awareness, lack of which is likely to lead the company into blind alleys.

3. The absence of formal plans (strategic or otherwise) or indeed, firm projections over several years, however, may not at all reflect on the capability of the company.

4. The development process is highly dynamic and highly iterative. The owner-manager is subject to a great deal of learning, which together with her/his personal appraisal, knowledge and attitudes, influence the development process. Thus the owner, and the firm are '*learning*' all the time usually by coming up against problems and solving them rather than

by anticipation. This may be the case even when there is a high degree of strategic awareness although such awareness will facilitate anticipation.

5. The development process is highly dynamic and is not necessarily reflected in '*growth*' as measured by overall parameters such as employment and turnover. There may be a high rate of change without it ever feeding through into conventional measures.

6. The mere lack of growth as measured in conventional terms may not necessarily mean total lack of ideas or aspiration for growth.

7. The owner-manager is likely to acquire, personally, the required external information necessary for the successful development of the firm. How adequately this is done reflects the quality and variety of the contact network of the owner.

8. The strengths and weakness of his/her resource and performance bases, are an important factor in the eventual success and subsequent growth of the firm.

The model, in the absence of formal strategic planning, underscores the importance of strategic awareness and personal commitment of the owner-manager in pursuing any change. The study showed the iterative nature of building commitment as part of the development process

4.3 Towards the Development of a Framework

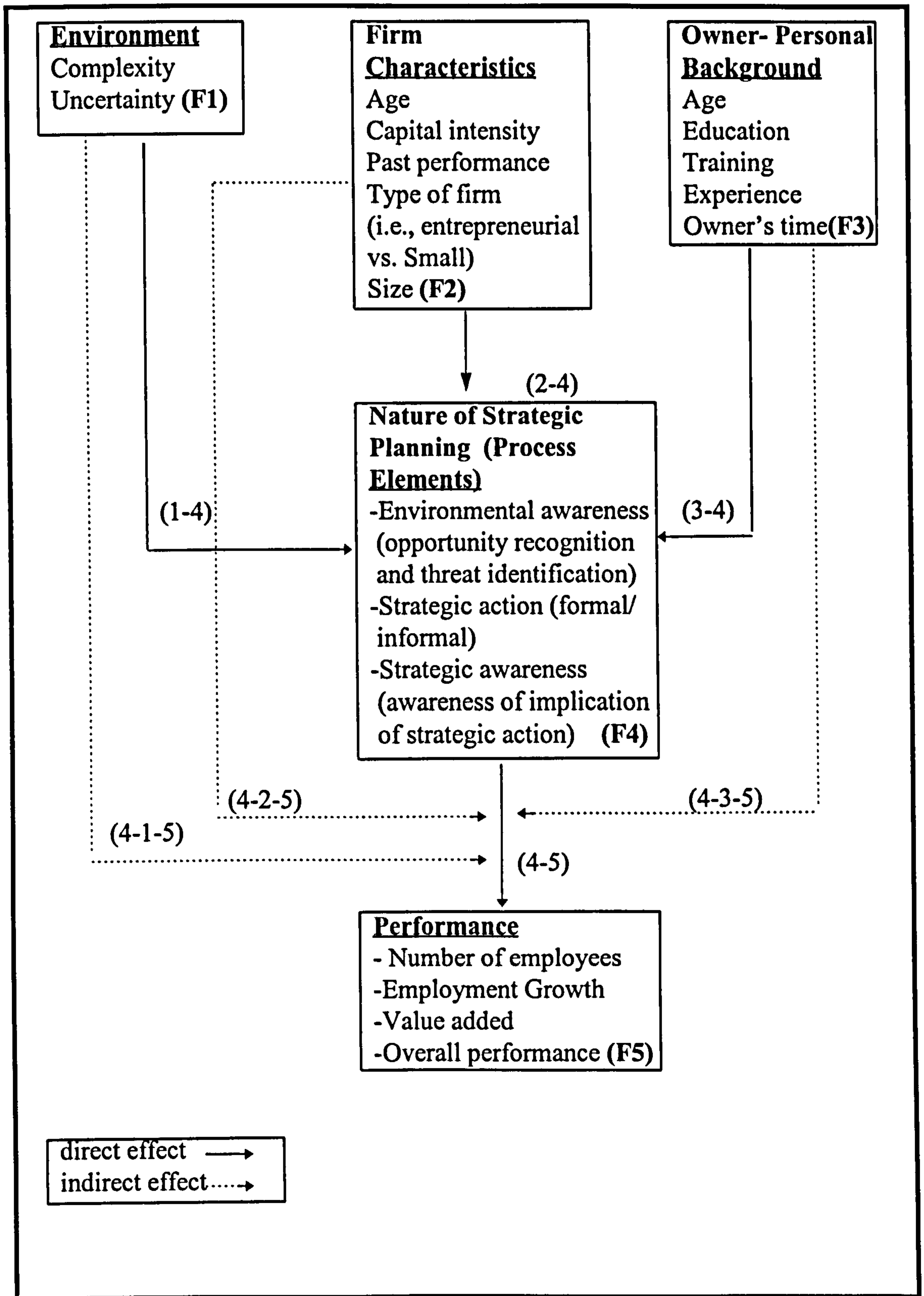
Although the strategic planning models suggested by different authors differ in many ways, a careful review of such models allows us to draw certain broad conclusions regarding some basic components (elements) in strategic planning process in small firms. The elements of strategic planning process have been identified in the models, particularly in the Gibb and Scott (1985) model, to formulate a conceptual framework which forms the foundation of the present research. The figure 4.1 shows the conceptual framework for this study. Some other studies such as, Mintzberg and Waters (1985), Bracker *et al.*, (1988), and Matthews (1991) have been influential in identifying the influencing factors on those elements and their effect on performance. The basic elements that have to be considered in small business strategic planning processes regardless of whether planning is conducted formally or informally, and also regardless of whether the business is run by imposing expectations and systems or by emphasising unpredictable ingenuity and personal initiative, are a) environmental awareness, i.e., awareness of both the wider macro environment and, more particularly, of the task environment covering both problems and opportunities; b) strategic course of action, in the long term, to avail the opportunity or to deal with threats. This can be formal (a plan) or informal (an idea). It should be noted here that in spite of anyone's best efforts, there is no guarantee that the environment will evolve as predicted, nor that the strategic course of action (strategy) chosen will be effective. Therefore, it is advisable to have some contingency strategies for the future; Next there is c) strategic awareness, meaning assessment of the implications of ideas or plans. These three elements are placed in box number F4.

Given that strategic plans are made in the context of an organisation's environment, the process by which these plans are made and their elements are influenced by environmental attributes such as uncertainty and complexity (F1). The conditions of firm such as size, age, past performance, capital intensity, and type have a significant impact on the process and elements of strategic planning. Since these factors may vary across firms within an industry, the strategic planning practices often follow different patterns in different firms. These factors are named as firms characteristics and put in box number F2. It must be emphasised that often the small business is a one-man show. The extent and nature of strategic planning practices therefore depends on the character of this individual or group of individuals. In other words, owner-managers' personal background such as education, training, experience, and owner's time significantly influence the strategic planning elements in small firms. These factors are shown in box F3. The relationship of environmental factors, firm characteristics, and personal background of owner-managers with the incidence of elements of strategic planning are shown by links 1-4, 2-4, and 3-4 respectively.

The three sets of factors described above influence strategic planning process elements in small firms which in turn, influence performance of firms such as, employment growth, number of employees, value added per employee, and overall performance (F5). Link 4-5 has expressed this relationship.

As mentioned in Chapter 2, many of the previous studies, explaining the effect of strategic planning on performance, have used the straight forward bivariate model and thus neglected to take into account the relevant, moderating variables relating to

Figure 4.1
 Framework for Strategic Planning Practices of Small Business



firm, environment, and the personal background of owner-manager that could have affected the planning-performance relationship (Bracker et al., 1988; Matthews, 1991; Carland et al., 1989; Orpen, 1993; Miller and Cardinal, 1994).

Some authors noted that it is because of this that the effect of strategic planning on performance may still not be clear. This points to the need for an integrative framework, which, in addition to identifying the key process elements, also identifies antecedent and outcome variables associated with the strategic planning elements, including the interrelationships among them. The impact of moderating variables of firm, environment, and the personal background of owner-managers on performance have been included in the framework in terms of links 4-1-5, 4-2-5, and 4-3-5.

4.4 Linkage Between The Framework and Key Research Issues and Development of Major Hypotheses

Having developed the framework for study, attempts are made here to develop some of the main hypotheses in relation to the key research issues, and to explain their links with the proposed framework.

One of the key research issues is an exploration of the practices of strategic planning activities, the incidence of strategic planning elements, in small enterprises in Bangladesh. This involves asking the research question : How do small engineering firms in Bangladesh practice strategic planning? The specific issues to be investigated include i.) if and how small firms scan their environment, ii) whether they are aware of the events in their competitor, regulatory, customer, and

technological environments; iii) if they have any projected courses of action or ideas to cope with the environmental changes; and if so, iii) whether those ideas are formalised, and if so, why; and if not, why not; iv) are they aware of the implication of their projects/ideas, v) what sources of information do small businesses use for environmental and strategic awareness? No formal hypothesis is developed to examine this research question. It is however, accommodated in the framework under **F4**.

The owner-managers' ability to think about the environment, to explore opportunities and to identify threats and to assess the impact of their projects in a proactive manner may appear more naturally with some owner-managers than others, while some inputs, however, may also have effects on this process (Gibb and Scott, 1985). The research question that deals with this research issue is: What factors influence the incidence of strategic planning elements? Or in other words, what influences the owner-manager's capability to scan and think about the environment, to explore the opportunities and identify threats and to assess the implications of their future strategic action? The influence of firm factors on the incidence of strategic planning has been subject to a very limited number of studies (e.g., Lindsay and Rue, 1980; Bracker et al., 1988; Matthews, 1991). The available literature suggests that the incidence is higher among those firms that are larger in size, entrepreneurial, that have been in the same business for a relatively longer time, that are more capital-intensive, and with better performance (Lindsay and Rue, 1980; Sexton and Auken, 1982; Stoner, 1983; Mintzberg and Waters, 1985; Keppler, Bamberger, and Gable, 1979; Barton and Matthews, 1988,

Carland et al., 1989; Matthews, 1991; Bracker and Pearson, 1986; Bracker et al., 1988).

Therefore the overall hypothesis is

The incidence of the strategic planning elements or in other words, the ability to scan the environment, develop the ideas or plan to make use of the opportunity explored or to deal with the threats and strategic awareness, is higher in firms that are larger, more entrepreneurial, more capital-intensive, have been in the same business for a longer time, and with better performance.

Evidence also suggests that this ability is higher among those owner-managers who have training and education, more slack time and more varied experience (Gibb and Scott, 1985; Mulford *et al.*, 1988; Shuman and Seegar, 1986; Shrader et al., 1989). One important factor, owner's age, however, has received little or no attention in past research dealing with strategic planning in small business. Owner's age was considered meaningful in some small business research (Deeks, 1976). Owner's age has therefore been accommodated in the framework under F3.

The overall hypothesis to be tested here is:

The incidence of the strategic planning elements is higher in those firms the owner-managers which have training and education, more slack time and more varied experience.

Two alternative hypotheses have been proposed to see the effect of age on this ability.

The older the owner-manager, the higher the incidence of strategic planning elements in small firms.

The younger the owner-manager, the higher the incidence of strategic planning elements in small firms.

In the free enterprise system, opportunities are spawned when there are changing circumstances, chaos, confusion, inconsistencies, lags or leads, knowledge and information gaps, and a variety of other vacuums in an industry and market (Timmons, 1994, p.88; Matthew 1991, p.77). Constant monitoring of the business environment is therefore so critical for the entrepreneurs. Moreover, lack of or limited awareness of the implications of any change in such an environment may lead any project into blind alleys. Thus

The incidence of the strategic planning elements is more important for small firms operating in uncertain environments.

There is a long debate in the literature about the effect of strategic planning, particularly the effect of formal strategic planning in small business (for detail, see Schwenk and Shrader, 1993). Research in industrially developed countries, in general, has revealed a positive relationship between strategic planning and performance (e.g. Bracker et al, 1988; Orpen, 1993; Ackelsberg and Arlow, 1985). Studies in some developing countries have indicated that owner-managers perceive lack of planning as one of the important reasons for under-performance of their firms

(e.g. Huck and McEwen, 1991; Yusuf, 1995; Luisa, 1996). Therefore, the hypotheses are:

Overall, there is a positive relationship between strategic planning and the performance of small firms.

There is a significant difference between performance of firms which differ with regard to the incidence of elements of strategic planning.

Numerous researchers (such as Armstrong, 1982; Pearce et al., 1987) suggest that the effect of strategic planning on performance is contingent upon some firm characteristics, environmental factor, and personal background of owner-managers. The variables shown in F1, F2 and F3 are expected to influence the effect of strategic planning on firm's performance. However, a very limited number of studies have examined the moderating role of those factors on the relationship between strategic planning and performance (Matthew 1991; Bracker and Pearson, 1986; Bracker et al., 1988; Dyke, Fischer, and Reuber, 1992). These studies suggest that strategic planning results in improved performance when certain characteristics regarding to owner-manager's personal background, environment and firm are present. Therefore,

Strategic planning is positively related to performance when the environment is uncertain, the firm is large, older, more entrepreneurial, capital intensity is high, performance is better, the owner-manager of the firm is young (old), has training and experience and creates more slack time.

The detailed hypotheses in the light of the major hypotheses are shown in Table 4.1.

Table 4.1
Key Research Issues, Questions and Major Hypotheses Developed

Research Issues and Questions	Major Hypotheses To Be Tested
<p>The Nature and Practice of Strategic Planning</p> <p>A. How do small engineering firms in Bangladesh practice strategic planning? i.e.,</p> <p>i) Do small firms scan their environments? and if so, how?</p> <p>ii) Are they aware of the events in their competitors, regulatory, customers, and technological environments?</p> <p>iii) Do they have any future strategic courses of action (strategic orientations) intended to cope with environmental changes?</p> <p>iv) And if so, are these strategic course of actions articulated explicitly (formalised)? And if so, why and if not, why not?</p> <p>v) Are they aware of the implications of their future strategic actions (strategic awareness)?</p> <p>vi) What sources of information do small businesses use for environmental and strategic awareness ?</p>	<p>No Hypothesis</p>
<p>Influences of the Incidence of Strategic Planning Elements</p> <p>B. What factors influence the incidence of strategic planning elements? Or in other words, what influences the owner-manager's capability to scan and think about the environment, to explore the opportunities and identify threats and to assess the implications of their future strategic action?</p> <p>Is the incidence of strategic planning elements higher among those firms that are larger in size, entrepreneurial, that have been in the same business for a relatively longer time, that are more capital-intensive, and with better performance?</p> <p>Is the incidence of strategic planning elements higher among those firms the owner-managers of which have training and education, more slack time and more varied experience?</p> <p>Is the incidence of the strategic planning elements more important for small firms operating in uncertain environments?</p>	<p>The incidence of the strategic planning elements is higher in firms that are larger, more entrepreneurial, more capital-intensive, have been in the same business for a longer time, and with better performance.</p> <p>The incidence of strategic planning elements is higher in those firms the owner-managers of which have training and education, more slack time and more varied experience.</p> <p>The incidence of the strategic planning elements is more important for small firms operating in uncertain environments.</p>

Research Issues and Questions	Major Hypotheses to be Tested
<p data-bbox="131 254 916 297">The Effect of Strategic Planning on Performance</p> <p data-bbox="131 348 930 442">C. What is the effect of strategic planning on performance of small business?</p> <p data-bbox="131 492 930 586">Is there any relationship between strategic planning and the performance of small firms?</p> <p data-bbox="131 680 936 818">Is there any difference between performance of firms which differ with regard to the incidence of elements of strategic planning?</p> <p data-bbox="131 912 936 1100">Is the relationship between strategic planning and performance moderated by environmental factors, personal background of owner-managers and the characteristics of firm?</p>	<p data-bbox="970 492 1777 630">Overall, there is a positive relationship between strategic planning and the performance of small firms.</p> <p data-bbox="970 680 1777 818">There is a significant difference between performance of firms which differ with regard to the incidence of elements of strategic planning.</p> <p data-bbox="970 912 1777 1182">Strategic planning is positively related to performance when the environment is uncertain, the firm is large, older, more entrepreneurial, capital intensity is high, performance is better, the owner-manager of the firm is young (old), has training and experience and creates more slack time.</p>

4.5 Summary

This chapter has been devoted mainly to the development of a conceptual framework for the examination of strategic planning practices and their effect on performance of small firms. A number of models have been reviewed, and this has resulted in the development of a conceptual framework to be used for addressing the research issues to be investigated in this thesis. In relating to the research issues, some of the major hypotheses have been developed. In order to explain how the evidence has been produced and examined, the forthcoming chapter will deal with the research methodology.

Chapter 5

Research Methodology

5.1 Introduction

The purpose of this chapter is to describe the research design followed to achieve the objectives of the research. It will state the choice and arguments for selecting the research instrument for data collection. The main reasons for selecting research site, the procedures of identifying small business population and drawing of sample therefrom will be described. The measures used to operationalise the key concepts and variables will be described. The process of negotiating access to information and gathering the necessary data will be stated. The major tools used to analyse the data will be presented. Finally, the chapter will discuss the main difficulties encountered in the data collection process.

5.2 The Research Design

Easterby-Smith, Thrope, and Lowe (1992) described research design as about organising research activity, including the collection of data, in ways that are most likely to achieve research aims (p.33). They further added "*Research design is more than simply a method by which data is collected and analysed. It is the overall configuration of a piece of research: what kind of evidence is gathered from where, and how such evidence is interpreted in order to provide good answers to the basic research questions*" (p.21).

There are many ways of classifying types of research design. Broadly, they are of two types: quantitative and qualitative research. Quantitative research is typically taken to

be exemplified by the social survey and by experimental investigations (Bryman, 1988, p.1). Moreover, analysis of previously collected data like, official statistics on crime, employment, and so on, structured observation, and content analysis are also categorised as quantitative research (Bryman, 1988, p.12). Qualitative research, on the other hand, tends to be associated with participant observation, and unstructured interviewing (Bryman, 1988, p.1). It also includes the life history method, and group discussions (Bryman, 1988, p.49). Quantitative methods are usually used to collect data based on predetermined structured questions. They do not, necessarily allow the respondents to convey or the researchers to learn about underlying events (Bryman, 1989). Qualitative data are typically collected over a sustained period makes them more powerful for studying processes (including history); researchers can go far beyond “snapshots” of ‘what’? Or ‘how many’? to ask how and why things happen (Miles and Huberman, 1994, p.10). Qualitative research is less structured than quantitative research and the specific procedures followed are often identified during the research rather than specified in advance. The strengths of qualitative research design are usually associated with the 'depth' and 'richness' of the information that it provides (Gummesson, 1991). Such information, however, comes under heavy criticism for being anecdotal and difficult to analyse and generalise to other situations (Bryman, 1989). In comparing the methods adopted in strategy research, Snow and Thomas (1994) stated that, *"Qualitative field methods can be used to uncover complex and dynamic interactions among organisational and strategic factors. On the other hand, these methods are more susceptible to researcher bias and reliability problems. Quantitative methods provide greater objectivity and reliability but often ignore many important, more complex organisational realities"* (p.471).

In order to overcome the limitations and to make use of the benefits of both the quantitative and qualitative research, Webb, Campbell, Schwartyz, and Sechrest (1966) have suggested that social scientists are likely to exhibit greater confidence in their findings when these are derived from more than one method of investigation (cited in Bryman, 1988, p.131). They viewed the two methods as complementary rather than as competitive. This view has led to adopt a strategy, known as '*triangulation*', which is broadly defined by Denzin (1978, p.291) as "*the combination of methodologies in the study of the same phenomenon*". By combining the quantitative and qualitative methods, the researcher's claim for the validity of his or her conclusions are enhanced and sometimes, qualitative research facilitates the interpretation of quantitative findings suggested by an investigation (Bryman, 1988, p.131).

This study, therefore, did not indulge in debate, and used both quantitative and qualitative methods for studying the practice and effect of strategic planning on the performance of small business. The main objective of using both the methods, was in the words of Kholo, "*Exploiting the assets and neutralising, rather than compounding, the liabilities of the qualitative and quantitative methods*" (1991, p.147). It has been found that quantitative methods, especially the mail survey design, have been predominant in small business strategic planning research (Bracker and Pearson, 1986; Bracker *et al.*, 1988; Shrader *et al.*, 1989). Only a few qualitative studies have been apparent (Gibb and Scott, 1985; Mintzberg and Waters, 1985). Snow and Thomas (1994) noted that, "*the conduct of strategy research in recent years has been skewed toward quantitative as opposed to qualitative approaches*" (p.471). Scholars

recently, therefore, called for adopting the 'triangulation' model in strategy research to find out the right answer (Snow and Thomas, 1994, p.472; d'Amboise, 1990, p.66).

The choice of the most appropriate design or combination of designs for this study was, as in most research, based upon the circumstances and resources available. Further, the choice of research design is related to the research purpose, which is either exploratory or explanatory or both, and seeks to contribute to empirical knowledge and to the development of theory (Pauline *et al.*, 1982). Although both types are argued as contributing to empirical knowledge, each approach has a more specific objective. The reason for choosing an exploratory approach, Pauline *et al.* (1982) suggest, is because of "a lack of previously developed knowledge, theory, or method which makes it difficult to design specific hypotheses (p.354). They suggest that explanatory research is *"essentially deductive, intended to verify causes and relationships between phenomena"* (p.355).

So little is known about strategic planning in small businesses, especially in developing countries, that a significant amount of exploratory field work is required to form a rudimentary foundation for more rigorous scientific methods. In addition to exploiting the practice of strategic planning, the other objective of this study is to examine the effect of strategic planning on the performance of small engineering businesses in Bangladesh. The nature of this research is therefore both exploratory and explanatory.

The determination of the cause-and-effect functions of each of the factors influencing the elements of strategic planning and the influence of strategic planning on

performance of small businesses would require the use of a longitudinal experimental research design. However, the use of such an experimental research approach was difficult in the time and cost allocated for this study.

5.3 Population and Sampling Procedures

In Bangladesh, different agencies maintain lists of small businesses. The information about the number of enterprises, however, varies among the lists of different agencies. Some lists incorporate all types of manufacturing firm irrespective of size. These lists do not contain the addresses of those firms (e.g., CMI¹³ Report). Further, some promotional organisations in the private sector maintain lists of only those firms that are assisted by these organisations (e.g. MIDAS, BASIC). Bangladesh Small and Cottage Industries Corporation (BSCIC), the only government corporation for the assistance and support of small business, compiled a list for the first time in June 1992 of small manufacturing businesses in different sectors in Bangladesh which were registered with BSCIC between 1985-1990. (BSCIC, 1992a, abstract). Here it should be noted that it is mandatory that all small firms in Bangladesh register with the BSCIC (discussion with Mr. Bakhtiar, GM, Marketing, BSCIC). The list, however, does not necessarily contain only those firms that started operations between 1985 and 1990, but also firms that have been operating for a long time. At the time of field study in March 1994, BSCIC was in the process of publishing another list which included manufacturing firms that were incorporated between July 1990 to June 1993. These two lists seemed preferable to other lists

¹³Census of Manufacturing Industries.

because of their comprehensiveness and inclusion of up to date and basic information relating to the firms listed.

This study has focused on manufacturing sectors only. The reasons for choosing the manufacturing sectors are as follows:

i. For a large majority of developing countries, industrialisation remains a fundamental objective of economic development. In such economies, industrial development is considered necessary to achieve high rates of economic growth, and the expansion of industry offers much better scope for the growth of output (Kholo, 1991, p.158).

ii. Apart from its importance for economic development, manufacturing was chosen for its attractiveness to government and aid agencies for technical, financial and promotional assistance.

iii. In Bangladesh, sampling from all small businesses was difficult, since with the exclusion of the manufacturing sector, no up-to-date and complete lists of firms in the other sectors were available to any particular authorities.

iv. Finally, almost all recent studies on small business development are based on manufacturing firms (Birley and Westhead, 1989). It is therefore believed that comparisons between Bangladesh and other countries would be facilitated by a similar concentration of research effort.

After deciding to study firms in manufacturing, the next decision was made about which firms should be included in the sample. There was more than one choice: selecting samples from all types of manufacturing industry; selecting samples from some industry types; or selecting samples from only one industry type. It is well understood that small businesses are not alike and that they do not constitute a single sector of the economy in a real sense (Rosa and Hamilton, 1994, p.25). Taking this point into account, it was decided to select firms from only one industry type: engineering. The main argument behind selecting one industry was to control the influence of industry effects on strategic planning practices and on the planning-performance relationship. This is consistent with the suggestions of the researchers in small business strategic planning that indicate that researchers should attempt to secure as an homogenous a sample (from one industry) as possible to reduce the complexity and provide more clarity to understanding of the planning-performance relationship (Robinson and Pearce, 1983, p.198; Acklesberg and Arlow, 1985, p.63; Lyles *et al.*, 1993, p.48). In highlighting the importance of controlling industry effects in measuring performance, Robinson and Pearce (1983) pointed out that previous studies had often not controlled for inter-industry differences. d'Amboise (1991) suggested that research can provide a good indication of the extent to which planning is practised in small firms especially if the sample is taken from a single sector (p.63). Similarly, Beard and Dess (1979, 1981) indicated that industry type is a major determinant of a firm's profitability. Further, Boyd (1991) noted that sampling firms in a cross-section of industries might cloud the effect of planning on performance (p.367).

The engineering industry was chosen for the following reasons. Firstly, engineering firms in Bangladesh operate in a competitive environment. The contemporary extended free market economic policy has expedited the free flow of goods to Bangladesh, mainly from neighbouring countries. Small engineering firms have thus been facing increased competition arising both from the locally produced goods of large firms and foreign goods. Moreover, these firms generally operate in an environment with a very flexible technology. Literature suggests that firms operating in such an environment should be more aware of their environment and any changes therein in order to improve their performance (Lawrence and Lorsch, 1967; Mulford et al, 1988; Ansoff, 1991; Timmons, 1994). Sampling from the engineering sector would therefore help in the examination of the relationship between environmental factors and the incidence of strategic planning elements, and the moderating effect of environment on the relationship between strategic planning and performance.

Secondly, engineering is considered a very important part of manufacturing. It contains 32 per cent of small firms in Bangladesh (BSCIC, 1992a). In addition to providing employment for many people in a densely populated country, small engineering enterprises also contribute to the economy by producing import substitute machinery and spare parts, and building and maintaining the industrial base by supplying the machinery and spare parts to large and heavy industries. The government has paid much emphasis to its development and promotion since 1986.

Thirdly, the engineering industry is regarded as an organised sector. Most of the firms in the engineering industry are formally organised and located in particular

urban locations (Mannan, 1992, p.4.4; BSCIC, 1992). For example, there are 159 small engineering firms located in about 3 miles in the Dholaikhal area in the old part of Dhaka city (BSCIC, 1992, 1992a). By restricting the population, the process of sampling and getting access to the sample firms was greatly facilitated.

Finally, small businesses are not alike and they do not constitute a single sector of the economy in a real sense (Rosa and Hamilton, 1994). Taking this point into account, only one industry was selected, to control the industry influences on strategic planning and its effects.

A decision was also made about the geographical area to be covered for the purpose of the study. The samples were selected from Dhaka, the capital city of Bangladesh (see, Figure 3.1). The research site was restricted to Dhaka city for the following reasons:

- i. Dhaka is the capital and the biggest city of Bangladesh, having a maximum concentration of small engineering enterprises in some particular parts of the city (BSCIC, 1992, 1992a).
- ii. The prospects for small firm growth and expansion are likely to vary because of spatial differences (O'Farrell and Hitchens, 1988, p.1378). Therefore, to ensure a common business and economic environment, the sample was chosen from a single geographic region. This approach is supported by many authors on small business strategic planning research (e.g., Bracker *et al.*, 1988; Robinson and Pearce, 1983;

Lyles *et al.*, 1993). Thus, the mediating effects of external factors such as taxes and labour costs were controlled.

iii. Finally, the time available for data collection, which was only six months, and the cost available to carry out the study were important considerations.

After resolving the above important sampling issues, it was decided to include those firms in the sample (see the operational definition of a small firm in Appendix I) if the firm (i.) had a maximum of 50 full-time employees and/or total fixed investment of TK. 15 million excluding the value of land¹⁴; (ii.) located within the area of study; and (iii.) had been in operation for at least three years at the time of field work.

The third condition was included, as many researchers (e.g., Bracker and Pearson, 1988) believed that the short operating time frames of comparatively new firms may not lead adequately to developing a (formal) strategic planning system. The other reason behind this was using longitudinal data to assess the performance of firms, as suggested by scholars (Sexton and Auken, 1985; Pearce *et al.*, 1987; Boyd, 1991; Capon *et al.*, 1994). Although, the three-year time period was arbitrary, however, the selection of a three year time period was consistent with many similar studies (Bracker and Pearson, 1986; Bracker *et al.*, 1988). The study excluded firms in the informal sector.

¹⁴ The literature of BSCIC (1992a) contains information about the total fixed investment of the small firms that are registered with BSCIC.

Having decided on the population of small engineering firms, the next task was to select the sample size. Like most decisions relating to research design, there is seldom a definitive answer about how large a sample should be for any given study (Fowler, 1991, p.43). Fowler (1991) however, pointed out three usual misconceptions regarding this issue. The first misconception is that the adequacy of a sample depends heavily on the fraction of the population included in that sample. A second approach is to follow a "typical" or "appropriate" sample size that were used in some so-called "standard" survey studies. The final approach goes like this: a researcher should decide how much margin of error he or she can tolerate or how much precision is required of estimates. Once one knows the need for precision or appropriate variations, he or she simply calculates the sample size needed to achieve the desired level of precision (p.41). Fowler (1991) added that the sample size decision, like most other design decisions, must be made on a case-by-case basis (p.41). Although some mathematical calculation of the sample size may be possible, the selection of it is a matter of judgement of, among others two things, firstly, what is 'customary in similar research' (Manu, 1988, p.222), and secondly, the resources available for the purpose. Hoinville *et al.* (1983) have noted that deciding what sample size to use is almost always a matter of judgement than calculation (p.61).

Schwenk and Shrader (1993) found that the sample firms covered in some important studies between 1982 and 1990 ranged between 50 and 188, finding only one study (Robinson, 1982) with a sample as large as 202 firms. In light of those studies and in view of the time and money available for this study, it was initially decided to select a sample size of 160 firms. Although it is only the exception, rather than the common

situation, when a specific acceptable margin for error can be specified in advance (Fowler, 1991, p.41), increasing the sample is one of the many ways (e.g. quality of data collection, interview schedule design) of increasing the level of precision. This issue was taken into account in deciding the initial sample size.

The next decision was the selection of a sampling technique. In order to give an equal chance to each firm to be selected in the sample, a random sampling technique was deemed to be most appropriate. Following the principle of random sampling technique, a total of 184 firms, 50 per cent of the total firms (368 firms) in the study area was chosen, which was much higher than the initial decision of selecting 160 firms.

Of the 184 units included in the initial sample, the owner-managers of 141 firms were contacted and interviewed successfully. Therefore, these 141 firms comprised the final sample, henceforth called the sample. The response rate was 77 per cent. While fourteen firms were found to have had long since folded up, the owners of four firms were not available for the interview purposes. The locations of other 25 firms were not traceable at the addresses shown in the sampling frame.

5.4 Data Collection

Data can be collected mainly by observation, the documentary historical method, and survey methods. Surveys may be of different types, such as personal interviews, telephone interviews, mail surveys, and panel or group surveys (Lin, 1976). The importance of interviewing as a research technique has come about as a result of the

need by researchers to come into contact with respondents, so as to get access to the facts and opinions and to receive them directly from them. This technique of data collection is particularly useful in gathering data on issues such as past experience and motives that are not possible using observation (Snow and Thomas, 1994, p.461).

Interviews may either be structured or unstructured depending on the degree of standardisation imposed on the interview schedule. Hence, a highly structured interview is one where the questions asked and the responses permitted are completely pre-determined, while in a highly unstructured interview, the questions to be asked are only loosely pre-determined, and the respondents are free to respond in their own words. In practice, the choice is not between these two extremes, but between many degrees of formality. Some scholars have advocated the semi-structured or focus interview, where questions are mainly open-ended but closed questions can also be included (Maccoby and Maccoby, 1976).

The personal interview using a semi-structured interview schedule was employed as the primary method of collecting data from the research sample. This technique was preferred to others for the following reasons:

- i. The study is exploratory in context, more detailed information was required that could not have been achieved through survey with a structured interview schedule, making it inappropriate to use mail or telephone surveys. Also, personal interviews offer the most potential for the use of open-ended questions and questions requiring

visual aids, whilst in telephone interviews, for example, open-ended questions are difficult to use and questions requiring visual aids are impossible to use (Neuman, 1994, p.245). Moreover, very few people in less developed countries own telephones, and it is costly as well. In addition, many of those telephones frequently remain out of order. Finally, the data lists used in this study did not contain the telephone numbers of the firms. These create much uncertainty regarding the use of telephone interviews.

ii. Personal interviews have the highest response rates and permit the use of long questionnaires¹⁵. Personal interviews also enable researchers to use extensive probes (Neuman, 1994, p.245).

iii. The personal face-to-face interview technique was deemed appropriate for studying small firms in developing countries, where the level of education attained by most of the population is basic (Kholo, 1992, p.170), and clarifications of questions are necessary to obtain a complete response. Kelmar and Noy (1990) noted that "the personal interview allows the interviewer an opportunity to clarify the interpretation of the terms being used" (p.6). Structured and closed questionnaires could be utilised relatively successfully in such an educated community where the respondents themselves were capable enough of understanding questions and when they realise the responsibility to respond truly and fully. These conditions are unlikely to prevail in many developing countries and particularly among the small business population (Kholo, 1992).

iv. Moreover, personal face-to-face interviews with mostly open-ended questions is surely an improvement on the mail surveys that most of the previous studies of small business strategic planning have employed. Suggestions for using more uncontrolled techniques for data gathering have been apparent in the strategy literature (Mintzberg, 1994; Snow and Thomas, 1994).

Personal interviewing, however, has some inevitable limitations, of which researcher and interviewee bias are considered to be the most serious (Duhaime and Grant, 1979, p.548). Standardising interviews across the sample, as suggested by Duhaime and Grant (1979, p.548) and Still (1974, p.122), minimised the researcher bias in my study. The interviewee bias was at least partially controlled by questions posed as probes during the interview. Moreover, some cross-check questions were also incorporated in the interview schedule to resolve this problem. In many instances, it was felt necessary to take notes to supplement the responses that the owner-managers provided and to gain a better understanding of the main issues of the research.

Attempts were made to compare the validity of the responses to the questions about their environmental and strategic awareness with the relevant primary and secondary information obtained from competitors, bankers, the market place, and a number of government and non-government agencies, such as power and electricity, support organisations, income tax, VAT, and import-export agencies. Advice from two prominent businessmen in engineering sector, who were not included in the sample, was also sought. Support for this come from different scholars (e.g., Matthews, 1991;

¹⁵ It should be noted that a 30-page questionnaire containing about 200 questions was used in this

Snow and Thomas, 1994; Mintzberg, 1994). For example, in criticising the excessive dependence of strategy researchers on verbal and written reports from managers, Snow and Thomas (1994) suggested that these data be supplemented with other useful sources in order to strengthen the validity of data (p.473).

Interviews were conducted, with the person actively involved in managing the small enterprises, who, in all cases were found to be the owner, mainly at their plants in a time convenient to them. Only owner-managers were interviewed as it was found in many studies (e.g. Shuman, 1976; Shuman *et al.*, 1985) that the senior managers (often the owner) does virtually all of the long-range planning in small business.

Easterby-Smith *et al.* (1991) noted that trust is an important and difficult issue in interviews, especially in one-off interviews where the people involved have not met before (p.77). In order to build trust and credibility of myself to the interviewees, as suggested by Easterby-Smith *et al.* (1991, p.78) and Fowler (1991, p.52), a copy of letter written in Bangla (the mother tongue of Bangladeshis) on the letter head of my employer university and that of the University of Stirling (Appendix V), along with the letter of my supervisor (Appendix IV) was mailed to each of the sample firms. Easterby-Smith *et al.* (1991) further added that the relationship often develops quickest when interviewees first adopt a general discussion about their business. This is something which they know and understand (p.79). Therefore, a 'funnel approach', as used by Smeltzer, Fann, and Nikolaisen (1988), was adopted in the interviews. First, the general topics such as the personal background information and the nature

study.

of business were discussed along with the reasons for starting business and other general topics. This set the stage for a non-threatening discussion of planning practices.

The questions were clarified to respondents during interview, paying much attention to ideas instead of words. Thus, careful attention was paid to clear communication with owner-managers. Moreover, the promise of confidentiality of information gathered was stressed to every respondent before the interview (Easterby-Smith *et al.*, 1991, p.82; Fowler, 1991, p.52). To ensure that owner-managers felt confident in releasing performance data, more emphasis was placed on subjective information on performance variables. In many cases, the interviews were conducted on more than one visit. Easterby-Smith *et al.* (1991) suggested that interviewing in more than one go is important for developing trustworthy relationships with the interviewees (p.78), which help obtain reliable data. The respondents, where applicable, were requested not to disrupt their work during the interview. Only a few of the interviewees were disrupted as most of the interviews were conducted in the afternoons or evenings when they had much free time to spare. On average, each interview required nearly 200 minutes to complete.

The interviews were conducted in the local language Bangla. As suggested by Easterby-Smith (1991, p.82), a translated copy of the interview schedule was carried during interview mainly to present to the interviewees in case they might ask for it. Where possible, informal talks with workers and supervisors were carried out and business records were examined to corroborate information provided from personal

interview. In addition, direct observation was used during the interview of respondents which included observing the structural condition of the premises, physical capital, the nature of the production process and the flow of customers, in some cases. The use of such a multiple sources of evidence allows the study to address a wide range of issues. As a result, findings and conclusions are likely to be much more accurate and convincing because evidence can be corroborated (Yin, 1989, pp. 95-97).

5.5 Design of Interview Schedule

The interview schedule, as presented in the Appendix, had three sections. The first section was about background information on the owner-managers, while the second section was designed to collect information about the small firms under study and their quantitative performance data. The third section was set to explore detailed information about their strategic planning practices and their perceptions of overall performance. A total of 72 questions - out of which 55 questions were on environmental awareness, 5 questions on existence of ideas of strategic action and 6 questions on the awareness of implications of their project/idea - were included.

Although most of the questions were open-ended, some closed questions were also included in the schedule with a number of alternative replies. These questions were designed to get easy and quick answer by respondents. In addition to these, some questions were designed which served as cross-references. A study of the instruments of some previous research studies on the strategic planning in small firms (e.g., Still, 1974; Backer, 1982; Robinson, 1982; Shrader *et al.*, 1989; Kukalis, 1991) was

conducted before setting the questions on the interview schedule. However, some modifications of questions, phrase, and layout were done after the pre-testing of the interview schedule with fifteen small business owner-managers in the study site.

5.6 Pre-testing of Interview Schedule and Subsequent Alterations

Pilot testing of the interview schedule was carried out in two stages on five and ten small business owners respectively in the Dholaikhal area of the Dhaka city before administering the full scale interview. The main aim of the pilot test was to ensure that the questions and issues regarding the subject of the study were included in the schedules and cleared from any ambiguities and that the respondents could answer the questions freely.

Some of the owner-managers, in the first instance, did not show any interest in taking part in the interview. They suspected me as an employee or spy of the tax, custom or other government agencies, even though I had presented them with the letter from my supervisor before the interview. In addition, the reactions of respondents to some of the questions were also noted. It was established that respondents would not talk freely unless they completely trusted the interviewer. Attention was therefore paid to the communication with the potential respondents to guarantee as many positive interviews as possible. As already mentioned in the data collection section, a letter (Appendix V) was written in Bangla (mother tongue of Bangladeshis) on the letter head of both the University of Dhaka (my employer) and the University of Stirling, describing the position of myself and the purpose of the research. The letter was mailed along with a copy of the letter from the supervisor (Appendix IV) to each of the sample respondents.

The letter in Bengali was necessary, as it will be reported later, because most of the respondents lacked the required level of education to read and understand the supervisor's letter which was written in a foreign language (English). The new letter helped to build rapport among almost all of the sample firms and to develop the level of trust on the part of the owner-managers about myself which, in turn, helped to obtain extended and more reliable information from a large number of sample within the time limit.

However, some owner-managers were still suspicious about the identity of the researcher and were reluctant to talk unless the association of owners gave the respondents a 'green signal'. This happened mainly with those who had no formal education. Co-operation from the association was therefore sought, whenever possible, for interviewing these owner-managers. Although the reactions and responses of the owner-managers were 'very gratifying', I found that the enthusiasm was not gratifying when they were asked questions on performance variables. They supplied the data based on their guess-work. As with many other studies (see Ahmed, 1985 for details), it was observed that most of the small firms in Bangladesh did not have any proper books of accounts. Therefore, great care was taken in asking questions about financial information and more focus was placed on subjective performance information.

The only available list of firms in the formal sector, published by BSCIC (1992a), contained incorrect addresses of a number of firms and much error with regard to some basic information on the firms. Some business firms, the names of which were

printed in the list, had long since folded up, and therefore could not be traced. However, the chairman of the BSCIC admitted that there were errors in the list (BSCIC, 1992a, abstract). It was also found during pre-testing of interview schedule that several call-backs were necessary, in most cases unsuccessful, to reach some of the owner-managers of the sampled firm. In many cases, at least one call-back was made to reduce the bias related to availability.

It was also observed during the pre-testing that a few questions were not clearly understood by the respondents. Hence, some questions were dropped, while many additional questions were added. The sequence, phrasing and language of some questions was also changed.

5.7 Operationalisation of Concepts and Variables

5.7.1. Strategic Planning

The definition of strategic planning is presented in Chapter 2. As has been mentioned already, most of the previous research operationalised strategic planning solely on the basis of the CEO's self-report response to a planning scale (Mintzberg, 1994, p.95). In the conceptual framework (Chapter 4), three elements of the strategic planning process have been identified. These are: environmental awareness, the idea or formal documentation of a future strategic course of action, and awareness of both short and long-term implications of that strategic action.

The level of environmental awareness of small firms are measured by their answers to twenty-nine questions that were seemed to be more relevant out of the initially

posed fifty-five questions about the events and happenings in the competition, customers, regulatory and technological environment. For the purpose of a comparative analysis, the firms are assigned a score of 1 for each satisfactory answer as expected and 0 for a no or an unsatisfactory answer. The scores are totalled. The firms with a high score are considered 'highly environmentally aware firms' and vice-versa, based on the mean and median scores.

Owner-managers of the firms were asked if they had any projected strategic course of action (idea or formal plan) in the long run to avail the opportunity or to deal with the threats that emerged in the environment. Firms were considered to have a formal strategic plan if their ideas of action were explicitly articulated in a documented form (written). In previous studies, it was found that '*Clearly, the socially desirable answer of "yes" to the question, "Do you plan?" creates potential for self-report bias problems*' (Matthews (1991, p.71). In criticising the self-report data provided in many previous research, Orpen (1985) noted that owner-managers often exaggerated both the amount of time they had spent on strategic planning and its impact on the firm's performance (p.17). To overcome this limitation, the owner-managers in my study were asked if they had any written plan, and if so, the owners were requested to present the plan. The owner-managers were given the assurance of not looking into the details of the plans, if they wanted so.

In order to assess the owner-manager's awareness of the implication of the projected course of action, they were asked to talk about the possible impact of their projects on their time and life style, the firm's capital assets, employees, raw materials and

marketing. Similar to the scoring plan used for environmental awareness, the firms are assigned a score of 1 for each satisfactory answer as expected and 0 for a no or an unsatisfactory answer. The scores are totalled. The firms with a high score are considered 'highly strategically aware firms' and vice-versa, based on the mean and median scores.

The owner-manager's response to the questions on environmental and strategic awareness were compared, for the purpose of validity, with the information collected from secondary sources and, where possible, the knowledge I gathered about the industry and advice of some business people who were not the sample of the study.

5.7.2. Environmental Uncertainty

Environmental uncertainty, in this study, was defined as the perceived degree of unpredictability of the various components comprising the environment. This definition is in line with the views expressed by many scholars (Child, 1974; Miles and Snow, 1978; Javidan, 1984; Gibb and Scott, 1985; Milliken, 1987; Boyd, 1991). Organisational decision makers make their decisions based on their perceptions of the happenings in their environment and of their potential impact on their organisations (Javidan, 1984; p.386). Gibb and Scott (1985) noted that "*The behaviour of the firm is related to the 'perceived' environment as opposed to the 'objective' environment*" (p.615). From their empirical study, Miles, Snow and Pfeffer (1974), showed that organisational actions in response to the environment are consistent with managerial perceptions rather than with objective environmental characteristics.

Organisational environment, cited in Dess and Origer (1987, p.325), has been conceptualised as a source of information and as a stock of resources (Aldrich and Mindlin, 1978; Child, 1972; Dess and Beard, 1984). Following this definition, environmental uncertainty, in this study, was measured in terms of the owner-managers' perceived degree of unpredictability in terms of resource and information of the various components, like competitors, government policies, customers, suppliers and technology, comprising the firm's external environment. Owner-managers were asked if they perceived a lack of information about their competitors, customers, technological and regulatory environments. These components of the external environment were considered most relevant to small business firms, and were used by many researchers investigating strategic planning in small business (Smeltzer *et al.*, 1988, Johnson and Kuehn, 1987; Orpen, 1993). Owner-managers were also asked if they perceived a lack of resources in terms of technology, raw materials, customers, land and premises, and employees. Their answers were given a score of 1 if they perceived a lack of information and resources and 0 if they perceived no lack of information and resources. The score for these nine questions were added and a scale was developed.

5.7.3. Performance

Performance is a complex and multidimensional phenomenon. Operationalising such a complex concept is inherently difficult (Dess and Robinson, 1984). It is already mentioned that small firms '*... are notorious for their inability and unwillingness to provide desired information*' (Fiorito and LaForge, 1987; cited in Orpen, 1993, p.65; Acar, 1983, p.89). Dess and Robinson (1984) argued that obtaining accurate economic

performance data is often a problem in two salient research settings: business units of multi-industry firms and privately-held firms (p.265).

Table 5.1
Operationalisation of Concepts and Variables

Variables Used to Operationalise Key Concepts	Operationalising Variables
<p><u>Strategic planning (elements)</u></p> <p>i) Environmental awareness</p> <p>ii) Future strategic course of action</p> <p>iii) Strategic Awareness (awareness of both short and long-term implications of that strategic action).</p> <p>Formal strategic plan</p> <p><u>Environmental uncertainty</u></p>	<p>Awareness of the events in the competitors, customers, regulatory and technological environments. Twenty-nine questions were used to measure the level of awareness.</p> <p>Existence of any projected strategic course of action (idea or formal plan) in the long run to take advantage of opportunities or to deal with threats in environments</p> <p>Awareness of the possible impact of their strategic course of action on their time and life style, the firm's capital assets, employees, raw materials and marketing.</p> <p>Existence of ideas or action articulated explicitly in a documented form (written). The owners were asked to present their plans.</p> <p>Perceived degree of unpredictability in terms of information about various components like competitors, government policies, customers, suppliers and technology; and in terms of resources like customers, employees, raw materials, land and premises and machinery.</p>
<p><u>Overall Performance (Objective)</u></p> <p>i. Number of employees in 1993</p> <p>ii. Growth in employment</p> <p>iii. Value added per full-time employee</p>	<p></p> <p>$\left[\frac{\{(\text{Employment } 93 - \text{Employment } 92) / \text{Employment } 1992\} + \{(\text{Employment } 1992 - \text{Employment } 1991) / \text{Employment } 1991\}}{\text{No. of years}} \right] 100$</p> <p>Total sales in 1993 - (Value of raw materials + wages + electricity + gas etc.) / No. of full-time employees in 1993</p>
<p><u>Overall Performance (Subjective)</u></p> <p>i. Sales</p> <p>ii. Profit</p> <p>iii. Overall success</p>	<p>Perceived opinion of owner-managers about their performance in the last three years in terms of sales, profits, and overall success compared to similar firms in the local industry</p>

Variables Used to Operationalise Key Concepts	Operationalising Variables
<p><u>Other Variables</u></p> <p>Age of firm</p> <p>Size of organisation</p> <p>Age of firms</p> <p>Type of firm Entrepreneurial firms (more dynamic growth oriented firms) Small firms (Mom and pop type)</p> <p>Capital intensity Largely labour-intensive Mainly labour-intensive Fairly capital-intensive</p> <p><u>Experience of owner-manager:</u> Family</p> <p>Industry</p> <p>Entrepreneurial</p> <p>Owner's time</p>	<p>No. of years as on January 1993</p> <p>Number of employees</p> <p>Number of years that the firm has been in business for.</p> <p>In terms of high growth in products (No. of products in January 1993 - No. of products at start up) / No. of years. Those firms were considered entrepreneurial that had positive growth. Negative and or no growth firms were considered as small 'mom and pop' firms.</p> <p>Mainly use of labour and very little use of machinery More use of labour and some use of machinery Little use of labour and more use of expensive, automated, and inflexible machinery.</p> <p>Whether father and or brothers are involved in starting and managing business.</p> <p>Prior work experience in firms which provide the same products as the current firms.</p> <p>Previous business start-up experience.</p> <p>Owner-managers who work for more hours were considered to have less time available, and vice-versa.</p>

As with many studies in other countries (Dess and Robinson, 1984; Orpen, 1993), information about the performance of small business in Bangladesh is very often not publicly available. Owners, very sensitive about releasing any performance-related data, are the sole gatekeepers to such information on individual firms (Unni, 1981, p.56; Dess and Robinson, 1984, p.266). Lyles *et al.* (1993, p.48) noted that few small firms provide financial information for long periods of time. Moreover, where available, use of objective financial data on small firms may even have misleading results (Cooper, 1979). As already mentioned the pre-testing of the interview schedule

indicated that owner-managers were sensitive in releasing objective financial information and that it was felt that depending solely on objective performance data would be misleading. It was also felt that the use of subjective measures of financial performance could provide more accurate information. Subjective information about performance is not only an effective way of overcoming the reluctance of some owner-managers to reveal confidential data, but this information could also be used as a useful performance barometer during the period between financial statements (Dess and Robinson, 1984, p.6).

Moreover, researchers (e.g., Dess and Robinson, 1984; Mulford *et al.*, 1988) showed that subjective measures of performance are strongly related to actual (objective) measures of performance. Many researchers in strategic planning research (Orpen, 1993, p.65; Kelmar and Noy, p.6; Unni,p.56) used subjective measures to measure the performance. It has also been suggested that subjective measures be used along with objective ones, and that subjective measures be used especially when accurate objective measures are unavailable, and *'probably most appropriate in examining relative performance within an industry'* (Dess and Robinson, 1984, p.271). Following the recommendation, performance, in my study, was measured by using both subjective and objective measures. Dess and Robinson (1984) indicated that a positive relationship between subjective and objective measures enhance the reliability and validity of performance measures. It has also received support in work by Venkatraman and Ramanujam (1987) and Robinson and Pearce (1988).

Another important issue with regard to performance measures is the choice between financial and operational performance variables. A broader conceptualisation of business performance would include emphasis on indicators of operational performance in addition to indicators of financial performance (Venkatraman and Ramanujam, 1986, p.804). The inclusion of operational performance indicators takes us beyond the 'black box' approach that seems to characterise the exclusive use of financial indicators and focuses on those key operational success factors that might lead to financial performance (Venkatraman and Ramanujam, 1986: 804). Vander Werf (1994, p.290) criticised the fact that much of the research on the performance of business firms measures performance with single construct, or with several that are arguably highly correlated, like different dimensions of financial performance. To help overcome these shortcomings, both financial and operational measures have been used in this study.

As measures of objective performance, value added per full-time employee, number of employees, and growth in employment, over a period of three years (1990-93) will be used. Although data for a longer period could provide a good performance trend, however, and as already mentioned, consistent and reliable longitudinal performance data are rarely available in small firms (Acer, 1983, p.89). The sales figures used in the analysis were adjusted for inflation. The approach, in table 5.1, to the measurement of growth of employment was chosen because it is more likely to reveal true discontinuities in year-to year performance of firm. This approach was used by Robinson (1982) and Bracker *et al.* (1988) in their strategy research. They argued that an approach using measures such as compound growth rates obscures such information.

The objective measures of performance have been chosen on the basis of their prominence in the small business strategy literature (Bourgeois 1980; Dess and Davis 1984, Mulford *et al.*, 1988, Robinson 1982; Robinson and Pearce, 1988; Robinson and Pearce 1983; Unni 1981). Because profitability is a very sensitive thing to measure, and because owner-managers of small businesses are often reluctant to release data on it, no attempts were made to acquire objective profitability data; although almost all strategy researchers have taken profitability into consideration in investigating the strategy-performance relationship (Shrader *et al.*, 1984).

In addition to objective measures, the respondents were asked to provide subjective, numerical evaluations on a four-point scale of their firms' profits, sales and overall success over the last three years compared to those of similar firms in local industries. A scale of overall performance was developed, which ranged from 9 to 27, using the scores that the firms were provided. The method of evaluating performance subjectively was consistent with the work of Tosi and Gomez-Mejei (1994, p.1006). Further, other indicators like repayment of loan status and new business set-up (entrepreneurial performance) were considered in measuring performance where possible.

5.8 Organising and Processing of Data

After collecting data from the owner-managers, the next task was to organise and process the raw data collected. The purpose of organising the data was to reduce the mass of data to a form suitable for analysis. Before coding the data on a data sheet, data supplied by owner-managers regarding their strategic and environmental awareness

were checked to ensure reliability with the primary and secondary data supplied by various government and non-governmental agencies. The coded data were put into the computer for analysis, using a special data entry package, developed and supplied by my research supervisor. The preliminary data sheets were compared with the original coding sheets to ensure the accuracy of the data entered.

5.9 Tools of Data Analysis

The nature of the data collected was both quantitative and qualitative. In analysing these data, however, one unresolved issue was the question of when parametric, non-parametric, or both tests should be used.

Parametric tests are based on the assumption that we know certain characteristics of the population from which the sample is drawn, while non-parametric or distribution-free tests do not depend on assumptions about the precise form of the distribution of the population. Some authors have argued that it is only appropriate to use parametric tests when the data fulfil three conditions. These are: i.) that the level or scale of measurement is of equal interval or ratio scaling, i.e., more than ordinal; ii) that the distribution of the population is normal; and iii) that the variances of both variables are equal or homogenous (Bryman and Cramer, 1995, p.117). After a review of works, Bryman and Cramer (1995, pp. 117-8) concluded "*As far as the first condition is concerned, it has been suggested that parametric tests can also be used with ordinal variables since tests apply to numbers and not to what those numbers signify (Lord, 1953, p.65). With respect to the second and third conditions, a number of studies have been carried out (for example, Boneau, 1960, and Games and Lucas,*

1966) where the values of statistics used to analyse samples drawn from populations which have been statistically set up to violate these conditions have been found not to differ greatly from those for samples which have been drawn from populations which do not violate these conditions. Tests which are able to withstand such violations are described as being robust. The one situation in which tests were not found to be robust was where the samples were of different sizes and the variances were unequal or heterogeneous".

Wimmer and Dominick (1987) noted that although non-parametric tests are appropriate for nominal or ordinal data and parametric tests are appropriate for interval and ratio data, many researchers (Roscoe, 1975; cited in Wimmer and Dominick, 1987, p.261) no longer considered that the two categories to be distinctly different and that both methods can be used successfully with any type of data (p.261).

The present study deals with two groups of dependent and independent variables. Attempts will be made to examine the relationship between the degree of incidence of elements of strategic planning (dependent variables) and the factors (independent variables) that influence the incidence. The other group will examine the relationship between the degree of incidence of strategic planning (independent variables) and performance (dependent variable). Moreover, the study also investigates if the variables relating to firm, personal backgrounds of owner-managers and the environment moderate the relationship between the incidence of the elements of strategic planning and performance. The data collected for this study were both categorical and non-categorical in nature. For categorical data, Spearman correlation will be conducted to

see if there is any relationship between two sets of variables. For interval data, Pearson correlation tests will be conducted. However, it is extremely difficult if not impossible to conclude that one variable influences another without controlling for other influences (Kholo, 1991, p.151). Therefore, multiple regressions were used to investigate the relationship further.

Multiple regression is a general statistical technique which could be used to examine how well the independent variables correlate collectively with the dependent variables (Bryman and Cramer, 1990, p.240). Moreover, the contribution of each independent variable to the change in dependent variables can also be estimated.

To examine the moderating influence of variables relating to firm, personal background of owner-managers and environment on the relationship between the incidence of strategic planning process and performance, firms will be classified into different groups. The Pearson's r will then be computed for the incidence of strategic planning process elements and performance for different groups of firms and a comparison will be made between the r values. Bryman and Cramer (1995, p. 232) argued that moderated relationships are probably better examined by computing Pearson's r for each category of the test variable and then comparing the r values. Therefore, Pearson's correlation analyses will be conducted between strategic planning process elements and performance indicators for subgroups of firms where environmental uncertainty is fairly uncertain, fairly certain, and largely certain; the size of firms is very small, and small; the capital intensity is mainly or largely labour intensive, and fairly capital intensive; the type of firm is entrepreneurial versus not entrepreneurial; the age of

business is young and old; the owner-manager is with or without industry, family, and entrepreneurial experience; with or without formal education, and with or without training. Median splits and mean scores will be taken into account in grouping the firms into different groups. However, firms will be grouped into entrepreneurial or not entrepreneurial on the basis of their innovation history. The operationalisation of the type of firm has been mentioned in Table 5.1.

Other statistical tools such as chi-square, scatter diagram, histogram, descriptive statistics, tables, graphs etc. were used in the study.

In order to validate the results obtained from quantitative analyses and to gain an understanding about cause and effect relationships between strategic planning and performance, qualitative case study data were frequently used. A number of ten cases consisting of five highly environmentally and strategically aware firms with good performance records and five less aware or unaware firms with poor performance records have been presented in Appendix II.

5.10 Some Characteristics of Sample Firms and Their Owner-managers

Some of the major characteristics of the sample firms and their owner-managers are shown in Table 5.2. Most of the information in the table is self-explanatory. The average age of the small businesses surveyed was 38 years, reporting an annual turnover of Tk. 1.9 million per firm in the year 1992.

Table 5.2
Characteristics of Sample Firms and Their Owner-managers

Particulars	Number	Mean	Minimum	Maximum
Total sample firms	141	-	-	-
Age of firm	141	38.078	23	58
No. of full-time employees	141	13.55	2	78
Sales in 1993 ('000 Tk.)	124	1977	120	10000
No. of managerial employees	141	0.77	0	6
Age of owner-manager (yr.)	141	38.08	23	58
<u>Educational qualification:</u>				
No education	8	-		
Primary education (5 yr.)	75	-	No	Bachelor
Up to SSC (10 yr.)	24	-	Formal	Degree
Up to HSC (12 yr.)	17	-	Education	
Bachelor Degree (14/16 yr.)	17	-		
Ownership in present business	141(yr)	11.61	3	33
<u>Experience of owner-manager:</u>				
Industry	79	-	-	-
Entrepreneurial	49			
Family	80			
<u>Mechanism of business entry:</u>				
Owner-established (started)	90	-	-	-
Started with partners	20			
Inherited	31			
<u>Form of ownership:</u>				
Sole tradership	113	-	-	-
Partnership	13			
Limited company	5			
Family business	10			
<u>Nature of father's occupation:</u>				
Only Job	46	-	-	-
Only business	32			
Both job and business	20			
Self-employed	43			

5.11 Problems Encountered

I experienced several problems and difficulties during the data collection phase of the research process in Bangladesh. Nevertheless the experiences were invaluable.

1. The first problem relates to the lack of personal transport facilities. Dependence on public transport and walking on the long traffic-jammed roads, especially in the sample area, often caused unnecessary delays in reaching the sample. This problem was especially high in reaching firms in remote areas.

2. The second problem, partly stemming from the first one, was concerned with locating some of the sample firms. The database used to sample the firms was the first and only publication containing the list of small firms with their address in Bangladesh. The database contains many errors as to the names, address, and other information of firms. Further, some business firms, the names of which were printed on the list, had long since folded up and therefore could not be traced, while many others had changed location several times. One example of such an error can be noted here. The address of *Padma Engineering* was printed in the sample frame as 49/A Tipu Sultan Road. However, the correct address was 25/8 Tipu Sultan Road. These problems when coupled with the problem of transport facilities caused the researchers to spend much more time than usual in locating the sample firms.

3. As has already mentioned in the pre-testing of the questionnaire, it was very difficult to obtain reliable financial data. Owner-managers often refused to talk: a more tight-lipped group of interviewees would be hard to find anywhere. This was also found in some previous research. For example, Unni (1981) wrote, "*Though confidentiality of responses was assured, the pre-testing of the questionnaire revealed an unwillingness of small businessmen to specify their profit and sales over the last few years*" (p.56). Harris (1981) quoted the following statements from some

studies of Indian traders which reflect problems of this nature : *"They lie when it came to statements about wealth, business, capital, turnover and so forth which they never correctly told to anyone"* (Fox, 1969, p.148); *"Merchants are extremely reticent regarding money matters in business"* (Mines, 1972, p.47). These indicate the extent to which one can expect objective financial performance data from business firms in a similar culture (i.e. the culture in Bangladesh). Even if some owner-mangers provided financial performance data, the data were based on their 'guess-work' which might not be accurate.

4. The fourth problem I experienced is best appreciated by reference to the following statement by Stanworth and Curran (1973) on research on small business :

"Research in small business may not be very attractive because the great diversity, individualisation and number of small businesses means that valid findings with wide applications are not easily come by. The small business owner-manager is a highly self-sufficient person in many ways. He is unlikely to have had any formal management training, and he does not speak the currently fashionable jargon of the social scientists. Researchers find it easier to communicate with executives in large businesses and the latter are more likely to have time to answer questions".

5.12 Summary

The chapter has described the methods used to achieve the objectives of the research. The choice of adopting several methods in a combination of both quantitative and qualitative criteria was justified. The rationale for using the personal interview strategy for data collection was stated, and the content of the interview schedule used in the study was outlined. The reasons and arguments for choosing the research site, and small engineering firms as the population were also mentioned. The procedures of selecting sample firms were explained. The owner-managers of one hundred and forty-one small engineering firms were interviewed during the field work from March to September 1994. The major characteristics of the sample firms were presented. The key concepts and variables used in this study were described and operationalised. The procedures of negotiating access to information and gathering data were described. The reasons for using subjective performance data along with objective financial data were also described. The raw data collected were coded using a special data entry package, for analyses through SPSS. The major statistical tools used in this study included, among others, descriptive statistics, tables, graphs, correlation and multiple regression. The justification of using case study data was outlined. The chapter ends with a brief description of the problems I encountered in my data collection phase in Bangladesh.

Chapter 6

The Incidence of Strategic Planning, Environmental Awareness, and Strategic Awareness in Small Engineering Firms in Bangladesh

6.1 Introduction

The main purpose of this chapter is to describe how small engineering firms in Bangladesh practise strategic planning, and on the basis of the data about planning practice, to confirm whether it relates to preconceived notions of strategic planning described in the literature. The specific issues to be investigated include i.) if and how small firms scan their environment, ii) if they are aware of events in their competition, regulatory, customer, and technology environments; iii) if they have any strategic course of actions or ideas to cope with the environmental changes; and if so, iv) whether those ideas are formalised, if so, why, and if not, why not; and, v) whether they are aware of the implication of their projects/ideas. This chapter will also discuss the sources of information that small firms use for environmental scanning and for evaluating their ideas. It will also shed light on other relating issues such as the time horizons of projected ideas.

6.2 Environmental Scanning and Awareness of Environment

From among fifty-five questions initially posed to know about the events and happenings in the competition, regulatory, customers, and technology environments, 29 questions, which seemed to be most relevant to the research context for gaining an insight into owner-managers' awareness of their environment, were finally selected. Additional questions were also asked, if and when it seemed to be necessary, for cross-references or to gain a better insights into their answers. The questions were

asked in a very open and descriptive way to explore the respondents' awareness of the existing conditions as well as of the changes likely to be occurring in the environment in the near future. It has already been mentioned in Chapter 5 (p. 15) that before I started my field-work, I had collected secondary information mainly about the policy and recent policy changes, and also paid a number of visits in the market-place to understand about the products, and the technology used in the sample industry. I also sought assistance from two of my friends, who have been prominently and successfully involved in the sample industry for about fifteen years, to gain more ideas about industry. I also acquired knowledge about the industry during the pre-testing phase of my questionnaire. The data provided by the owner-managers were compared with the knowledge I gathered from the primary and secondary sources mentioned.

Although the owner-managers in this study were found to scan the environment to identify opportunities and threats, their information search was frequently passive or reactive rather than proactive. No respondent was found to be aware of all of the potential changes to be occurring in the environment and hence, all relevant opportunities and threats. This was found to be particularly true for regulatory and technology environments. When asked to speak about possible future changes in those, many of the owner-managers made comments like "let the future come first", or "we are not worried about the future now". However, some owner-managers who think ahead about the future were also found. For example, fifty-four percent and sixty-six percent of the owner-managers respectively were able to talk about the future demand and type of customers. One owner-manager of a firm producing gas

control keys and other parts for gas cylinders, boilers and cookers, for example, was able to talk, based on his observation of the frequent load shedding and his information on the exploration of new gas fields in many parts of the country, about the high potential of his products and less use of such items operated by electricity (Case 049). Some of the owner-managers (23%) were also able to give an idea about the potential entrants in the market. In the past, many of them could not forecast the present changes. They became aware about any environmental changes after the changes had taken place. For example, when the government policy of the free market economy was adopted, many owners in the light engineering industry could not foresee that they would face severe competition from products of neighbouring countries. These owner-managers did not even search for information unless they experienced difficulties. For example, some owner-managers were found who came to know about the changes in the rate of electricity, tax or import duty when they had made the payment.

A discussion of the owner-managers' awareness about the recent and future changes in the environment follows. For the purpose of a comparative analysis, the firms were assigned a score of 1 for each correct or reasonably correct answer as expected, and 0 for each wrong answer or unanswered questions.

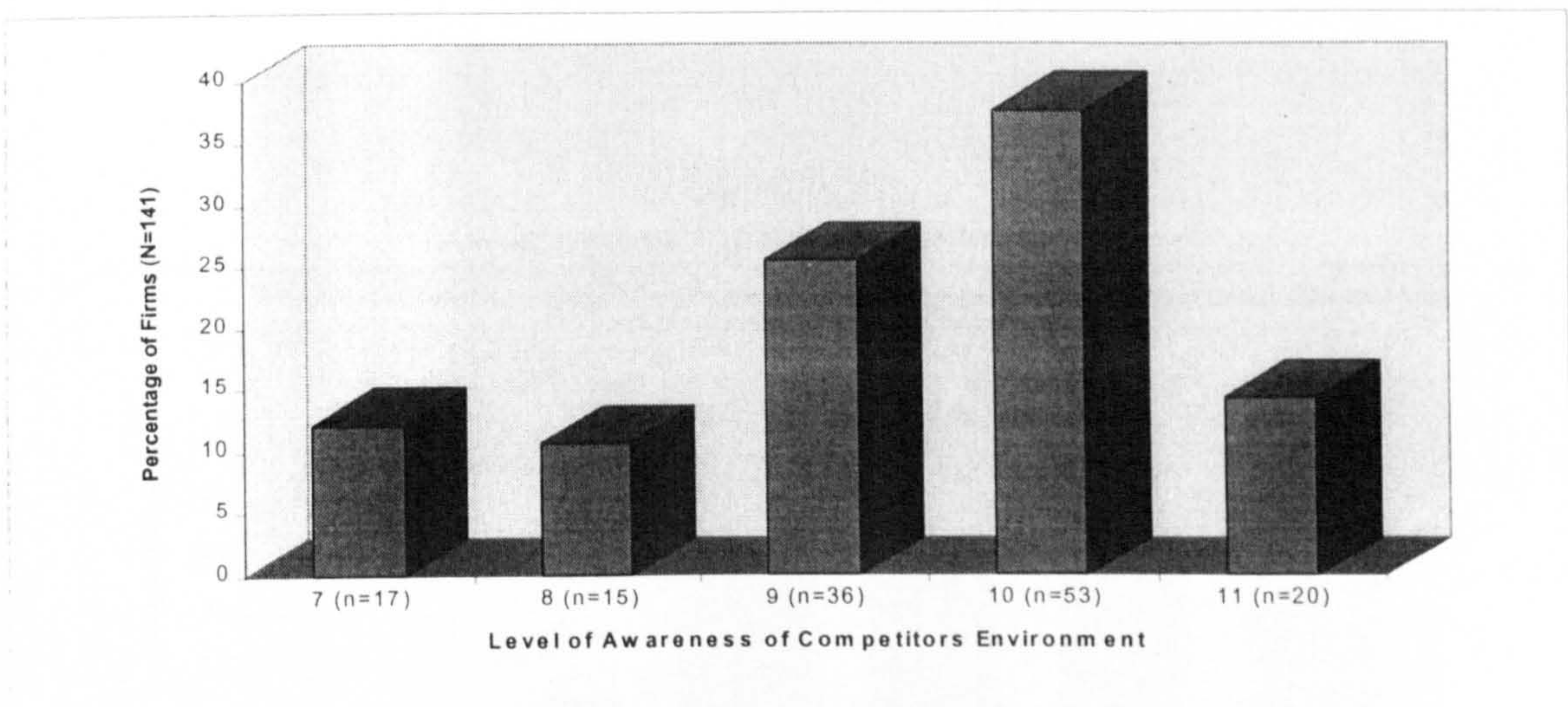
6.2.1 Awareness of Competitors Environment

The eleven questions that were asked to assess the firms' awareness of competitors environment focused on the competitors, their products, their strength, their weakness, their future courses of action, the source of competition, and the potential

entrants. Using the scoring plan, the total scores of awareness of competitors environment were found to range from 7 to 11. The mean and median scores were 9.31 and 10 respectively.

All the firms in the study were found to be aware of many of the competitors, competing products, sources of competition, and other important information relating to competitors environment. It was found that the owner-managers of the sample firms answered about 89% of the questions in the ways in which they were expected to answer. Most of the owner-managers (about 52 per cent) were found to be highly aware (scored from 10 to 11) about their competitors environment (Figure 6.1a). They were not only able to talk about the existing events in their competitors environment, but also about the changes likely to occur in the near future.

Figure 6.1a
Awareness of Competitors Environment



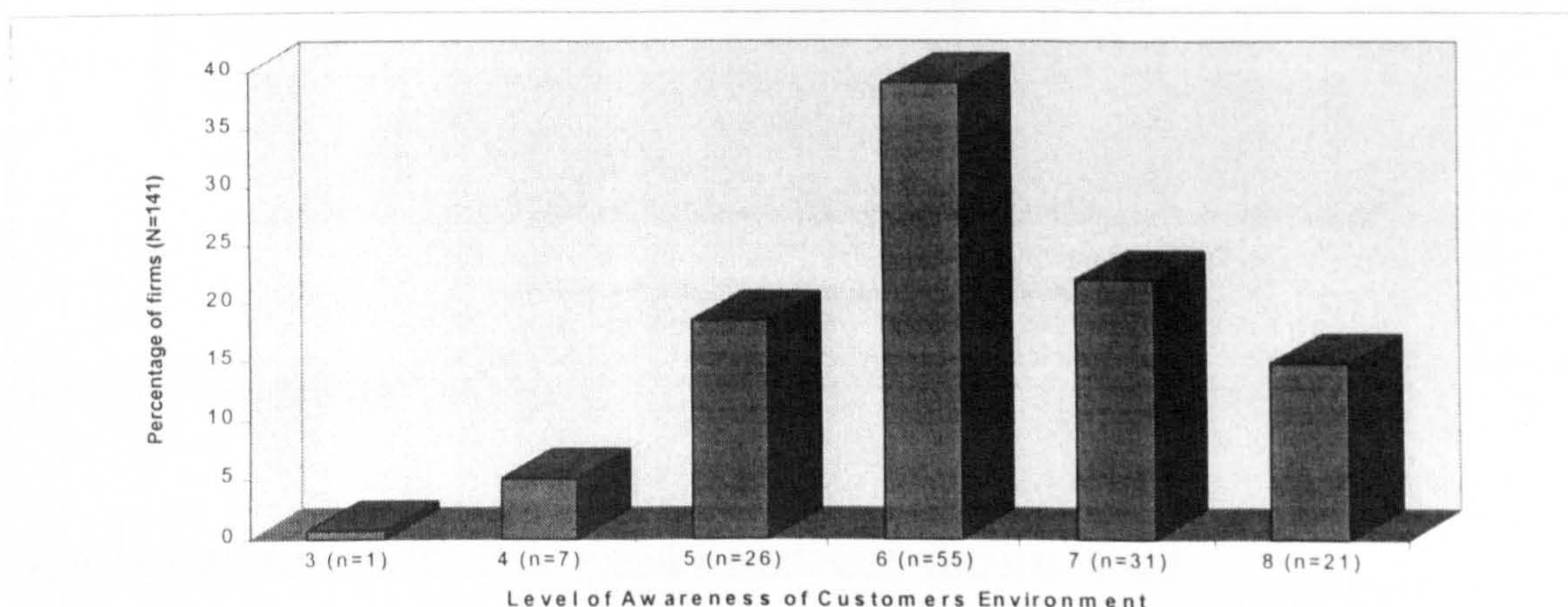
Source: Field Survey

6.2.2 Awareness of Customer Environment

The respondents were asked eight questions to gain insight into their knowledge of their customer environment. The questions asked to assess the awareness of the owner-managers particularly about the type and nature of customers of their firms, customers of their competitors, and that of the industry as a whole; the present and future demand of the customer¹⁶, and the reasons of changes in the volume of customers of the firm and of the industry. The total score ranged between 3 and 8, and the mean and median scores were 6.21 and 6 respectively.

Similar to their awareness of competitors environment, small firms in the sample were found to be highly aware of the happenings in the customers environment (Figure 6.1b). One point, however, needs to be mentioned here that because a great number of firms were found to sell their products to the wholesalers or retailers than to end users of products, the owner-managers therefore frequently found to lack information about the size and type of end users.

Figure 6.1b
Awareness of Customers Environment



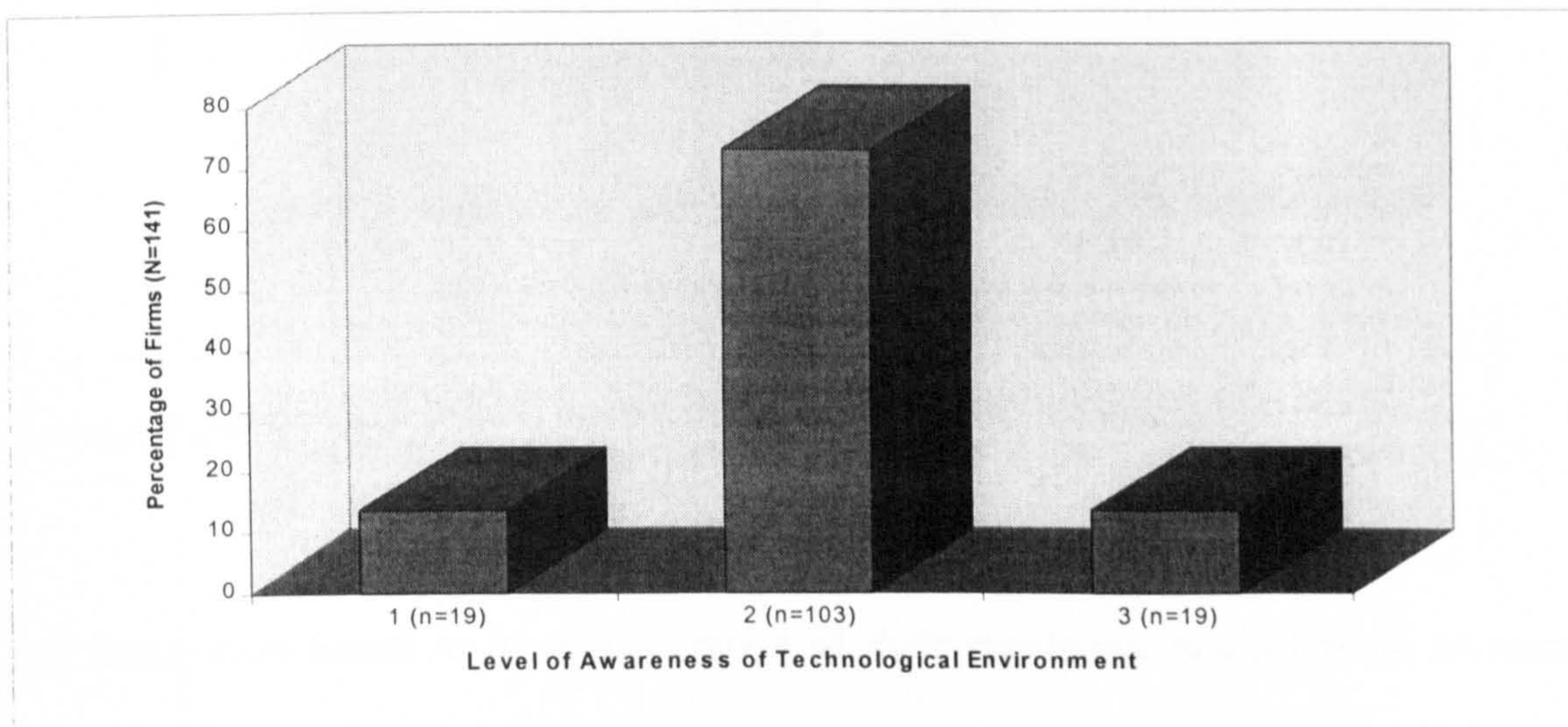
Source: Field Survey

¹⁶include both retailers, wholesalers, and end-users.

6.2.3 Awareness of the Technological Environment

The three questions used to assess the level of awareness of technological environment focused on the technology of the competitors of owner-managers, recent changes in technology, and the potential changes likely to be occurring in technology in the near future. Unlike the situation with the competitors environment, the owner-managers were found to be less informed about changes in their technological environment (Figure 6.1c). The total scores ranged from 1 to 3, and both the mean and median scores were 2. The firms that scored 3 (about 14 percent) were considered to be highly aware of their technological environment because they were not only aware of the present technological conditions in the industry, but they were also aware of the potential changes in technology in the near future.

Figure 6.1c
Awareness of Technological Environment



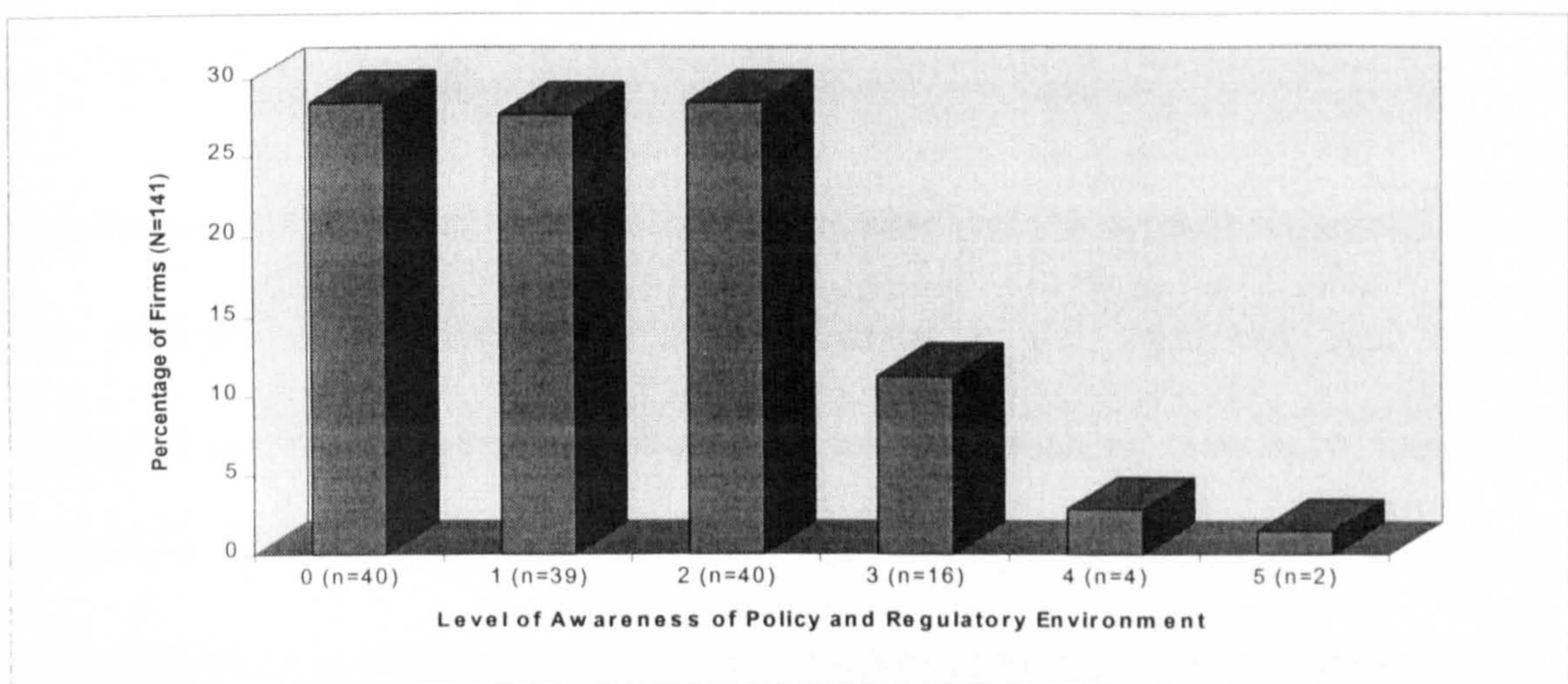
Source: Field Survey

6.2.4 Awareness of the Policy and Regulatory Environment

The respondents were asked seven questions to assess their knowledge about the policy and regulatory environment. The seven questions were asked to assess the

awareness about the recent changes in the tax and import-export policy, support and support policy, relevant changes in the last budget, and potential changes that were expected to occur in tax, support and import-export policies. Unlike the awareness of competitors and customers environments, the level of awareness of owner-managers about their policy and regulatory environment was found to be very low. The scores ranged between 1 and 5, with a large number of the firms (40 firms or 28.37%) were completely unaware of recent policy changes. The mean and median scores were 1.91 and 2 respectively.

Figure 6.1d
Awareness of the Policy and Regulatory Environment



Source: Field Survey

No firms were found to be highly aware of their regulatory environment, as none were able to answer all the seven questions asked about the policy and regulatory environment (Figure 6.1d).

6.2.4.1 Reasons for Limited Awareness of the Policy and Regulatory Environment

The owner-managers provided many reasons for their limited awareness of the policy and regulatory environment. The reasons are presented in Table 6.1.

Table 6.1
Reasons for Lack of Information about the Policy and Regulatory Environment

Particulars	Number (n=141)
No circular from Government agencies/support organisations	79
Lack of interest of owners in such information	40
No interest on part of government	38
Lack of education of owner-managers	17
Owners are busy with other jobs (Lack of Time)	15

Source: Field Survey

The owner-managers reported that the government and the support organisations did not circulate much information about changes in the regulatory and support environment. A number of owner-managers (7) reported that only financially supported firms received circulars about any changes in the support and policy environment from support organisations. This was admitted by one of the executives at the strategic level of BSCIC. Further, one of the prominent owner-managers, who was also one of the top-level executives of the Dhaka Small Engineering Business Association, added that the government agencies and other support organisations transmit information to the association officials, who usually do not circulate it to other owner-managers (Case 009). However this owner-manager believed that the lack of formal education of the owner-managers is mainly responsible for their lack of awareness, because this information usually gets published in the newspapers. The

data regarding the level of education of the owner-managers (only 57 per cent of the owner-managers had primary education) may partly support this. One of the other important reasons that resulted in lack of adequate information about regulatory environment was the reluctance of owner-managers to look for information about changes in the regulatory environment.

The data on environmental awareness suggest that owner-managers in small firms are aware about their external environment, although the levels of awareness vary between competitors, customers, the technological, and the policy and regulatory environments. They are more aware of competitors, customers and technology as information about these is relatively easily accessible, because of the owner-managers' physical proximity to these environmental units, especially to the competitors environment. I have already mentioned that most of the engineering firms were concentrated in a few selected locations. Because of their physical proximity, owner-managers of these firms were in quite a good position to know about what was going on in other firms and their industry as a whole.

Lack of support in terms of provision of information from the government and/or support organisations, and lack of education of owner-managers can be traced out as important reasons for their limited awareness about the regulatory environment. The environmental scanning practices of small firms are generally passive or reactive and characterised by an extensive degree of informality. Owner-managers usually take no initiative to know about the changes likely to be occurring in their external environment.

6.3 Existence of Strategic Plans or Ideas for Dealing with Changes in Environment

The owner-managers of the sample firms were asked to say if they had any projected long-run course of action for using opportunities or for handling threats that emerged in the environment. Although the owner-managers of most of the firms (114 firms, or 81 per cent) were able to shed light on their future strategic actions, a large number of them could not express their ideas in a detailed and clear-cut form. For example an owner-manager of a light engineering firm, in explaining his projected strategic courses of action, said that he would buy new machinery to improve the quality of his present products (light engineering) to beat the competitors. However, when asked what had he done so far to implement that projected action, e.g., whether had he inquired about the prices and possible sources of machinery, he could not answer the question in a clear-cut way (Case 067).

A number of firms were found to have a portfolio of ideas. For example, a bathroom fittings firm owner-manager was thinking of entering new overseas markets, while at the same time he was also considering of adding high quality bathroom fittings with the joint venture of an Indian firm targeted to create and fulfil the demand of the local market and thus to compete with the other local manufacturers (Case 009). Again, it should be mentioned here that many of the ideas in the portfolio were vaguely expressed.

Over a quarter of the sample firms (27 out of 141) did not have any projections at all, either written or unwritten, of their future strategic courses of action. Data revealed

that a third of those firms (9 out of 27) were not performing well. These owner-managers had decided to quit their businesses but were still undecided about their future plans. The owner-managers of the remaining 18 firms were found to be largely concerned with current operations, and made comments like, “Let the future come first, then we will think about it”. This type of reactive behaviour was also evident when owner-managers of most of the firms with long term projections (99 out of 114) were found to be unable to talk about any contingency ideas or projects in case existing ideas were non-implementable. Owner-managers of those firms often made the same comment. The case study data show that in the past, only few companies which had failed to implement their projected strategic course of action shifted to another project (case 034) while in many other cases they were stuck and suffered a loss (cases 014, 031). For example, the owner-manager of case 034 had planned to manufacture ‘dish antenna’ in 1993 when many foreign cable TV stations started broadcasting their programmes in Bangladesh. On an experimental basis, he manufactured a total of six antennas which became successful both in engineering and marketing terms. At the same time, he also applied for support to BSCIC¹⁷ to finance this project. However, his application was declined. In about 3 months time, a large firm started manufacturing the antenna like the original one marketed by the small owner-manager. Because of the owner’s failure to recognise the competition emerging from a large firm which had more financial and human resources, and because the small owner-manager had no alternative idea for generating funds, he failed to implement the planned project and moved back to his original business (Case 034).

¹⁷ Bangladesh Small and Cottage Industries Corporation.

It was observed further that owner-managers sometimes shift to new ideas or alter their existing ideas if they perceive any major changes in the environment and if they think that their resources are not enough for implementing a projected course of action or if their projects are not feasible. Case 34 is an example of this.

However, as has been already mentioned, this was not always the case, and a few firms with proactive thinking habits were also found. For example, the owner-manager of one firm had adopted a project of manufacturing dice for toy manufacturers. He approached BSCIC for financing it. At the same time he had made some contacts with alternative sources of funding including a joint venture project with an Indian firm in case BSCIC declined his loan application (Case 002).

In most (80%) of the cases, the ideas about their future strategic course of action were generated and evaluated by owner-managers themselves, while in others, they were assisted by friends and relatives (6%), employees (6%), and outsiders (7%).

With regard to employee participation, it was found that owner-managers of only 17 firms (or about 15 per cent of 114 firms) involved only a few senior and/or key employees in their idea generation and/or evaluation process, and their involvement extended from mere awareness of ideas to consultation with owner-managers. No clear-cut time horizon for projects was observed for about half of these firms (55 or 48 per cent of 114 firms) while the time horizons of other firms ranged between one and four years, excepting one with a time horizon of 8 years and the other with 15 years.

After having found that most of the owner-managers were able to shed light on the ideas about what they were going to undertake in the long-term, they were asked whether they had used any formal process either to generate the ideas or to articulate their future courses of action in a written form, and if so, to show me the plan. In order to ensure confidentiality, the respondents were assured that no attempts would be made to check the details of the plan, especially the financial details, if they wanted me to do so.

In many cases, their ideas about long term projections were unwritten. Although, 20 percent of firms (28 out of 141) in the study were found to have at least one written plan and most of them (19 firms out of 28 firms) put their future strategic courses of action in a different degree in written form (Table 6.2). The written plans in those firms were merely some calculations without presenting any analyses of competitors and markets, and the weakness and strengths of the firms. Again, only two firms were found to be following their written plans. All of the 19 firms having written plans, however, had at least one future course of action unwritten. The remaining nine firms having written plans were unable to shed light on their future strategic actions. These firms were those which were, as mentioned before, not performing well. The Table 6.2 presents a picture about the existence of strategic courses of action and the use of formal plans.

In describing the reasons for preparing written plans or, in other words, making some mere calculations, each of the owner-managers mentioned that they had made those plans simply as a requirement of seeking financial assistance from supporting and

intermediate organisations. Supporting organisations ask small firms to present their projects (for which small firms seek financial support) in a written form. They had instructed all the twenty-six firms that were currently financially supported and the two firms that had applied for financial support at the time of field work to have written plans. This requirement was also confirmed by the officials of supporting agencies.

Table 6.2
Existence of Strategic Course of Action and Use of Formal Plan

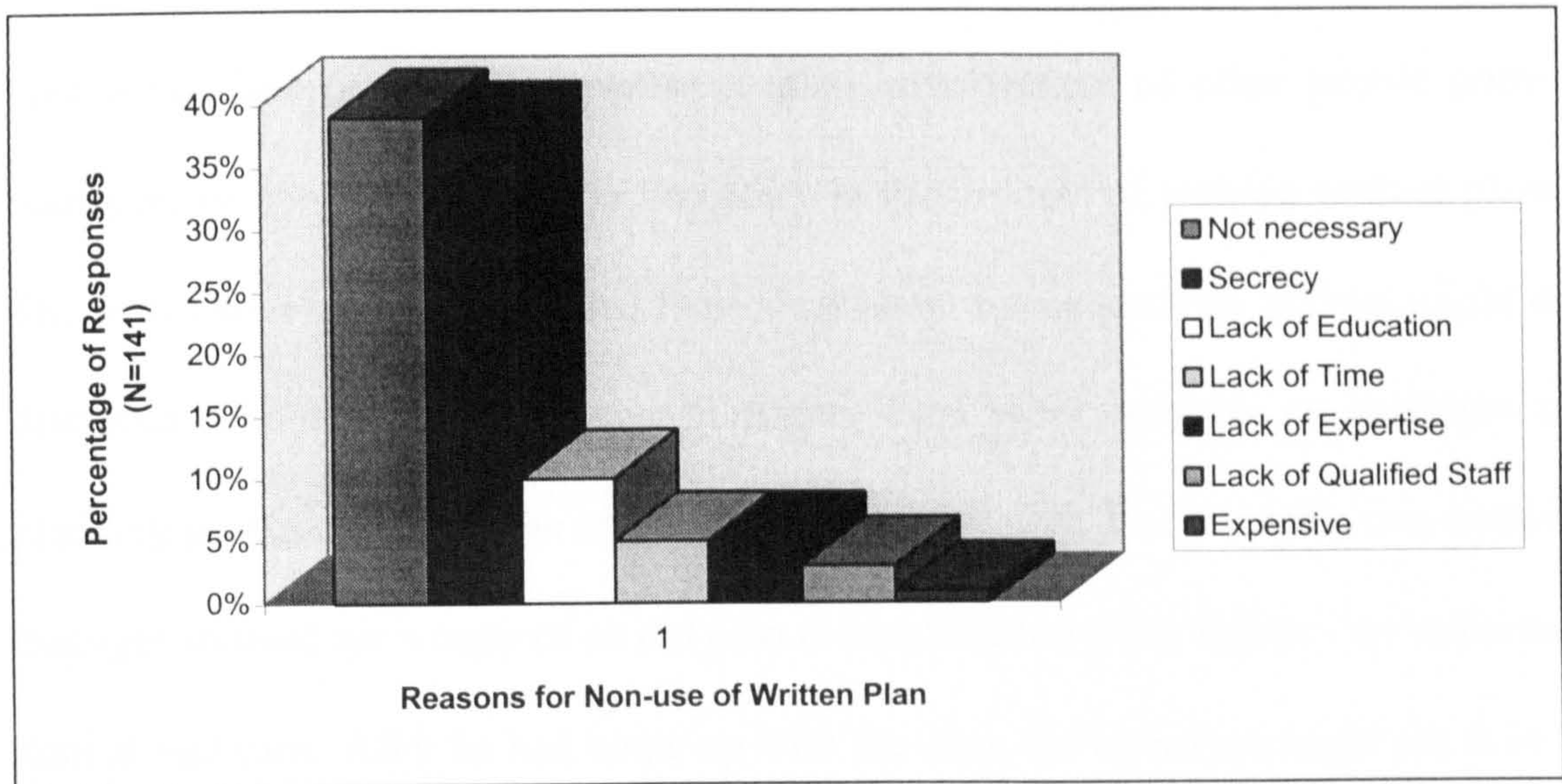
Particulars	Number	Percentage
No Formal Plan, But Idea of Projected Course of Action	95	67.38%
Formal Plan and Idea of Projected Course of Action	19	13.48%
No Formal Plan and No Idea of Projected Course of Action	18	12.17%
Formal Plan But No Ideas of Projected Course	9	6.38%

Source: Field Survey

In most cases, outsiders, mainly the staff of the support organisations, either wrote the plan for small businesses or they played a major role in the writing process. No single firms in the sample were found where the outsiders, i.e., the bank and/or the support organisations did not take part directly or indirectly in the preparation of written plans. However, the degree of participation of the outsiders varied from firm to firm. For example, in most cases (26 out of 28 firms), the owner-managers themselves provided the idea about their future courses of action to the support organisations which later put those ideas in a written form. In other cases (2 out of 28 firms, or over 7%) the owner-managers initially formulated the written plans by themselves, which were later modified by the support organisations.

The owner-managers of small firms having no written plan reported many reasons that discouraged or made them unable to use written plan. The majority of the respondents, as depicted in Figure 6.2, provided multiple replies.

Figure 6.2
Reasons for Non-use of Written Plans



Source: Field Survey

The negative attitude of the owner-managers to written planning was frequently observed. As can be seen from Figure 6.2, more than 39 per cent of responses indicated that written planning was unnecessary in small business firms. Owner-managers mentioned several reasons for this. More than 68% said that they could keep the future direction of their firms in their mind and, thus, did not feel the need to write it down. The other owner-managers (about 32%) felt that since the size of the entity was small, they were able to run the business without any written plan.

A large proportion (about 38%) of responses indicated a lack of trust and openness is one of the main reasons of not putting their ideas in a formal plan. They believed that their projected strategic actions would be disclosed to the competitors if the owner-managers had written them down. Owner-managers maintained that since they had no education or very little education (about 10 percent of the responses indicated that lack of formal education of owner-managers as a hindrance to planning) and that they themselves lacked required expertise to plan, involvement of other people (either managers or outsiders) would be necessary in the process of making written plans. The owner-managers believed that their ideas about future strategic actions might be disclosed to competitors if owner-managers used other workers or outsiders in planning process. This can be explained by available data. For example, one owner-manager showed me a copy of an old plan to manufacture a gas lighter - an imported item at that time. After he had come up with the idea, the owner-manager put it in a written plan and approached one of the prominent support organisations to finance the project. However, his application for a loan was finally declined and the executive who was in charge of dealing with the project secretly handed over the plan to one of his relatives (Case 047). About 14 per cent of the responses indicated that the inadequate slack resources of small firms in the form of lack of time (5.4%), lack of expertise in organising (4.5%), lack of qualified staff (2.7%), and cost (1%) as the main factors that made them unable to go through the formal process of planning. With regard to time pressures, it should be noted that over 90 per cent of the owner-managers were found to work for more than 48 hours in a week¹⁸ and that the range of their working hours was found to vary between 36 and 99 hours in a week. One

¹⁸six working days

point needs clarifying here. Although it was found that lack of formal education was one of the major reasons of not using written plans, it was not always the case. The most highly educated owner-manager (with technical education) in the sample did not use a written plan and, on the basis of his past planning experience, he regarded written plans as 'useless'(Case 045).

This negative attitude of the owner-managers to written plans was observed further when they were asked to comment about their perceptions of written plan. Most of the owner-managers perceived written strategic planning as unnecessary for small business firms. Over a fifth of the respondents in this study (21%) placed no importance at all, and about one-half of the respondents (44%) placed minimum importance on written planning for small businesses. On the other hand, about 18% firms considered it important, while 17% perceived it as very important. This results suggest that owner-managers in small firms are very pessimistic about and reluctant to use written plans. This received further support as it was found that 57% firms with a written plan (i.e., 16 firms out of 28) viewed written plans as not being useful or as somewhat useful for small firms.

As with the study of Gibb and Scott (1985), the data reported here suggest that most owner-managers of small firms have ideas or portfolio of ideas about the future strategic orientation of their firms. Idea generation and its evaluation are characterised mainly by insufficient information and the personal judgements of owner-managers. However in many cases their ideas are not clearly articulated and owner-managers change their ideas if they perceive any intolerable changes in the

environment as well as in their resource capability. Their ideas are also very often flexible, reactive and with inspecific future time horizons. This, in other words, fits well with what Mintzberg and Waters (1985) called 'entrepreneurial strategy', which involves the features of both deliberate and emergent strategies. Intentions about their future strategic actions for dealing with changes in the environment do exist. But they derive from individuals who do not need to articulate or elaborate them. Indeed, he or she is typically unlikely to want to do so. The intentions are both more difficult to identify and less specific than those of the planned strategy (inflexible and clear, articulated intentions). Again their strategies can be considered as emergent as the vision of the owner-managers provided only a general sense of direction within which there was room for adaptation : the details of the vision could emerge *en route*. Further, because the leader's vision was personal, in many cases it changed to a great extent, and in some cases completely, to feedback on past actions or to new opportunities or threats in the environment.

Although, the preconceived notions of strategic planning support the idea that formal strategic planning practices heightens the owner-managers' ability to think strategically (Porter, 1980; Lyles et al, 1993), the owner-managers in this study, like the study of Gibb and Scott (1985), seemed to never use written plans to shape their future strategic orientation. They also normally do not put their future strategic courses of action in written formalised documents. They even do not perceive written plan as useful for small business firms. Some firms use written strategic plan fundamentally to fulfil the requirement of the external agencies supporting them. The

future strategic orientation of the small firm is not affected by this externally made written plan.

6.4 Strategic Awareness (Awareness of Implications of Strategic Course of Action)

Strategic awareness implies the ability to make an assessment of the total impact of any particular change (Gibb and Scott, 1985). This means not only awareness of the immediate impact of any new development but also reflection on the longer term repercussions (p.619). In order to gain insights into their strategic awareness of owner-managers, who had projections about their strategic action, they were asked to talk about the implications of their future projects on their time and life style, the firm's capital assets, employees, raw materials, and marketing. As was mentioned in Chapter 5, the knowledge gathered from the experience during my field work, the information collected from the government and non-government agencies, and most importantly, the assistance from my friends who are heavily involved in business in the same industry was used to cross-check their answers.

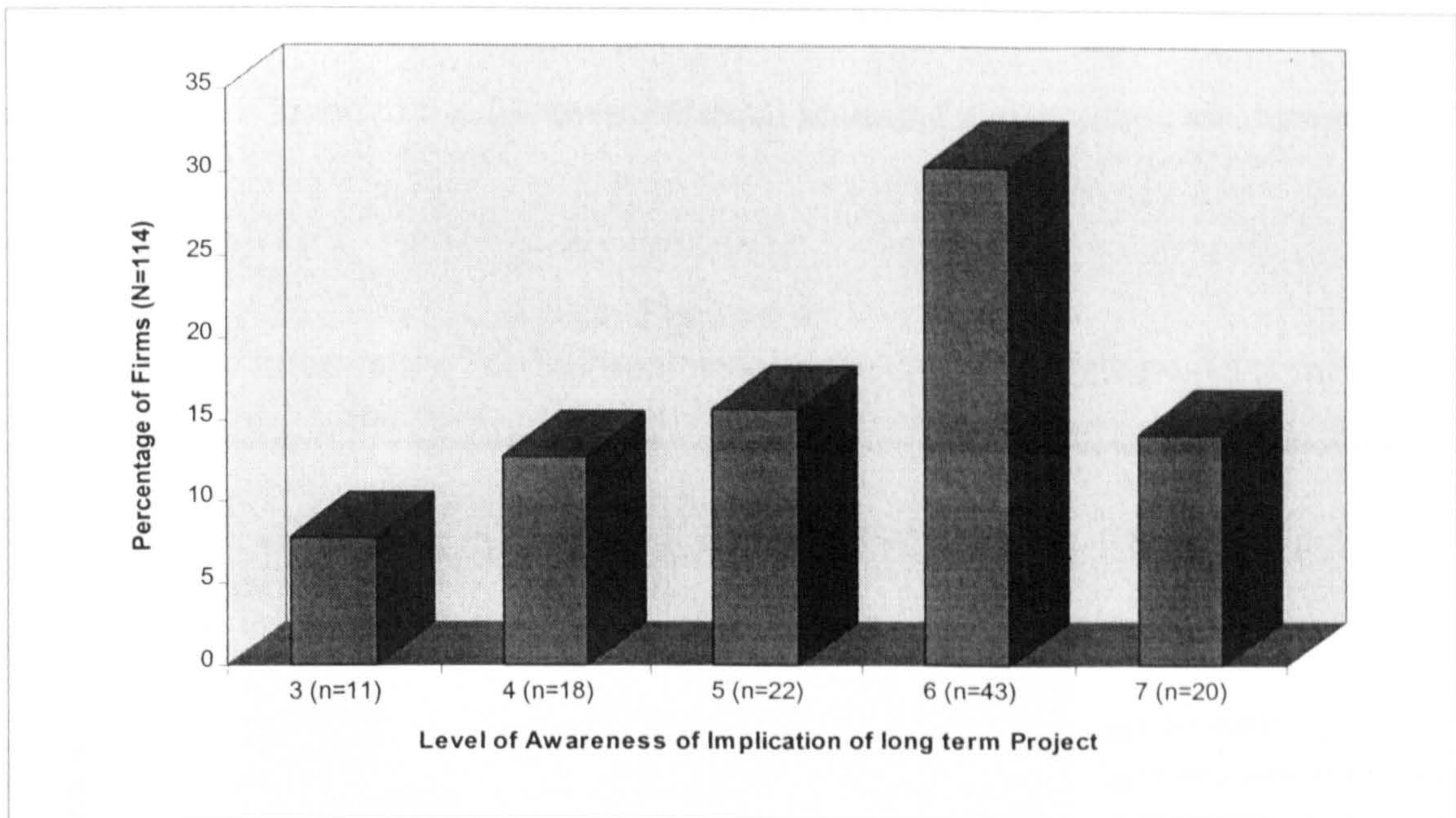
It was observed that all the owner-managers, to different degrees, were capable of recognising the possible implications of their projected ideas on the time and life style of owner-managers, the capital assets of the firms, employees, raw materials, and marketing. However, many owner-managers were hardly able to talk about the implications in a very long term basis, i.e., what will happen after a certain level of development is achieved. Moreover, their detailed knowledge of and searching for many of the possible implications were found to be very limited. For example, one

owner-manager was talking about his idea of extending his plants size when it required more space. He applied for a loan so that he could buy a piece of land or premises near the present location. His factory was located in a busy commercial area of the city where the cost of land or rent was very high. However, BSCIC had created an industrial estate about three miles away from his present location, which is also easily accessible by any method of transport. The cost of land is very cheap and payment can be made in instalments. When the owner-manager was asked about whether he had considered the option of moving his factory to the BSCIC created industrial estate, he indicated that no other alternative options had been considered. This does not mean that the latter option was necessarily a better alternative, but it shows that even though rent or cost of land in present place is high, and the firm did not have enough liquidity to buy another premise or piece of land, no other options were explored (Case 031).

In order to gain an insight about their level of awareness, the firms were assigned a score of 1 for each reasonably satisfactory answer and 0 for no or for an unsatisfactory answer. The scores were totalled, which ranged from 1 to 6, the mean and the median were 4.42 and 5 respectively. The Figure 6.3 shows the level of awareness of the sample firms under study about the long term implications of the projects.

These data suggest that owner-managers are capable of anticipating the possible implications of their strategic action in the long run. However in many cases their breadth of anticipation is limited in terms of time and area covered.

Figure 6.3
Level of Awareness of Long Term Implications of Projects/Ideas



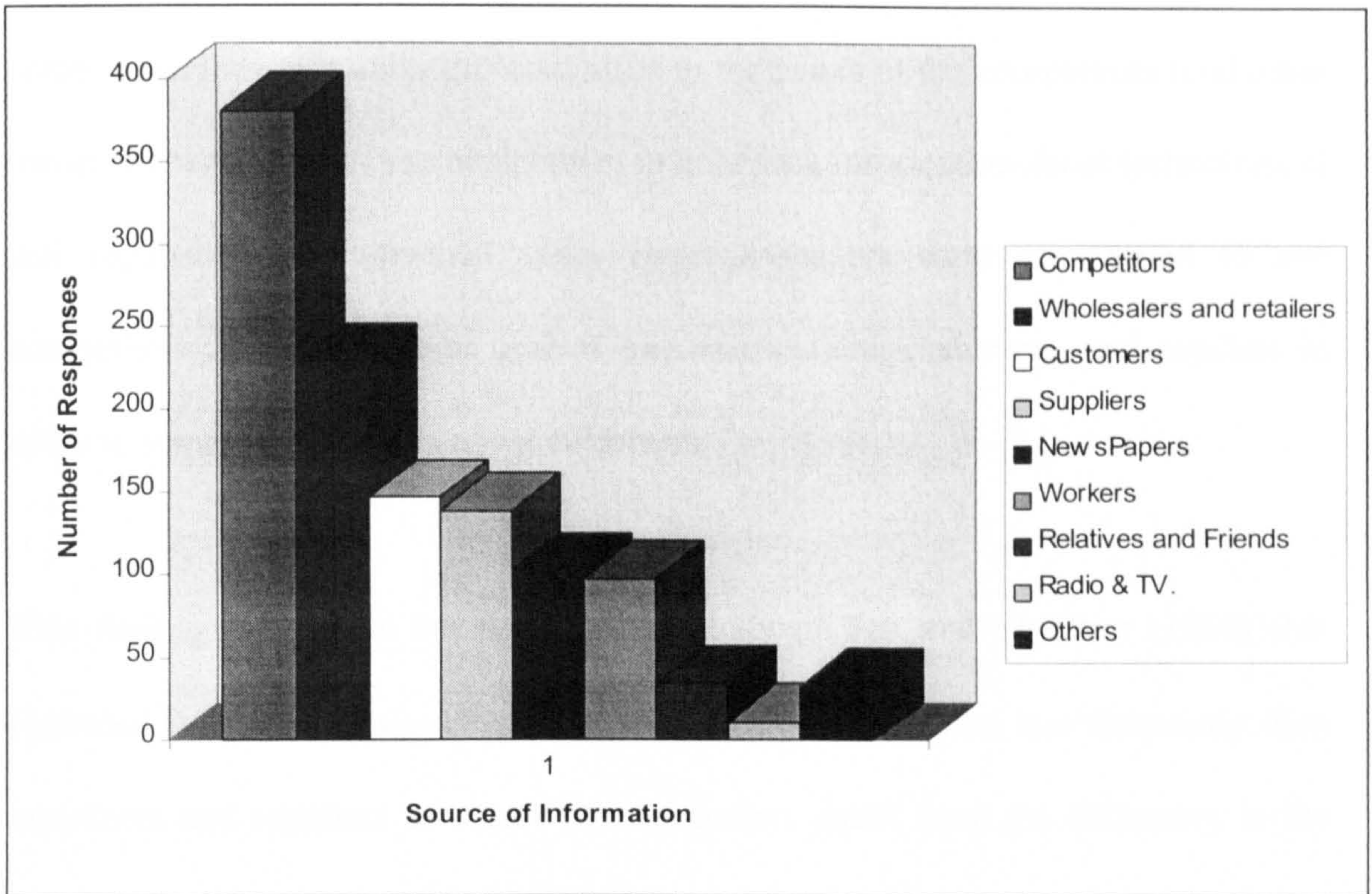
Source: Field Survey

6.4.1 Sources of Information for Environmental Scanning and Strategic Awareness

The small business owner-managers reported more use of personal than impersonal sources of information for environmental scanning and for judging the potential of ideas and the ability to achieve them. The judgement process of the potential of its ideas and the firm's capability of achieving them was characterised by personal evaluation, often based on limited knowledge of the market place, customers' needs, technology, and policy, especially of support policy. As was found in the study of Gibb and Scott (1985), the key factor in the study of taking relevant information on board was the personal contact network of the owner-manager himself. Personal sources were defined as those involving direct contact with people on a regular basis (Aguilar, 1967). Overall, competitors (and other business owners), wholesalers,

suppliers, retailers, customers, and workers were the most often used personal sources of information. The Figure 6.4 shows the sources of information owner managers were found to use for environmental scanning and strategic awareness.

Figure 6.4
Source of Information For Environmental Scanning and Strategic Awareness



Source: Field Survey

Owner-managers in the study were found to use informal personal sources more frequently than formal sources. Again, they were found to use verbal media more often than printed sources. The sample owner-managers were not usually found to use sources like bankers, lawyers, and professional organisations. Qualitative data revealed that the mismatch between the level of education and understanding of owner-managers and that of the bankers, lawyers, and professional people, and that the lack of time or resources of owner-managers prevented them from using those sources.

Of the sources, owner-managers in this study were found to use competitors and other business colleagues as their most important sources of information about all of the environmental units in general, and competition, policy, and technology environment in particular. The owner-managers observe the activities of the competitors, talk to the customers and wholesalers of the competitors, or talk directly with the competitors (and other business owners) to know what they are doing. In some cases, they also make personal visits to the plants of the competitors (and other owner-managers). They use competitors in obtaining information about technological and regulatory environmental units. Owner-managers were also found to use competitors along with other sources like wholesalers, customers, and retailers in order to acquire information about customers.

This finding contradicts the result of the study of Fan and Smeltzer (1989) that indicated that small business owner-managers use competitors less frequently than customers and suppliers as source of information. Apart from the difference in the research context¹⁹, one possible explanation of frequent use of competitors in this study could be that most of the small firms in the engineering sector (the sample industry) were located in certain selected locations, as has already mentioned. Because of their locations, the owner-managers of these firms were in a position to know about what was going on in other firms and in the industry as a whole. They were able to interact with each other more frequently, and thus exchange information among themselves. In other words, it suggests that physical proximity affects their networking possibilities.

¹⁹Fann and Smeltzer's (1989) study was conducted in the USA

The other interesting finding here is that employees also provide a great deal of information especially about competitors. The data on employees background suggest that the high mobility of the employees in the same industry is responsible for this. Most of the employees in the sample firms used to work in other firms in the same industry before they had started working in their present firms.

6.5 Summary and Conclusion

This chapter analysed and presented the results of the investigation about the ways strategic planning is practised in small engineering firms in Bangladesh. Overall, strategic planning in a formal sense was unlikely to exist in the small business, as is seen true in most other studies (Gibb and Scott, 1985; Mintzberg, 1994). Although some firms were found to use formal strategic plans, those plans were prepared by outsiders, i.e., mainly by the staff of support and intermediate organisations, to fulfil conditions necessary for seeking financial assistance. It was found that firms with a written plan were either currently financially assisted or that they had applied for such assistance. The lack of trust (the prevailing culture in small firms in Bangladesh) and lack of slack resources are the main barriers which make written planning undesirable in small firms. Most of the respondents in the study perceived that written strategic planning is unnecessary and unimportant, or in the words of the highly educated owner-manager as 'useless', for managing small business firms, but, as also viewed by Mintzberg (1994), useful for dealing with outsiders, especially funders.

Although none of the firms in the study was found to use formal strategic planning in the way it has been described in the literature, the owner-managers of all the firms were found to be aware in varying degrees about the events of their competitors, technological, customers, and policy and regulatory environments. Owner-managers were more aware about their competitors, followed by customers, and the technological environment; while they were much less aware or in some cases completely unaware of the policy and regulatory environment. With regard to the high awareness of competitors and customers environments, it has been mentioned in chapter 5 and earlier in this chapter (p. 22) that majority of engineering firms in the study area are located in certain specific locations. Because of the physical proximity of these firms, the owner-managers of many of them are in positions to know about what is going on in other firms or in the industry as a whole. They interact with each other quite frequently and thus exchange information among them. The main reasons for owner-managers' lack of awareness about the regulatory environment include their lack of formal education and lack of support in terms of provision of information on the part of government and promotional agencies. Proactive searches for information about the environment was hardly in evidence.

Along with their environmental awareness, many of the firms were found to have ideas or portfolios of ideas of projected action to avail themselves of relevant opportunities and for dealing with the threats that existed in the environment. The generation and evaluation of ideas is characterised mainly by personal judgements of owner-managers, and by insufficient information often based on limited knowledge of the market place, customers' needs, technology, and of policy, especially of

support policy. Their ideas, in many cases, are not clearly articulated. They are also very often flexible, reactive and set for unspecific time horizons. Owner-managers usually do not think about alternative ideas in advance in case projected courses of action would be difficult to implement as many of them are unaware of potential changes that may occur in the environment over longer periods. Owner-managers very often shift to other ideas or make changes to their original ideas once they experience intolerable changes in the environment as well as in their resources. This, in other words, fits well with what Mintzberg and Waters (1985) called 'entrepreneurial strategy', which involves the features of both deliberate and emergent strategies.

Similar to the results of Gibb and Scott (1985), differences were also found among the firms in this study in different degrees in terms of the awareness of the impact of present ideas. Owner-managers are capable of anticipating the possible implications of their strategic actions in the long run, however, in many cases, their breadth of anticipation is limited in terms of time and area covered.

As with many previous studies (Gibb and Scott, 1985; Jhonson and Kuhen, 1987; Specht, 1987; and Smeltzer et al. 1988), the owner-managers in the firms under study have been found to be more likely to collect external information personally than by using secondary sources of information. They were found to use competitors and business colleagues frequently to obtain information about all of the environmental units. The use of personal sources may relate to their culture and lack of formal education. As was found by Gibb and Scott (1985), the key factor in the study of

taking relevant information on board was the personal contact network of the owner-manager himself, which was found to be largely affected by the physical proximity of most of the owner-managers in this study.

The findings of the present study support the studies of Gibb and Scott (1985) and Mintzberg and Waters (1985) and indicate that although owner-managers are aware of relevant events in the environment, although they have strategic course of action to exploit the opportunity or to deal with the threats in it, and although they are aware of the implications of their strategic courses of action, such deliberations are reactive and seldom formalised.

Chapter 7

Influences of Strategic Planning in Small Business in Bangladesh

7.1 Introduction

This chapter will present the results of the analysis to examine relationships between certain measures of firm, the personal background of owner-managers and the environment and the incidence of strategic planning process elements. The elements of the strategic planning process, as discussed in chapter 4 are i.) environmental awareness - awareness of events in the environment for opportunity recognition and threat identification; ii) strategic courses of action to explore the opportunity or to deal with the threats that emerge in the environment; and iii) strategic awareness - the awareness of the implications of strategic courses of action. The selected measures of firm were age of firm, size of firm, past performance, type of firm and capital intensity. The selected measures of the personal background of owner-managers were age of owner-managers, education, industry experience, entrepreneurial experience, family experience, training and owner-manager's slack time. The only measure used with regard to environment was environmental uncertainty. The chapter will begin with the research question and hypotheses to be tested, followed by the results of the analyses, and end with the summary of findings and conclusion.

7.2 Research Questions and Hypotheses

The research question to be investigated is "What factors influence the incidence of strategic planning elements in small business in Bangladesh?" The main hypotheses surrounding this question have already been spelt out in Chapter 4. The detailed hypotheses are presented as follows:

Firm characteristics

H₁ The incidence of strategic planning elements is higher in small firms that have been in the same business for a longer period of time.

H₂ The incidence of strategic planning elements is higher in small firms that are larger in size.

H₃ The better the performance, the higher the incidence of strategic planning elements in small firms.

H₄ The more the firm is entrepreneurial, the higher the incidence of strategic planning elements in small firms.

H₅ The more the level of capital intensity, the higher the incidence of strategic planning elements in the small firms.

Personal background of owner-managers

H_{6a} The older the owner-manager, the higher the incidence of strategic planning elements in small firms.

H_{6b20} The younger the owner-manager, the higher the incidence of strategic planning elements in small firms.

²⁰Because of insufficient literature, two alternative hypotheses with regard to owner's age are developed.

H₇ The higher the level of formal education of the owner-manager, the higher the incidence of strategic planning elements in small firms.

H₈ The greater the level of industry experience of the owner-manager, the higher the incidence of strategic planning elements in small firms.

H₉ The greater the level of entrepreneurial experience of the owner-manager, the higher the incidence of strategic planning elements in small firms.

H₁₀ The greater the level of family experience of the owner-manager, the higher the incidence of strategic planning elements in small firms.

H₁₁ The incidence of the strategic planning process elements is higher in those firms the owner-managers of which have had training (both on-the-job and institutional).

H₁₂ The more spare time the owner-managers have, the higher the incidence of strategic planning elements in small firms.

Environmental uncertainty

H₁₃ The greater the environmental uncertainty, the higher the incidence of strategic planning elements in small firms.

The operationalisation of the measures of firm, the personal background of owner-managers and environment has been mentioned in Table 5.1 in Chapter 5. No

analyses were conducted to test the hypothesis, which was mentioned before in chapter 4, relating to the link between environmental complexity and the incidence of strategic planning elements because of the unavailability of data on environmental complexity.

7.3. Relationship Between Environmental Awareness and Measures of Firm, the Personal Background of Owner-managers and Environment²¹

As reported in Table 7.1, relatively larger firms, better performing (measured by owner-managers' report of overall performance compared to that of other similar firms in the same locality), and largely capital-intensive firms were found to be more aware of their external environment than smaller, ill-performing and largely labour-intensive firms.

The level of awareness was also found to be significantly and positively related with two variables relating to the personal backgrounds of owner-managers. These are industry experience and training. Owner-managers with both institutional and on-the-job training and previous work or business experience in the same or similar type of industry were found to be more aware of the environment than owner-managers only having on-the-job training and no industry experience. No relationship, however, was found between environmental awareness and the age of firms, age and formal

²¹As has mentioned in Chapter 5 (5.7.1) and 6 (6.2), twenty-nine questions consisting of eleven, eight, three and seven questions respectively as to competitors, customers, technology and policy and regulatory environments were considered to assess the owner-managers' environmental awareness. The firms were assigned a score of 1 for each correct or reasonably correct answer as expected, and 0 for each wrong answer or unanswered questions. A scale of score was developed for each of the environmental units. On the basis of mean and median scores, the firms were divided into three groups : high aware, moderate aware and low aware with regard to each environmental units. The scores of the firms for each of the environments were recoded as 3 for the high aware, 2 for the

education of owner-managers and the slack time available to them, family and entrepreneurial experience and environmental uncertainty.

Table 7.1
Correlation of Measures of Firm, the Personal Backgrounds of Owner-managers, Environment and Environmental Awareness (N=141)

Environmental Awareness	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	0.11	0.26**	0.40***	0.19	0.28***	-0.05	0.07
Environmental Awareness	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.27**	0.07	-0.11	0.27**	0.02	0.09	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Multiple regression (step-wise) was conducted to test the relationship found between level of environmental awareness and the measures of firm and personal background of owner-managers, by using the following model:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 \quad (\text{Model 7.1})$$

Where,

Y= Level of environmental awareness of owner-manager

a= Constant value

x1= Capital intensity (largely labour intensive)

x2= Capital intensity (largely capital intensive)

x3= Industry experience of owner-manager

x4= Performance of firm

x5= Training (On-the-job training)

x6= Training (both on the job & inst. Training)

x7= Size of firm

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

b4= Coefficient of x4

b5= Coefficient of x5

b6= Coefficient of x6

b7= Coefficient of x7

moderate aware and 1 for the less aware firms. Then the scores for each of the environments were added to arrive at the final score of the environmental awareness.

Multiple regression results in Table 7.2 confirm the positive and significant effects of all but one variable - capital intensity - on the level of environmental awareness of owner-managers. It shows that the environmental awareness was higher for those firms which were larger in size, better performing, the owner-managers of which had business or work experience in the same industry, and they had both on-the-job and institutional training.

Table 7.2
Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner-managers and Environmental Awareness
(N=141)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Size of firm	0.023	0.011	2.046*
Performance of firm	0.209	0.059	3.495**
Industry experience of owner-manager	0.695	0.234	2.967**
Training (both on the job & institutional)	0.682	0.249	2.73**
Constant	5.088		
Multiple R	0.492		
R ²	0.242		
Adjusted R ²	0.225		
F	14.551***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The case study data also support these findings. It can be seen that the number of employees in four out of five more environmentally aware firms (e.g., cases 044, 045, 002, 049) were 49, 48, 21 and 27 respectively. With regard to relationships between business and work experience and environmental awareness, the owner-manager of case 002 had worked as a worker in the same type of firms for about 11 years. Because of his years of experience in the same type of firm, he became aware

of competitors, technology, customers and their demand. Similarly, the two active owners of the case 045 had worked in many similar firms for about 20 years and 15 years before they started the business. Because of the experience they gained, they knew that there was a gap in the market for the steam boiler and related products for the use of garments factories. They also knew that those products were supplied by only few foreign suppliers. On the other hand, the owner-manager of case 014 (less environmentally aware) had worked with his father for only one year before he took over the business.

The small firms with owner-managers having both on the job and institutional training were found to be more aware of the environment than their counterparts. For example, the owner-manager of case 009 had been in the bathroom fitting business for about 20 years. The owner started the business with two other workers and had frequently worked with other workers to perform the operational activities since the beginning. Apart from long years of working experience, he took part in a number of training programmes at home and abroad²². Both his on-the-job and institutional training made him aware of his customers and their demand, other businessmen in his area, the weakness and strengths of the competitors, technology and the changes in the policy environment.

As mentioned in Chapter 6, environmental awareness was measured in terms of 1) awareness of competitors environment, 2) awareness of customer environment, 3) awareness of technological environment, and 4) awareness of policy and regulatory

²²This owner is the only respondent who took part in overseas training in the whole sample.

environment. Separate correlation and multiple regressions analyses were conducted to examine if the measures of firm, personal backgrounds of the owner-managers and environment relate to the owner-managers' level of awareness of competitors, customers, technological, and policy and regulatory environments. The forthcoming section presents the results of analyses of owner-managers' awareness of individual environmental units.

7.3.1. Awareness of Competitors Environment

The results of the correlation analyses presented in Table 7.3 show that the owner-managers' level of awareness of competitors environment is significantly and positively related to the size, performance, and type of firm. Clearly, the relatively large, better-performing and entrepreneurial firms were found to be more aware of their competitors environment than smaller, ill-performing and less or non-entrepreneurial firms. Further, the level of awareness of competitors environment was also found to be significantly and positively related to industry experience, while it was found to be negatively related to formal education of owner-managers, their family experience, and slack time available to them.

Table 7.3

Correlation of Measures of Firm, the Personal Background of Owner-managers, the Environment and Awareness of Competitors Environment (N=141)

Awareness of Competitors Environment	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	0.06	0.18*	0.23**	0.24**	0.12	0.06	-0.17*
Awareness of Competitors Environment	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.24**	0.10	-0.19*	0.12	-0.23**	-0.03	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The negative relationship between education and level of awareness of competitors environment might be attributable to three factors: (i.) educated owner-managers were found to be in business for shorter period of time than less educated or uneducated owner-managers (the correlation between education and years involved in business was $r = -0.186$, $p = 0.028$). (ii). In Bangladeshi society, people place a high value on formal education and it is hard to find educated people involved in business in general, and small business in particular. The entry of educated people into business is more a circumstantial or accidental event than a proactive choice. The educated owner-managers are less committed to their business, or in other words, they do not involve themselves in uneven or some 'dirty' competition with uneducated or less educated owner-managers. Or, (iii). It was found that educated owner-managers could hardly cope with the hazards or unpleasant events inevitable to business. It was observed during my field work that educated one owner-manager of a light engineering firm (case 055), who had a BA degree and who was a school teacher, did not make a single customer during my three-hour long interview. Unlike this owner, many of other owners attracted customers by any means including manipulation. The owner said, *".....I can't make customers in a dishonest way like the other people do. I can't pull their shirts, offer undue benefits and tell lies"*.

The other case study data, however, suggest that owner-managers with high levels of technical education were more aware of their competitors environment. For example the owner-managers of both cases 044 and 045 (the only owner-managers with high technical academic backgrounds in the whole sample) knew much about their

competitors, their products and their weaknesses. They had studied the market before they started in their businesses.

The negative relationship between family experience and level of awareness of competitors environment might be attributable to the fact that the family members had business experience in other industries, and more unlikely to be in the same or similar types of business that the owner-managers are currently involved in. Therefore owner-managers could hardly gain any knowledge of their current businesses and competitors from their family members. The data show that the level of awareness of the competitors environment was higher for those owner-managers the family members (mainly father, uncles, brothers) of whose were involved in the same or similar line of business as that of the respondents ($r= 0.193$, $p= 0.02$).

Finally, the negative relationship between the level of awareness of competitors environment and owner-manager's slack time suggests that the more owner-managers are busy working with other workers and dealing with customers' problems, networking with other business owners, middlemen and suppliers, the more knowledge they gather about their competitors' products, strengths, weaknesses and changes occurring in the competitors environment.

Multiple regression (step-wise) was conducted to test the relationship found between level of awareness of competitors environment and different measures of firm and the personal background of owner-managers by using the following model:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 \quad (\text{Model 7.1.1})$$

Where,

Y= Level of awareness of competitors environment

a= Constant value

x1= Performance of firm

x2= Size of firm

x3= Type of firm

x4= Industry experience

x5= Level of Education

x6= Slack time available to owner-manager

x7= Family experience

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

b4= Coefficient of x4

b5= Coefficient of x5

b6= Coefficient of x6

b7= Coefficient of x7

Multiple regression results in Table 7.4 show that the effects of size and performance of firm, and education and time resources available to owner-managers on the level of awareness of the competitors environment are not significant.

Table 7.4
Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner and Awareness of Competitors Environment (N=141)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Type of firm	0.702	0.267	2.62**
Industry experience of owner-manager	0.473	0.193	2.46*
Family experience of owner-manager	-0.480	0.193	-2.49*
Constant	9.119		
Multiple R	0.368		
R ²	0.135		
Adjusted R ²	0.116		
F	7.152***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The results, however, confirm positive relationships between type of firm (for example, see cases 009 and 002), industry experience of owner-managers (cases 009, 002 and 049) and the level of awareness of competitors environment, and negative relationships between family experience and the level of awareness of competitors environment (for example, see case 034).

7.3.2 Awareness of Customers Environment

The results of analyses of the correlations reported in Table 7.5 shows that the owner-managers' level of awareness of the customers environment is significantly and positively related to the size and performance of firm, and negatively related to the age of the owner-managers. Clearly, the level of awareness of the customers environment was found to be higher in firms which are larger in size and better performing than their counterparts. The level of awareness was also found to be higher among those firms the owner-managers of which were younger. Owner's age was found to be highly positively correlated with the size of firms ($r= 0.72, p=0.000$).

Table 7.5
Correlation of Measures of Firm, the Personal Background of Owner-managers, Environment and Awareness of Customers Environment (N=141)

Awareness of Customers Environment	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	0.03	0.21**	0.30***	0.07	-0.00	-0.23**	0.12
Awareness of Customers Environment	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	-0.01	-0.06	-0.15	-0.01	0.15	0.05	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The negative relationship between level of awareness of customers and owner's age might be attributable to the fact that small firm owner-managers tend to carry on working longer than their counterparts (Deeks, 1976), and it was found before that owners, who work for long hours, interact with customers, suppliers, and other business owners frequently, thus possess more knowledge about their customers.

Multiple regression (step-wise) was conducted to test the relationship found between level of awareness of customers environment and different measures of firm and the personal background of owner-managers by using the following model:

$$Y=a+b_1x_1+ b_2x_2 +b_3x_3 \quad (\text{Model 7.1.2})$$

Where,

Y= Level of awareness of customers environment

a= Constant value

x1= Size of firm

x2= Performance of firm

x3= Age of owner-managers

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

Multiple regression results in Table 7.6 show that the effect of size on the level of awareness of the customers environment is not significant. The results, however, confirm a positive and significant relationship between level of awareness of customers environment and the performance of firms (see case 002, 009, 044 and 045), and a negative and significant relationship with the age of owner-managers (cases 044 and 049).

Table 7.6
Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner and Awareness of Customers Environment (N=141)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Performance	0.164	0.042	3.90***
Age of owner-manager	-0.033	0.011	-3.12**
Constant	6.500		
Multiple <i>R</i>	0.386		
<i>R</i> ²	0.149		
Adjusted <i>R</i> ²	0.136		
<i>F</i>	12.04***		

**p*<0.05

***p*<0.01

****p*<0.001

7.3.3 Awareness of Technological Environment

The results of the analyses of correlation in Table 3 show that the owner-managers' level of awareness of the technological environment is significantly and positively related to the performance, capital intensity and type of the firm. The relatively better-performing, largely capital intensive and more entrepreneurial firms were found to be more aware of their technological environment than poorly-performing, largely labour intensive, and less or non-entrepreneurial firms. Further, the level of awareness of technological environment was also found to be significantly and positively related to different personal background variables of owner-managers, such as industry experience and training, while it was found to be negatively related to the entrepreneurial experience of owner-managers. Clearly, those firms were found to be more aware of their technological environment, the owner-managers of which had experience in the same or similar type of industry, and the owners of which had both on-the-job and institutional training.

Table 7.7
Correlation of Measures of Firm, the Personal Background of Owner-managers, Environment and Awareness of Technological Environment (N=141)

Awareness of Technological Environment	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	-0.05	0.11	0.30***	0.17*	0.16*	-0.08	0.05
Awareness of Technological Environment	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.25**	-0.17*	-0.06	0.32***	0.03	-0.06	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The negative relationship between the entrepreneurial experience of owner-managers and the level of awareness of the technological environment might be attributable due to the fact that majority of owner-managers having entrepreneurial experience had previously started business in other industry sectors. Only 14 owner-managers out of 52 having entrepreneurial experience had experience of starting manufacturing firm in the same or similar type of industry as their present industry. Although another 17 owner-managers had started business firms in the same or similar industry, however, their previous firms were trading or service oriented. Therefore, owner-managers having entrepreneurial experience were found to be relatively less aware of the technological environment of their present businesses.

Multiple regression (step-wise) was conducted to test the relationship found between level of awareness of owner-managers of technological environment and different variables relating to firm and personal background of owner-managers by using the following model:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 \quad (\text{Model 7.1.3})$$

Where,

Y= Level of awareness of technological environment

a= Constant value

x1= Capital intensity (largely labour intensive)

b1= Coefficient of x1

x2= Capital intensity (largely capital intensive)

b2= Coefficient of x2

x3= Industry experience of owner-manager

b3= Coefficient of x3

x4= Performance of firm

b4= Coefficient of x4

x5= Training (On-the-job training)

b5= Coefficient of x5

x6= Training (both on the job & inst. training)

b6= Coefficient of x6

x7= Entrepreneurial experience

b7= Coefficient of x7

x8= Type of firm

b8= Coefficient of x8

Multiple regression results in Table 7.8 show that the effects of capital intensity and type of firm on the level of awareness of the technological environment are not significant.

Table 7.8

Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner-managers, Environment and Awareness of Technological Environment (N=141)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Performance	0.645	0.019	3.33**
Industry experience of owner-manager	0.208	0.081	2.566*
Entrepreneurial experience of owner-manager	-0.220	0.083	-2.670*
Training (on-the-job)	0.268	0.086	3.11**
Constant	1.485		
Multiple R	0.473		
R ²	0.224		
Adjusted R ²	0.201		
F	9.822***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The results, however, confirm a significant and positive relationship between performance of firms, training (owner-managers having both on-the-job and institutional training), industry experience of owner-managers and the level of awareness of technological environment. The results also confirm the negative relationship between entrepreneurial experience of owner-managers and awareness of technological environment.

7.3.4 Awareness of Policy and Regulatory Environment

The results of analyses of the correlations in Table 7.9 show that the owner-managers' level of awareness of the policy and regulatory environment is significantly and positively related to age and capital intensity of firm. The relatively older and relatively largely capital intensive firms were found to be more aware of their policy and regulatory environment than younger and largely labour intensive firms. The level of awareness of policy and regulatory environment was also found to be higher in those firms, the owner-managers of which had industry and family experience, high levels of formal education, training and less slack time available.

Table 7.9
Correlation of Measures of Firm, the Personal Background of Owner-managers, Environment and Awareness of Policy & Regulatory Environment (N=141)

Awareness of Policy and Regulatory Environment	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	0.32***	0.07	0.05	0.29***	0.34***	0.09	0.20*
Awareness of Policy and Regulatory Environment	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.27**	0.07	0.17*	0.33***	-0.20*	0.18*	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Further, such awareness was found to be higher among those firms the owner-managers of which perceived the external environment as largely certain. On the other hand, highly entrepreneurial firms were found to be less aware of the changes and events in their policy and regulatory environment.

As the firms grew older, they were found to be subject to different rules and regulations imposed by government and other authorities, such as registration of firms, VAT, income tax, and so on. Therefore, it is very natural to believe that relatively older firms become more aware than their younger counterparts of the changes and events in their policy and regulatory environment.

As explained in Chapter 6 (section 6.2.4.1), highly entrepreneurial firms were observed to be so busy with their operations that they ignored many of the changes and happenings in the policy and regulatory environment. Sometimes they did not really care much about the relatively minor changes. As has been reported in Chapter 6, forty owner-managers showed lack of interest in policy and regulatory information.

Contrary to the negative relationship between the level of education and awareness of competitors environment, educated owner-managers were found to be relatively better informed about policy because they usually read newspapers where news relating to policy changes get published. They were found to have more free time to read newspapers. The correlation between hours of work of owner-managers and

education level ($r=-0.3681$, $p=0.000$) confirmed that the educated owners worked for less hours than less or uneducated owner-managers.

The positive relationship between training (both institutional and on-the-job) and high awareness is due to the fact that in addition to learning about policy from work experience over the years, owner-managers become educated about policy changes through institutional training, because institutional training in Bangladesh has been mainly directed to let the owner-managers know about the changes in the policy and support environment.

Multiple regression (step-wise) was conducted to test the relationship found between level of awareness of policy and regulatory environment and different measures of firm, the personal backgrounds of owner-managers and the environment by using the following model:

$$Y=a+b_1x_1+b_2x_2+b_3x_3+b_4x_4+b_5x_5+b_6x_6+b_7x_7+b_8x_8+b_9x_9+b_{10}x_{10}+b_{11}x_{11}+b_{12}x_{12}$$

(Model 7.1.4)

Where,

Y= Level of awareness of policy and regulatory environment

a= Constant value

x1= Capital intensity I (largely labour intensive)	b1= Coefficient of x1
x2= Capital intensity II (largely capital intensive)	b2= Coefficient of x2
x3= Industry experience of owner-manager	b3= Coefficient of x3
x4= Family experience	b4= Coefficient of x4
x5= Training I (On-the-job training)	b5= Coefficient of x5
x6= Training II (both on the job & inst. training)	b6= Coefficient of x6
x7= Age of firm	b7= Coefficient of x7
x8= Slack time of owner-managers	b8= Coefficient of x8
x9= Type of firm	b9= Coefficient of x9
x10= Education of owner-managers	b10= Coefficient of x10
x11= Environmental uncertainty (Fairly uncertain)	b11= Coefficient of x11
x12= Environmental uncertainty (Largely certain)	b12= Coefficient of x12

Table 7.10
Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner-managers, Environment and Awareness of Policy and Regulatory Environment (N=141)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Age of firm	0.037	0.013	2.75**
Type of firm	-0.964	0.227	-4.25***
Capital intensity I	-1.212	0.277	-4.38***
Capital intensity II	-0.759	0.287	2.64**
Education of owner-manager	0.062	0.023	2.68**
Training (on-the-job)	0.759	0.249	3.04**
Training (both on-the-job and institutional)	1.213	0.248	4.90***
Constant	0.879		
Multiple <i>R</i>	0.659		
<i>R</i> ²	0.434		
Adjusted <i>R</i> ²	0.405		
<i>F</i>	14.626***		

**p*<0.05

***p*<0.01

****p*<0.001

Multiple regression results in Table 7.10 show that the effects of industry and family experience, slack time of owner-managers, and environmental uncertainty on the level of awareness of the policy and regulatory environment are not significant. The results, however, confirm a significant positive relationship between training, formal education and age of firm and the level of awareness of policy and regulatory environment; and significant negative relationship between capital intensity, type of firm and owner-managers' level of awareness of policy and regulatory environment.

It should be noted that although both the variables, namely, 'training type I' and 'training type II' showed positive relationship with level of awareness, however, the relationship appeared to be stronger for the 'training type II' group. This means that

owner-managers having both on-the-job and institutional training are more highly aware of their policy and regulatory environment than owner-managers having only on-the-job training. Similarly, both the variables, namely, 'capital intensity I' and 'capital intensity II' showed a negative relationship with level of awareness, however, the relationship appeared to be stronger for the 'capital intensity I' group. This means that firms with largely capital intensive technology (Capital intensity II group) are relatively more aware of their regulatory environment than firms with largely labour intensive technology.

7.4. Relationships Between the Existence of Strategic Course of Action and Measures of Firm, the Personal Backgrounds of Owner-managers and Environment

The existence of long run strategic courses of action (or long term projection), in order to take advantage of opportunities or to tackle the threats in the environment, was found to be positively and significantly correlated with performance, size, capital intensity and type of firms (Table 7.11). In other words, the better-performing, largely capital intensive, more entrepreneurial, and relatively larger firms were found to have projections over longer period of time than poorly-performing, largely labour intensive, less or non-entrepreneurial, and very small firms.

Long-term projections were also found to be positively and significantly related to education and entrepreneurial experience of owner-managers, but negatively related to the age of owner-managers. The relatively younger owner-managers were found to have longer term projections for their firms.

Table 7.11
Correlation of Measures of Firm, the Personal Background of Owner-managers, Environment and Strategic Course of Action (N=141)

Strategic Course of Action	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	-0.07	0.33***	0.38***	0.34***	0.29***	-0.16*	0.30***
Strategic Course of Action	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.01	0.17*	-0.09	0.10	0.07	0.15	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The positive relationship between education level and existence of long term projection suggests that educated owner-managers plan for new projects more than less or uneducated owner-managers, although it was found earlier that educated owner-managers were less aware of their competitors environment. However, multiple regression analysis showed that the effect of education on the level of awareness of competitors was not significant.

Multiple regression (logistic procedures) was conducted to test the relationship found between existence of long-term projections and different variables relating to firm and personal background of owner-managers by using the following model:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 \text{ (Model 7.2)}$$

Where,

Y= Presence of long-term projections

a= Constant value

x1= Age of owner-managers

x2= Education of owner-managers

x3= Size of firm

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

7.5. Relationships Between Strategic Awareness and Measures of Firm, the Personal Backgrounds of Owner-managers and Environment

The results of the analyses of correlation in Table 7.13 show that the owner-managers' level of strategic awareness²³ is significantly and positively related to performance, capital intensity, and type of firm. The relatively better-performing, more entrepreneurial and largely capital intensive firms were found to be more aware of the implications of strategic course of action than poorly-performing, less or non-entrepreneurial and largely labour intensive firms. The level of strategic awareness was also found to be significantly and positively related to different personal background variables of owner-managers, such as industry experience and training. Clearly, those firms were found to be more aware about the implications of strategic courses of action, the owner-managers of which had business or working experience in the same or similar type of industry, and the owners of which had both on-the-job and institutional training. However, the level of strategic awareness was found to be negatively related to environmental uncertainty. In other words, the level of awareness of long term projections was found to be higher among those firms the owner-managers of which perceived the environment as fairly uncertain.

Although a positive relationship was found between size of firms and entrepreneurial experience of owner-managers and the existence of long term projections, no relationship was found between the strategic awareness and those variables.

²³The awareness of the implications of the strategic course of action.

Table 7.13
Correlation of Measures of Firm, the Personal Background of Owner-managers, Environment and Strategic Awareness of Owner-manager (N=114)

Strategic Awareness of Owner-manager	Age of firm	Size of firm	Performance	Type of firm	Capital intensity	Age of Owner	Education
	0.02	0.16	0.32***	0.28**	0.25**	0.05	-0.07
Strategic Awareness of Owner-manager	Industry experience	Entrepreneurial experience	Family experience	Training	Slack time	Environmental uncertainty	
	0.49***	0.08	-0.08	0.23**	0.13	-0.26**	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The negative relationship between the level of strategic awareness and environmental uncertainty suggests that owner-managers in uncertain environments tend to make more cautious decision after an assessment of all possible alternative strategies than owner-managers in certain environment. Miller and Friesen (1983) maintained that owner-managers need to study changing, uncertain environments more carefully and diligently and with an adequate degree of mastery. This practice helps owner-managers to learn more and diversified knowledge in dealing with uncertainty. This diversified and greater depth of knowledge perhaps makes them more capable of understanding the implications of decisions than other owner-managers who only work in relatively stable and certain environments.

The positive relationship between the level of strategic awareness and training and industry experience of owner-managers suggest that owner-managers with previous work and/or business experience in the same or similar type of firm or industry and with both on-the-job and institutional training are more capable of assessing the implications of their strategic courses of action more reliably.

Multiple regression (step-wise) was conducted to test the relationship found between level of awareness of implication of strategic action and different variables relating to firm and personal background of owner-managers by using the following model.:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 + b_9x_9 \quad (\text{Model 7.3})$$

Where,

Y= Level of awareness of the implication of strategic course of action

a= Constant value

x1= Capital intensity (largely labour intensive)

b1= Coefficient of x1

x2= Capital intensity (largely capital intensive)

b2= Coefficient of x2

x3= Industry experience of owner-manager

b3= Coefficient of x3

x4= Performance of firm

b4= Coefficient of x4

x5= Training (On-the-job training)

b5= Coefficient of x5

x6= Training (both on the job and institutional training)

b6= Coefficient of x6

x7= Type of firm

b7= Coefficient of x7

x8= Environmental uncertainty (Fairly uncertain)

b8= Coefficient of x8

x9= Environmental uncertainty (Largely certain)

b9= Coefficient of x9

Multiple regression results in Table 7.14 show that the effects of capital intensity of firm, and the uncertainty of environment on the level of strategic awareness are not significant. The results, however, confirm significant and positive relationships between the level of strategic awareness and industry experience of owner-managers, performance and type of firm. The results also confirm that the level of strategic awareness was lower for those firms the owner-managers of which had only on-the-job training.

The case study data can be used to illustrate the relationship. For example, years of experience in the same industry made the owners of case 045 capable to assess the capital requirements, marketing and technical skills needed to start the business of

steam boiler and other related products. Similar evidence can be observed from the data of cases 002, 009 and 049.

Table 7.14
Results of Regression Analysis Showing the Relationship Between the Measures of Firm, the Personal Background of Owner-managers, Environment and Strategic Awareness (N=114)

Factors of Firm, the Personal Background of Owner-managers and Environmental Uncertainty	Beta	Standard Error	T
Performance	0.131	0.050	2.62**
Type of firm	0.799	0.318	2.52*
Industry experience owner-manager	1.219	0.205	5.95***
Training (on-the-job)	-0.437	0.200	-2.19*
Constant	2.837		
Multiple <i>R</i>	0.605		
<i>R</i> ²	0.366		
Adjusted <i>R</i> ²	0.343		
<i>F</i>	15.744***		

**p*<0.05

***p*<0.01

****p*<0.001

7.6 Summary of Findings and Conclusion

This chapter has investigated the relationship among the elements of strategic planning process and different firm, personal backgrounds, and environmental characteristics. The elements of the strategic planning process are i.) environmental awareness - awareness of happenings in the environment for opportunity recognition and threat identification; ii) strategic course of action and iii) strategic awareness - the awareness of the implications of strategic course of action. A number of hypotheses (H_1 - H_{13}) were developed with regard to their incidence in small business.

The results from the hypotheses and sub-hypotheses tested are summarised in Table 7.15a and 7.15b.

Table 7.15a
Summary of Results of the Hypotheses Tested¹

Hypotheses Number	Hypotheses (Relationship of following measures with the elements of Strategic planning Process shown in Column (a), (b) and (c))	Results (inference) about environmental awareness ²⁴ (a)	Results (inference) about strategic course of action (b)	Results (inference) about strategic awareness (c)
	<u>Firm Characteristics</u>			
H ₁	Age of firm	Rejected (NR)	Rejected (NR)	Rejected (NR)
H ₂	Size of firm	Accepted (P)	Accepted (P)	Rejected (NR)
H ₃	Performance	Accepted (P)	Accepted (P)	Accepted (P)
H ₄	Type of firm (entrepreneurial vs. non)	Rejected (NR)	Rejected (NR)	Accepted (P)
H ₅	Capital intensity	Rejected (NR)	Rejected (NR)	Rejected (NR)
	<u>Personal Background of Owner</u>			
H _{6a}	Age (old)	Rejected (NR)	Rejected (NR)	Rejected (NR)
H _{6b}	Age (young)	Rejected (NR)	Rejected (NR)	Rejected (NR)
H ₇	Education	Rejected (NR)	Accepted (P)	Rejected (NR)
H ₈	Industry experience	Accepted (P)	Rejected (NR)	Accepted (P)
H ₉	Entrepreneurial experience	Rejected (NR)	Rejected (NR)	Rejected (NR)
H ₁₀	Family experience	Rejected (NR)	Rejected (NR)	Rejected (NR)
H ₁₁	Training (on the job & institutional)	Accepted (P)	Rejected (NR)	Accepted (N) ³
H ₁₂	Slack time of owner	Rejected (NR)	Rejected (NR)	Rejected (NR)
	<u>Environment</u>			
H ₁₃	Environmental uncertainty	Rejected (NR)	Rejected (NR)	Rejected (NR)

¹Based on the multiple regression analysis.

² (P) indicates positive relationship, (N) indicates negative relationship, and (NR) indicates no relationship.

³ The negative relationship of the hypothesis H₁₁ indicating that owner-managers having only on the job training are less strategically aware suggests that owner-managers having both on-the job and institutional training might be highly strategically aware. The correlation results, presented in Table 7.13, provide a positive relationship between training (both on the job and institutional) and level of strategic awareness. The qualitative case study data (in all the successful cases 044, 045, 009, 002, 049) also support this relationship.

²⁴For a better understanding of the relationship between the measures of firm, the personal background of owner and the environment and the different environmental units (e.g., competitors, customers, technology, and policy and regulatory environments), please see the results of relationship in table 7.15b.

Table 7.15b

Summary of Relationship Between Measures of Firm, the Personal Background of Owner-manager, Environmental Uncertainty and Awareness of Different Environments¹

Hypot-theses No.	Hypotheses (Relationship of following measures to awareness of different environments shown in column (a), (b) (c) and (d))	Results about awareness of competitors environment (a)	Results about awareness of customer environment (b)	Results about awareness of technological environment (c)	Results about awareness of policy environment (d)
	<u>Firm Characteristics</u>				
H ₁	Age of firm	No relation	No relation	No relation	Positive
H ₂	Size of firm	No relation	No relation	No relation	No relation
H ₃	Performance	No relation	Positive	Positive	No relation
H ₄	Type of firm (entrepreneurial vs. non)	Positive	No relation	No relation	Negative
H ₅	Capital intensity	No relation	No relation	No relation	Positive
	<u>Personal Background of Owner</u>				
H _{6a}	Age (old)	No relation	Negative	No relation	No relation
H _{6b}	Age (young)	No relation	Positive	No relation	Positive
H ₇	Education	No relation	No relation	No relation	No relation
H ₈	Industry experience	Positive	No relation	Positive	No relation
H ₉	Entrepreneurial experience	No relation	No relation	Negative	No relation
H ₁₀	Family experience	Negative	No relation	No relation	Positive
H ₁₁	Training (on the job & institutional)	No relation	No relation	Positive	No relation
H ₁₂	Slack time of owner	No relation	No relation	No relation	No relation
	<u>Environment</u>				
H ₁₃	Environmental uncertainty	No relation	No relation	No relation	No relation

¹Based on the multiple regression analysis.

The findings of the study fully reject H₁, H_{6a}, H_{6b}, H₉, H₁₀, H₁₂ and H₁₃. The findings also largely reject H₅. While the study provides full support of H₃ and large support of H₂, H₇, H₈ and H₁₁. However, they partly support the H₁.

Overall, support and partial support of the hypotheses suggest that the incidence of the elements of strategic planning process is higher for those firms which are better-performing, larger in size and more entrepreneurial. It also suggests that the incidence of planning elements is higher in those firms the owner-managers of which

have previous business and /or work experience in the same or similar industry, and have both on-the-job and institutional training. The incidence is lower for those firms the owner-managers of which have only on-the-job training (as opposed to both on-the-job and institutional training). The age of the firm and that of owner-manager, and the family experience, however, have no relationship with any of the three elements of strategic planning elements.

The performance (H_3) was found to be correlated very significantly and positively with awareness of many of the environmental units, strategic course of action of the firm, and more importantly, the awareness of implication of strategic projections. Moreover, no negative relationship was found between performance of firms and any elements or sub-elements of strategic planning. This finding contradicts the finding of the study of Mulford et al. (1988) that found no significant relationship between past performance and strategic planning. The finding, however, supports the finding of the study of Shrader et al. (1989) and the arguments of Gibb and Scott (1988) and Mulford et al. (1988) that maintained that organisational slack in terms of skill, and other resources is important for facilitating a proactive approach to planning in small businesses, and that the more successful firms acquire more slack resources.

The negative relationship between the training of owner-managers (training type I, meaning on-the-job training only) and elements of strategic planning supports previous research (Gibb and Scott, 1985) that maintained that training and education help small business owner-managers by making them more strategically aware. In other words, owner-managers with knowledge in the same or similar type of firm or

industry and with both on-the-job and institutional training are more capable of assessing the implications of their strategic courses of action more reliably.

The positive relationship between industry experience of owner-managers and the incidence of strategic planning elements suggests that previous work or business experience in same or similar industry has a very strong influence for facilitating strategic planning in small firms. Prior industry experience was found to be a very important element for having high environmental awareness of owner-managers and awareness of the implications of long term projections.

One of the important variables that deserves special attention in explaining the positive impact on strategic planning of small firms is type of firm. Entrepreneurial firms were found to be significantly and positively correlated with awareness of competitors environment, and more specifically, with awareness of implication of long term projections of the firm.

Finally, although correlation analyses showed positive relationships between some elements of strategic planning and some variables, like capital intensity and environmental uncertainty, multiple regression analyses, however, showed that the effects of these variables were not significant. Further, the effects of some other variables, like entrepreneurial experience, family experience, and slack time were found to be related with only a few elements or sub elements of strategic planning process.

Chapter 8

The Relationship Between Strategic Planning and Performance

8.1 Introduction

This chapter will present the results of the analysis designed to gain an insight into the relationship between strategic planning and performance of small firms. It will also explore whether characteristics of firms and the personal backgrounds of owner-managers and environmental uncertainty have any effect on the relationship (if any) between strategic planning and performance. Strategic planning was operationalised, as described in the methodology chapter, by three elements of the planning process. These are i) environmental awareness, ii) strategic course of action, and iii) strategic awareness. Four measures of performance, three quantitative and one qualitative, were used to examine the relationship with three process elements of strategic planning. The quantitative measures of performance used were growth in employment, number of employees, and value added per employee. Performance data on those three measures were obtained for three years. The qualitative performance measure was a self-reported subjective assessment by the owner-managers about the overall performance of the firm in terms of sales, profit and overall success relative to those of similar firms in their industry during the three previous years. The results of the quantitative analyses will be substantiated by case study information²⁵. The selected moderating variables of firm, the personal background of owner-managers, and environment were age of firm, size of firm, type of firm, capital intensity, education, training, industry, family and entrepreneurial

²⁵A number of ten cases consisting of five highly environmentally and strategically aware firms with good performance record and five less or unaware firms of their environment and/or of their strategic action with a poor performance record have been presented in the Appendix II.

experience, and environmental certainty. The chapter will begin with the research questions and hypotheses tested, followed by the analyses of the data, and end with the summary of findings and conclusion.

8.2 Research Questions and Hypotheses

The two research questions addressed in this chapter were:

- 1) Do small engineering firms in Bangladesh that engage in higher levels of strategic planning have a significantly better performance than similar firms which engage in lower level or no strategic planning?
- 2) If so, is the relationship between strategic planning and performance moderated by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty?

To investigate these research questions, two broad hypotheses were developed:

- 1) Overall, there is a significant positive relationship between the elements of the strategic planning process and measures of performance in small engineering firms in Bangladesh.
- 2) The relationship between elements of strategic planning process and measures of performance is moderated by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.

Each dependent (criterion) performance variable was regressed against three independent (predictor) variables (environmental awareness, strategic course of action, and strategic awareness of the project). Several other variables like environmental uncertainty, and variables relating to firm and the personal background of owner-managers, which have been known to influence the performance of small firms, were also incorporated in the multiple regression model (step-wise) to see the relative influence of strategic planning elements compared to other variables on firm's performance. These variables are age of firm, size of firm, type of firm, capital intensity, education, training, industry, family and entrepreneurial experience, and environmental certainty.

Correlation analyses (Pearson and Spearman) were also conducted between strategic planning process elements and performance indicators for subgroups of firms where environmental uncertainty was fairly uncertain, fairly certain, and largely certain; the size of firms was very small, and small; the capital intensity was mainly or largely labour intensive, and fairly capital intensive; the type of firm was entrepreneurial versus not entrepreneurial; the age of business was young and old; the owner-manager was with or without industry, family, and entrepreneurial experience; with or without formal education, and with or without training. Median splits and mean scores were taken into account in grouping the firms into different groups. However, firms were grouped into entrepreneurial or not entrepreneurial on the basis of their innovation history. The operationalisation of the type of firm has been mentioned in Research Methodology in Chapter 5 (Table 5.1).

8.3.1 Relationship Between Strategic Planning and the Percentage Increase (Growth) in Number of Employees

The following hypotheses were tested in connection with this issue:

H1.1 There is a significant, positive correlation between the elements of the strategic planning process and the percentage increase (growth) in number of employees in small engineering firms in Bangladesh.

H1.2 The relationship between the elements of the strategic planning process and the percentage increase (growth) in number of employees is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.

Table 8.1

Correlation of Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty, Elements of Strategic Planning Process and Percentage Increase (growth) in Number of Employees (N=141)

Growth in Employment	Age of firm	Size of firm	Age of owner	Education	Industry exp.	Entrepren. exp.	Family exp.	Type of training
	-0.07	0.20**	-0.20**	0.11	-0.03	0.04	-0.05	-0.03
Growth in Employment	Type of firm	Capital intensity	Slack time	Env. uncertainty	Environmental awareness	Strategic course of action	Strategic awareness	
	0.24**	0.12	-0.08	-0.23**	0.11	0.32*** (n=114)	0.37*** (n=114)	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Hypothesis 1.1 is accepted. The correlation results presented in Table 8.1 shows that the growth in employment was positively and significantly correlated with strategic course of action ($r=0.32$, $p < 0.000$) and strategic awareness of owner-managers ($r=$

0.37, $p < 0.000$). This relationship was also confirmed by the results of multiple regression (Table 8.2).

As it can be seen from Table 8.2, the value of R^2 , 14% indicates that 14 percent variance in employment increases experienced by firms that had higher incidence of strategic planning process elements. However, only one component of planning process, strategic course of action, contributed significantly to this relationship. It should be noted here that multicollinearity was observed between strategic course of action and strategic awareness ($r = 0.70$, $p = 0.000$, tolerance 0.11 for strategic course of action, and 0.10 for strategic awareness).

Table 8.2
Results of Regression Analysis Showing the Relationship between Elements of Strategic Planning Process and Percentage Increase in Number of Employees (N=141)

Elements of Strategic Planning Process	Beta	Standard Error	T
Environmental Awareness	0.03	0.64	0.05
Long-term Projection	14.54	6.58	2.20*
Awareness of Implication of Projection	-2.08	3.13	-0.66
Constant	-7.13		
Multiple R	0.38		
R^2	0.14		
Adjusted R^2	0.13		
F	7.65***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Further analysis was conducted to see if the elements of the strategic planning process, when coupled with other performance-influencing factors have any effect on

performance of firms under study. The following multiple regression model (step-wise) was used for this purpose. Since multicollinearity was observed between strategic course of action and strategic awareness, the variable 'strategic course of action' was not incorporated in the multiple regression model.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 \quad (\text{Model 1})$$

Where,

Y=	Percentage increase (growth) in employment	
a=	Constant value	
x1=	Age of owner-managers	b1= Coefficient of x1
x2=	Type of firm	b2= Coefficient of x2
x3=	Size of firm	b3= Coefficient of x3
x4=	Strategic awareness	b4= Coefficient of x4
x5=	Uncertainty of environment I (fairly uncertain)	b5= Coefficient of x5
x6=	Uncertainty of environment II (fairly certain)	b6= Coefficient of x6

The multiple regression results, in Table 8.3, show that strategic awareness of owner-managers, or in other words, his awareness of implication of strategic course of action was significantly correlated with employment growth. The results suggest that firms which had a strategic course of action and the owner-managers of which were highly aware of the implications of their strategic course of action outperformed other firms having no strategic course of action and of which the owner-managers were relatively less aware about the implications of their strategic course of action.

Table 8.3

Results of Regression Analysis Showing the Relationship Between the Elements of Strategic Planning Process, when Coupled with Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty, and Percentage Increase (growth) in Number of Employees (N=141)

Independent variables	Beta	Standard Error	T
Strategic Awareness (i.e., Awareness of implication of strategic course of action)	4.12	0.989	4.17***
Constant	-5.58		
Multiple <i>R</i>	0.33		
<i>R</i> ²	0.11		
Adjusted <i>R</i> ²	0.10		
<i>F</i>	17.40***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

The Table 8.3 shows that strategic awareness, when coupled with other variables known to influence performance, contributed 11% variance in growth of employment. Results suggest that firms which were highly aware of the implications of their strategic course of action outperformed their counterparts in terms of growth in employment. The positive relationship between high level of strategic planning and growth in employment can be illustrated particularly by cases 045, 002, 009 and 049. For example, Shaheen and his partners' recognition of the gap in the market for metallic containers, and their knowledge of the lack of relevant production and marketing skills of competitors, of the support environment and of the capital requirements of the project might have acted positively towards their good performance (Case 044). The number of employees of this firm went up by 4% on an average during the 8 years from 1985 to 1983. On the other, Shahjahan's lack of understanding of the sources of funds was the prime factor of his failure to continue

his dish antenna project (Case 034). The number of employees in this less environmentally and strategically aware firm dropped from 5 in 1983 to 3 in 1993.

Hypothesis 1.2 was partially accepted. As indicated in Table 8.4, the correlation of strategic awareness and employment growth was confirmed only when the firms were entrepreneurial (cases 009, 049), and largely labour intensive (case 002). Strategic awareness and employment growth were found to be positively and significantly correlated for both the very small and small firms, young firms and old firms, and firms facing fairly uncertain, fairly certain, and largely certain environment. However, the relationship was found to be stronger in small firms (larger group) and young firms (case 045), and firms facing a fairly uncertain as well as a fairly certain environment as opposed to firms facing a largely certain environment. Further, strategic awareness and employment growth were found to be positively and significantly correlated for both the groups of firms with educated and uneducated owner-managers, owner-managers with or without industry, family and entrepreneurial experience, and owner-managers having training or no-training. However, the relationship was found to be stronger in small firms with owner-managers having no or little formal education (for example, cases 009, 002)²⁶, no industrial experience and having both on-the-job and institutional training (for example, cases 045, 009, 002).

²⁶However, the relationship was stronger in firms with owner-managers having technical academic background (for example, cases 044, 045).

Table 8.4
Correlation between Strategic Awareness and Percentage Increase (growth) in Number of Employees (N=141)

Variables	Size of firms	Capital Intensity	Environmental uncertainty	Type of firm	Age of firm
Percentage increase (growth) in Employment	Very small (n=86) Small (n=55)	Mainly or largely Lab-intensive (n=127) Fairly Capital intensive (n=14)	Fairly uncertain (n=34) Fairly certain (n=50) Largely certain (n=57)	Entrepreneurial (n=108) Not entrepreneurial (n=33)	Young (n=97) Old (n=44)
	0.30** 0.34**	0.35*** 0.34	0.42* 0.41** 0.28*	0.33** 0.18	0.35* 0.30*
Variables	Formal Education	Entrepreneurial Experience	Family Experience	Industry Experience	Training
Percentage increase (growth) in Employment	No or little (80) Fair or good (61)	No (92) Yes (49)	No (61) Yes (80)	No (62) Yes (79)	No (21) Yes (120)
	0.33** 0.29*	0.33** 0.32*	0.33** 0.33**	0.46*** 0.28*	0.28 0.35***

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

8.3.2 Relationship Between Strategic Planning and Number of Employees

The hypotheses that were tested in connection with this issue were:

H2.1 There is a significant, positive correlation between the elements of strategic planning process and the number of employees in small engineering firms in Bangladesh.

H2.2 The relationship between the elements of strategic planning process and the number of employees is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.

Hypothesis 2.1 is accepted. The number of employees, as shown in Table 8.5, was found to be positively and significantly correlated with all the three elements of strategic planning process, i.e., environmental awareness ($r= 0.26, p<0.001$), strategic course of action ($r=0.33, p<0.000$) and strategic awareness ($r=0.32, p<0.000$). This relationship was, however, not confirmed by the results of multiple regression, when the dependent variable, the number of employees, was regressed against all three elements of strategic planning process (Table 8.6). However, number of employees was found to be related with strategic awareness²⁷ when number of employees was regressed against two elements of strategic planning, i.e., environmental awareness and strategic awareness, as the other variable, strategic course of action, was found to be highly correlated with strategic awareness, and hence it was dropped from the multiple regression analysis.

Table 8.5
Correlation of Factors of Firm, Personal Background, Environmental Uncertainty, Elements of Strategic Planning Process and Number of Employees (N=141)

Number of Employees	Age of firm	Age of owner	Education	Industry exp.	Entrepre. exp.	Family exp.	Type of training
	0.21*	0.10	0.06	-0.10	0.22**	-0.08	-0.08
Number of Employees	Type of firm	Capital intensity	Slack Time	Env. uncertainty	Environmental awareness	Strategic course of action	Strategic Awareness
	0.20*	0.30***	-0.14*	-0.10	0.26**	0.33*** (n=114)	0.32*** (n=114)

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Table 8.6
Results of Regression Analysis Showing the Relationship between Elements of Strategic Planning Process and Number of Employees (N=141)

Elements of Strategic Planning Process	Beta	Standard Error	T
Environmental Awareness	0.97	0.63	1.55
Strategic Course of Action	-0.56	6.50	-0.09
Strategic Awareness	3.38	3.08	1.10
Constant		0.91	
Multiple R		0.35	
R ²		0.12	
Adjusted R ²		0.10	
F		6.25***	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Further analysis was conducted to see if the elements of the strategic planning process, when coupled with other performance-influencing factors have any effect on number of employees of firms under study. The following multiple regression model (step-wise) was used for this purpose. Since multicollinearity was observed between

²⁷ $b = 3.123$, $s.e = 1.07$, $t = 2.91***$, Constant = 0.773, Multiple R = 0.35, $R^2 = 0.12$, Adjusted $R^2 = 0.11$, $F = 9.44***$.

strategic course of action and strategic awareness, the variable 'strategic course of action' was not incorporated in the multiple regression model.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 \quad (\text{Model 2})$$

Where,

Y= Number of employees

a= Constant value

x1= Age of firms

x2= Entrepreneurial experience

x3= Type of firm

x4= Capital intensity I (largely labour)

x5 = Capital intensity II (fairly capital)

x6= Slack time

x7= Environmental awareness

x8= Strategic awareness

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

b4= Coefficient of x4

b5= Coefficient of x5

b6= Coefficient of x6

b7= Coefficient of x7

b8= Coefficient of x8

The Table 8.7 shows that strategic awareness along with other two variables such as the age of business (relatively older firms) and entrepreneurial experience (previous business start-up experience), contributed 17% variance in number of employees.

Table 8.7
Results of Regression Analysis Showing the Relationship Between the Elements of Strategic Planning Process, when Coupled with Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty and Number of Employees (N=141)

Independent variables	Beta	Standard Error	T
Strategic Awareness (i.e., Awareness of implication of strategic course of action)	3.43	0.955	3.59***
Entrepreneurial Experience	3.79	1.74	2.16*
Age of Firms	0.318	0.13	2.45*
Constant	2.33		
Multiple R	0.42		
R ²	0.17		
Adjusted R ²	0.16		
F	9.60***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Results suggest that firms which were older (cases 002, 009) and the owner-managers of which were highly aware of the implication of their strategic course of action and had previous business start-up experience (cases 044, 009) outperformed their counterparts in terms of number of employees.

Hypothesis 2.2 was partially accepted. As indicated in Table 8.8, the correlation of strategic awareness and number of employees was confirmed only when the firms were entrepreneurial (cases 009, 049) and the owner-managers had family experience (either father or brother was involved in starting and managing a business) (cases 009, 049) and they had both on-the-job and institutional training (for example, cases 044, 045, 002, 009). The strategic awareness and number of employees were found to be positively and significantly correlated for both the mainly labour-intensive and the fairly capital-intensive firms, and for young firms and old firms. However, the relationship was found to be stronger in young firms (for example, cases 044, 045), and in firms with fairly capital-intensive technology (cases 044, 045, 009). Further, strategic awareness and number of employees were found to be positively and significantly correlated for both the groups of firms with educated and uneducated owner-managers, and owner-managers with or without industry experience. However, the relationship was found to be stronger in small firms with owner-managers having a high level of formal education (cases 044, 045) and more industrial experience (045, 009, 002, 049). No relationship was found between strategic awareness and number of employees for the very small and small firms.

Table 8.8
Correlation between Strategic Awareness and Number of Employees

Variables	Size of Firms <i>Very small</i> (n=86) <i>Small</i> (n=55)	Capital Intensity <i>Mainly or largely Lab-intensive</i> (n=127) <i>Fairly Capital intensive</i> (n=14)	Environmental Uncertainty <i>Fairly uncertain</i> (n=34) <i>Fairly certain</i> (n=50) <i>Largely certain</i> (n=57)	Type of Firm <i>Entrepreneurial</i> (n=108) <i>Not entrepreneurial</i> (n=33)	Age of Firm <i>Young</i> (n=97) <i>Old</i> (n=44)
Number of Employees	0.18 0.17	0.29** 0.51*	0.27 0.49*** 0.23	0.33** 0.10	0.35*** 0.26*
Variables	Formal Education <i>No or little</i> (80) <i>Fair or good</i> (61)	Entrepreneurial Experience <i>No</i> (92) <i>Yes</i> (49)	Family Experience <i>No</i> (61) <i>Yes</i> (80)	Industry Experience <i>No</i> (62) <i>Yes</i> (79)	Training <i>No</i> (21) <i>Yes</i> (120)
Number of Employees	0.31** 0.36**	0.39*** 0.14	0.19 0.40***	0.30* 0.35**	0.14 0.36***

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

8.3.3 Relationship Between Strategic Planning and Value Added Per Employee

The hypotheses that were tested in connection with this issue were:

H 3.1 There is a significant, positive correlation between the elements of strategic planning process and the value added per employee in small engineering firms.

H 3.2 The relationship between the elements of strategic planning process and the value added per employee is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.

Hypothesis 3.1 is accepted. As shown in Table 8.9, the value added (square) per employee was found to be positively and significantly correlated with two elements of strategic planning process, i.e. strategic course of action ($r= 0.30, p<0.00$) and strategic awareness ($r= 0.31, p<0.00$). However, the relationship was not confirmed by the results of multiple regression (Table 8.10).

Table 8.9

Correlation of Factors Relating to Firm, Personal Background, Environmental Uncertainty, Elements of Strategic Planning Process and Value Added Per Employee (N=141)

Value Added (Square) Per Employee	Age of firm	Size of firm	Age of owner	Education	Industry exp.	Entrepren. exp.	Family exp.	Type of training
	0.01	-0.17	0.03	0.08	0.07	0.11	0.03	0.03
Value Added (Square) Per Employee	Type of firm	Capital intensity	Slack time	Env. uncertainty	Environmental awareness	Strategic course of action	Strategic awareness	
	0.24**	0.06	-0.19	-0.15	0.14	0.30** (n=114)	0.31** (n=114)	

* $p<0.05$

** $p<0.01$

*** $p<0.001$

Table 8.10
Results of Regression Analysis Showing the Relationship between Elements of Strategic Planning Process and Value Added Per Employee (N=141)

Elements of Strategic Planning Process	Beta	Standard Error	T
Environmental Awareness	0.01	0.02	0.48
Strategic Course of Action	0.35	0.20	1.70
Strategic Awareness	-0.03	0.10	-0.27
Constant	4.25		
Multiple R	0.34		
R ²	0.12		
Adjusted R ²	0.10		
F	5.27**		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Further analysis was conducted to see if the elements of the strategic planning process, when coupled with other performance-influencing factors have any effect on value added per employee. The following multiple regression model (step-wise) was used for this purpose.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 \quad (\text{Model 3})$$

Where,

Y= Value added per employee

a= Constant value

x1= Type of firm

x2= Strategic course of action

x3= Strategic awareness

b1= Coefficient of x1

b2= Coefficient of x2

b3= Coefficient of x3

The Table 8.11 shows the results of the multiple regression. It can be seen from Table 8.11, one component of strategic planning, i.e., strategic course of action, significantly and positively influence the performance of the firms under study. The other important variable found to influence the performance was type of firm

(entrepreneurial firms). This was, in other words, the entrepreneurial firms and the firms which have any projected course of action to explore the opportunities or to deal with environmental threats their counterparts in terms of the value added per employee.

As has already been reported, a high degree of correlation was observed between strategic course of action and strategic awareness ($r=0.70$, $p=0.000$). Therefore, multiple regression was conducted further with two independent variables, i.e., strategic awareness and type of firm, while dropping the other variable, 'strategic course of action'. The value added per employee was again found to be related with the planning process element, strategic awareness²⁸.

Table 8.11

Results of Regression Analysis Showing the Relationship Between the Elements of Strategic Planning, when Coupled with Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty and Value Added Per Employee (N=141)

Independent variables	Beta	Standard Error	T
Type of firms	0.16	0.08	2.04**
Strategic course of action	0.27	0.08	3.54***
Constant	4.29		
Multiple R	0.39		
R^2	0.15		
Adjusted R^2	0.23		
F	10.27***		

* $p<0.05$

** $p<0.01$

*** $p<0.001$

Hypothesis 3.2 was partially accepted. As indicated in Table 8.12, the correlation of strategic awareness and value added per employee was confirmed only when the

firms were entrepreneurial. The strategic awareness and value added per employee were positively and significantly correlated for both the very small and small firms, labour-intensive and capital-intensive firms, young firms and old firms and firms facing fairly uncertain and largely certain environments. However, the relationship was found to be stronger in small (larger group), old firms, firms with fairly capital-intensive technology and firms facing fairly uncertain environments as opposed to firms facing largely certain ones.

Further, strategic awareness and value added per employee were found to be positively and significantly correlated for both the groups of firms having owner-managers with or without family, entrepreneurial and industry experience and owner-managers with or without training.

8.3.4 Relationship Between Strategic Planning and the Overall Performance²⁹

The hypotheses that were tested in connection with this issue were:

H4.1 There is a significant, positive correlation between the elements of strategic planning process and the overall performance in small engineering firms in Bangladesh

²⁸ $b = 0.122$, $s.e = 0.33$, $t = 3.62^{***}$, Constant = 4.35, Multiple R = 0.32, $R^2 = 0.10$, Adjusted $R^2 = 0.09$, $F = 13.14^{***}$.

²⁹A self-reported subjective assessment by the owner-managers about the overall performance of firm in terms of sales, profit and overall success relative to those of similar firms in their industry during the three previous years.

Table 8.12
Correlation between Strategic Awareness and Value Added (square) Per Employee

Variables	Size of Firms	Capital Intensity	Environmental Uncertainty	Type of Firm	Age of Firm
Value Added Per Employee	Very small (n=86) Small (n=55)	Mainly or largely Lab-intensive (n=127) Fairly Capital intensive (n=14)	Fairly uncertain (n=34) Fairly certain (n=50) Largely certain (n=57)	Entrepreneurial (n=108) Not entrepreneurial (n=33)	Young (n=97) Old (n=44)
	0.34**	0.31**	0.47*	0.27*	0.28*
	0.40**	0.56*	0.30*	0.26	0.43**
Variables	Formal Education	Entrepreneurial Experience	Family Experience	Industry Experience	Training
	No or little (80) Fair or good (61)	No (92) Yes (49)	No (61) Yes (80)	No (62) Yes (79)	No (21) Yes (120)
Value Added Per Employee	0.36**	0.29**	0.49***	0.37**	0.56**
	0.19	0.38*	0.23*	0.27*	26*

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

H4.2 The relationship between the elements of strategic planning process and the overall performance is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.

Table 8.13
Correlation of Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty, Elements of Strategic Planning Process and Overall Performance (N=141)

Overall Performance	Age of firm	Size of firm	Age of owner	Education	Industry exp.	Entrepren. exp.	Family exp.	Type of training
	0.15	0.34***	0.03	-0.05	0.17*	0.05	-0.05	0.06
Overall Performance	Type of firm	Capital intensity	Slack time	Env. uncertainty	Environmental awareness	Strategic course of action	Strategic awareness	
	0.26**	0.26**	-0.23**	-0.15*	0.39**	0.38*** (n=114)	0.45*** (n=114)	

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Hypothesis 4.1 is accepted. As shown in Table 8.13, the overall performance was found to be positively and significantly correlated with all the three indicators of strategic planning. The correlation between overall performance and indicators of strategic planning were 0.39, $p < 0.000$; 0.38, $p < 0.000$; and 0.45, $p < 0.000$ for environmental awareness, long-term projection, and awareness of implication of long-term projection respectively. The relationship was also confirmed by the results of multiple regression (Table 8.14).

As it can be seen from Table 8.14, the value of R^2 , 23% indicates that 23 percent variance in overall performance experienced by firms that were highly strategically aware. All the three components of strategic planning (i.e., environmental awareness,

strategic course of action and strategic awareness) contributed significantly to the relationship with overall performance of firms under study.

Table 8.14
Results of Regression Analysis Showing the Relationship between Elements of Strategic Planning Process and Overall Performance (N=141)

Elements of Strategic Planning Process	Beta	Standard Error	T
Environmental Awareness	0.28	0.11	2.51*
Strategic course of action	-1.3	1.18	-1.10
Awareness of Implication of Projection	1.39	0.56	2.49*
Constant	2.76		
Multiple R	0.50		
R ²	0.25		
Adjusted R ²	0.23		
F	15.29***		

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Further analysis was conducted to see if the elements of the strategic planning process, when coupled with other performance-influencing factors have any effect on performance of firms under study. The following multiple regression model (step-wise) was used for this purpose. Since multicollinearity was observed between strategic course of action and strategic awareness, the variable 'strategic course of action' was not incorporated in the multiple regression model.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 \quad (\text{Model 4})$$

Where,

Y= Overall performance

a= Constant value	
x1= Size of firms	b1= Coefficient of x1
x2= Industrial experience	b2= Coefficient of x2
x3= Type of firm	b3= Coefficient of x3
x4= Environmental awareness	b4= Coefficient of x4
x5= Strategic awareness	b5= Coefficient of x5
x6= Capital intensity I	b6= Coefficient of x6
x7= Capital intensity II	b7= Coefficient of x7
x8= Slack time	b8= Coefficient of x8

As it can be seen in Table 8.15 that the elements of strategic planning process were significantly correlated with overall performance. These results suggest that firms which are highly aware of the events in their environment, have ideas to explore the opportunities or to deal with the threats, and are aware of the strategic implications of those ideas outperform their counterparts. This can better be illustrated from the data of the case 015, which had success stories resulting from high environmental and strategic awareness followed by poor performance resulting from lack of strategic awareness of the project. Clearly, after observing the gap in the market for the small fan for use of small shop and factory (awareness of customer demand), Bimal started a project to make this product in 1985 (strategic action). Bimal got a such a good response that he virtually monopolised the market. This action consequently resulted in the extension of his plant and number of employees, from 5 employees in 1972 to 42 in 1988 (good performance). However, before he added another product (a ceiling fan for residential use) to his product line (strategic action), Bimal failed to recognise the implication of adding this product (lack of strategic awareness). He failed to recognise the customers' brand preference and the strengths of the existing manufacturers. He did not study the potential market properly (lack of awareness of customers environment). Bimal's lack of awareness of customers' preference and of

ways of marketing the product caused him a substantial loss of investment (poor performance). His loan taken for financing the new project was still 100% due. He had made redundant of 14 employees in one week before my field work was conducted (poor performance).

Table 8.15
Results of Regression Analysis Showing the Relationship Between the Elements of Strategic Planning Process, when Coupled with Factors of Firm and the Personal Background of Owner-managers, Environmental Uncertainty, and Overall Performance (N=141)

Independent variables	Beta	Standard Error	T
Environmental awareness	0.29	0.11	2.75**
Strategic course of action	0.52	0.20	2.66**
Size of business	0.03	0.01	2.34*
Slack time	-0.20	0.00	-2.23*
Capital intensity II (largely labour intensive)	0.73	0.32	2.29*
Constant	0.87		
Multiple <i>R</i>	0.58		
<i>R</i> ²	0.33		
Adjusted <i>R</i> ²	0.31		
<i>F</i>	13.47***		

**p*<0.05

***p*<0.01

****p*<0.001

The Table 8.15 shows that size of firms, capital intensity (more capital intensive) and owner's slack time (less slack time) also positively and significantly affect the performance of small engineering firms under study. In other words, firms which were larger and largely capital-intensive, and the firms the owner-managers of which worked for more hours (less slack time) outperformed other firms which were smaller, largely labour-intensive, and the owner-managers of which worked for less hours (more slack time).

Hypothesis 4.2 was partially accepted. As indicated in Table 8.16, a positive, significant correlation between environmental awareness and overall performance was confirmed when the firms were small (for example, cases 044, 045, 002) as opposed to very small, and when the firms were entrepreneurial (for example, cases 045, 002, 049). Environmental awareness and overall performance were found to be positively and significantly correlated for both the young firms and old firms; labour intensive firms and capital intensive firms, and firms facing fairly uncertain, fairly certain and largely certain environment. However, the relationship was stronger in old firms (for example, cases 002, 009, 049), fairly capital intensive firms (for example, cases 044, 045, 002), and firms facing a fairly uncertain and a fairly certain environment as opposed to a largely certain environment. Further, environmental awareness and overall performance were found to be positively and significantly correlated for both the groups of firms with educated and uneducated owner-managers, owner-managers with or without industry and family experience, and owner-managers having training or no-training. However, the relationship was found to be stronger in small firms with owner-managers having a high level of formal education (for example, cases 044, 045), industry experience (for example, cases 009, 002, 045, 049) and having both on-the-job and institutional training (for example, cases 045, 009, 002).

A positive, significant relationship between strategic awareness and overall performance was confirmed when the firms were entrepreneurial (Table 8.17). The significant relationship was found to exist for both the very small and small firms, young firms and old firms, mainly or largely labour intensive firms and fairly capital

intensive firms, and firms facing fairly uncertain and fairly certain environments. However, the relationship was stronger in small firms, old firms, fairly capital intensive firms, and firms facing fairly uncertain environments as opposed to fairly and largely certain environments. Further, strategic awareness and overall performance were found to be positively and significantly correlated for both the groups of firms with educated and uneducated owner-managers, owner-managers with or without industry and family experience, and owner-managers having training or no training. However, the relationship was found to be stronger in small firms with owner-managers having high level of formal education, industry experience and having both on-the-job and institutional training.

8.3.5 Other evidence of better performance

The analysis of other available information about the respondents indicates further evidence which suggest that highly strategically aware firms performed better than their counterparts. A description of some such information follows:

8.3.5.1 Setting up of new business units

A total of 16 firms extended their business by setting up new units in the form of backward or forward integration. Analysis of the data regarding strategic planning shows that the incidence of strategic planning elements (e.g., environmental awareness and strategic awareness) was high in all but one firms (15 firms). A score ranging from 7 to 11 was considered to be high level of environmental awareness based on the mean and median scores of 7.2 and 7 respectively (the total score ranges from 4 to 11). Similarly, a score of 4 to 6 was considered as a high level of strategic _

Table 8.16
Correlation between Environmental Awareness and Overall Performance

Variables	Size of Firms <i>Very small</i> (n=86) <i>Small</i> (n=55)	Capital Intensity <i>Mainly or largely Lab-intensive</i> (n=127) <i>Fairly Capital intensive</i> (n=14)	Environmental Uncertainty <i>Fairly uncertain</i> (n=34) <i>Fairly certain</i> (n=50) <i>Largely certain</i> (n=57)	Type of Firm <i>Entrepreneurial</i> (n=108) <i>Not entrepreneurial</i> (n=33)	Age of Firm <i>Young</i> (n=97) <i>Old</i> (n=44)
Overall Performance	0.18 0.49***	0.32*** 0.91***	0.62*** 0.44** 0.28*	0.41*** 0.23	0.38*** 0.39**
Variables	Formal Education <i>No or little</i> (80) <i>Fair or good</i> (61)	Entrepreneurial Experience <i>No</i> (92) <i>Yes</i> (49)	Family Experience <i>No</i> (61) <i>Yes</i> (80)	Industry Experience <i>No</i> (62) <i>Yes</i> (79)	Training <i>No</i> (21) <i>Yes</i> (120)
Overall Performance	0.38*** 0.39**	0.30** 0.55	0.50*** 0.30*	0.33** 0.39***	0.29** 0.39***

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Table 8.17
Correlation between Strategic Awareness and Overall Performance

Variables	Size of Firms	Capital Intensity	Environmental Uncertainty	Type of Firm	Age of Firm
Overall Performance	Very small (n=86) Small (n=55) 0.37*** 0.46***	Mainly or largely Lab-intensive (n=127) Fairly Capital intensive (n=14) 0.45*** 0.49*	Fairly uncertain (n=34) Fairly certain (n=50) Largely certain (n=57) 0.67*** 0.53*** 0.25	Entrepreneurial (n=108) Not entrepreneurial (n=33) 0.42*** 0.29	Young (n=97) Old (n=44) 0.40*** 0.56***
Variables	Formal Education No or little (80) Fair or good (61)	Entrepreneurial Experience No (92) Yes (49)	Family Experience No (61) Yes (80)	Industry Experience No (62) Yes (79)	Training No (21) Yes (120)
Overall Performance	0.43*** 0.52***	0.42*** 0.54	0.51*** 0.40***	0.43** 0.43***	0.35** 0.42***

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

awareness based on the mean and median scores of 3.57 and 4 respectively (the total score ranges from 1 to 6).

8.3.5.2 Repayment of loan

Out of 53 firms which received loans from different banks, 37 firms were found to have more or less clear strategic courses of action for the firm, as well as they were found to be highly aware of the environment and of the implication of their long term projection. Of these 37 firms, the loan repayment rate of 23 firms (62 %) was found to be satisfactory (3 firms settled their loans well before they got maturity). On the other hand, the loan repayment history of the remaining 16 firms, which did not have any idea about their strategic courses of action and which were less aware of their environment and the implications of strategic course of action, was very unsatisfactory. No firms were able to repay their loan in time, if any of these firms really repaid their loans.

8.3.5.3 Other achievements

Some other events suggest that highly strategically aware firms perform better than others. For example, the case number 009 - the environmental awareness score of which was 7, which had a strategic course of action, and the awareness of implication of the strategic course of action was 5 - received a national award in the industrial fair in 1993 for its outstanding contribution to the economy. Similarly, two firms were found to buy a piece of land to move their plants from exiting rented premises (cases 044, 002), and two others were found to introduce new item in the product line with joint venture of two foreign firms (cases 002, 009). The scores of the indicators of strategic planning of

Table 8.18
Results of the Hypotheses Tested

Hypotheses Number	Hypotheses	Results
H1.1	There is a significant, positive correlation between the elements of strategic planning process and the percentage increase (growth) in number of employees in small engineering firms in Bangladesh.	Accepted
H1.2	The relationship between the elements of strategic planning process and the percentage increase (growth) in number of employees is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.	Accepted when the firm is young, labour intensive, small (larger group), entrepreneurial and the firm faces fairly uncertain environment; owner-manager has both on the job and institutional training, no or little formal education, and no industrial experience.
H2.1	There is a significant, positive correlation between the elements of strategic planning process and the number of employees in small engineering firms in Bangladesh.	Accepted
H2.2	The relationship between the elements of strategic planning process and the number of employees is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.	Accepted when the firm is young, fairly capital intensive, entrepreneurial; owner-manager has good formal education, family experience, both on the job and institutional training and long years of industrial experience.
H 3.1	There is a significant, positive correlation between the elements of strategic planning process and the value added per employee in small engineering firms in Bangladesh.	Accepted
H 3.2	The relationship between the elements of strategic planning process and the value added per employee is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.	Accepted when the firm is small (larger group), old, fairly capital intensive, entrepreneurial, and the firm faces fairly uncertain environment.
H4.1	There is a significant, positive correlation between the elements of strategic planning process and the overall performance in small engineering firms in Bangladesh.	Accepted
H4.2	The relationship between the elements of strategic planning process and the overall performance is influenced by the personal background of owner-managers, the characteristics of firm and the environmental uncertainty.	Accepted when the firm is small (larger group), old, fairly capital intensive, entrepreneurial, and the firm faces fairly uncertain environment; owner-manager has good formal education, both on the job and institutional training, and long years of industrial experience.

those firms were very high.

The results from hypotheses tested so far are summarised, as shown in Table 8.18. It is evident those firms that are highly aware of their environment, which have strategic courses of action to explore the opportunity or to deal with the threats in the environment, and firms which are aware of the implications of their strategic course of action outperform their counterparts. However, the relationship is stronger when the firm is entrepreneurial, largely capital intensive, relatively larger, faces a fairly uncertain environment, and when the owner-managers of the firm have both on-the-job and institutional training.

In real life, there are a wide range of factors, both internal and external, influencing the ultimate performance of small firms. The existence of relationship between strategic planning and performance, shown by correlation analyses and multiple regression, does not provide compelling evidence about **CAUSALITY**. In other words, it does not indicate that the better performance was due to the firms' high level of environmental and strategic awareness. However, the analysis of the cases improves our understanding about some of the reasons why that strategic planning leads to better performance in small firms.

8.4 Summary of findings and conclusion

This chapter examined the relationship between certain measures of strategic planning and aspects of performance of small engineering firms in Bangladesh. It also examined whether the relationship was moderated by factors of firm, the personal background of

owner-managers, and environmental uncertainty. Both quantitative and qualitative data on performance were used to examine those issues. In general, support and partial support of the hypotheses tested suggest that strategic planning was positively and significantly related to firm performance. All the measures of performance such as value added per employee, number of employees, percentage increase (growth) in employment, and more importantly, the overall performance and other additional qualitative information demonstrated that those firms which were highly aware of the events in their environments, which had strategic courses of action and which were highly aware of the implications of their strategic courses of action outperformed their counterparts. However, the relationship was stronger in entrepreneurial, largely capital intensive, relatively large firms, firms facing fairly uncertain environments and the firms the owner-managers of which had both on-the-job and institutional training.

The results support the findings of the study of Gibb and Scott (1985) that maintained that lack of strategic awareness might lead small firms into blind alleys. This was observed in many cases, particularly, cases 034, 014, 031, 055, 015. For example, the owner-manager's failure to recognise the alternative sources of funds in case the BSCIC³⁰ declines his loan application demonstrates his lack of strategic awareness which ultimately caused him a huge loss of initial investment and of potential market (case 034). The results also support the findings of many other empirical studies (e.g., Boyd, 1985; Acklesberg and Arlow, 1985; Kelmar and Noy, 1991) which demonstrated a positive relationship between strategic planning and performance.

³⁰Bangladesh Small and Cottage Industries Corporation.

The results in this study, however, contradicts the findings of some previous research (e.g., Robinson and Pearce, 1983; Shrader et al., 1989), which found a negative or no relationship between strategic planning and performance in small firms. The disparity may be attributable to three methodological differences. Firstly, the study used a different conceptualisation of strategic planning. Most of the previous research limited their measurement of strategic planning either to 'formality' of plan or to 'perceived importance' of plan (Pearce II et al., 1987). In this study, strategic planning was defined in terms of its three important elements, i.e., environmental awareness, strategic course of action, and awareness of long term implications of the strategic course of action. The issue of 'formality' was not taken into account in measuring strategic planning. Secondly, a more open approach to performance - which included both quantitative and more importantly, qualitative information - was used in this study to measure performance. Much emphasis was placed on the subjective measures of performance as it was observed that owner-managers were reluctant to report data on income and sales and, in many cases, those data were unreliable, if reported at all. Finally, many of the previous researchers did not control for differential effects of market conditions, government factors, and inter-industry differences as suggested by Kulda (1980) and Beard and Dess (1979). In this study, industry, market conditions, time, and government influences were specifically controlled.

With regard to the impact of the moderating variables on the relationship of strategic planning and performance, the results of this study suggest that size of firm, type of firm (entrepreneurial versus less or non-entrepreneurial), capital intensity, industry

experience, training and environmental uncertainty can be important variables in understanding the strategic planning - performance relationship in small firms.

Although, the results were more mixed for different performance measures, the positive relationship to many measures of performance suggests that the educated owner-managers, particularly with technical academic backgrounds, and owners having industry experience are better aware of the environment, and more importantly, of the implications of their strategic courses of action. The study has indicated that planning affects performance equally in both large and small as well as capital-intensive and labour-intensive firms³¹ (Miller and Cardinal, 1994). However, it also found that that planning affects performance more strongly in capital-intensive firms (Kukalis, 1991), and that the 'firm size' is a critical contingency variable in strategic management research and theory building (Robinson et al., 1983). This study supports the findings of the previous studies (e.g., Miller and Cardinal, 1994) which demonstrated that strategic planning and performance are positively related when the firm's environment is uncertain. However, the positive relationship between strategic planning and performance in uncertain environments contradicts many previous studies (Bracker and Pearson, 1986; Bracker *et al.*, 1988; and Fredrickson and Michell, 1984). The results also contradict the findings of the study of Matthew (1991) which found that strategic planning and performance relationship is weaker in entrepreneurial ventures. This disparity might be attributable to the measurement problem of entrepreneurial firms. Matthew (1991) categorised entrepreneurial firms on the basis of the perception of owner-managers about the status of their firms as entrepreneurial versus non-

entrepreneurial using two general business description based on Carland et al., (1984) typology. In my study, entrepreneurial firms were identified by examining their innovativeness as suggested by many scholars in the field of entrepreneurship (e.g., Schumpeter, 1934; Carland et. al., 1984). The effect of firms' age on the strategic planning-performance is largely mixed.

Consistent with expectations, my study has found strategic planning to affect small firm performance positively. Researchers who have concluded that strategic planning does not generally benefit performance appear to have been incorrect. It can be said that conceptual and methodological differences across studies such as controlled or uncontrolled industry effects, archival or informant source of planning and performance data (usually without being triangulated), operational definitions of planning focused on formalised planning or planning in general have been largely responsible for the inconsistent findings reported in the literature and largely responsible for the debate concerning the value of strategic planning in general and small business in particular.

The correlations and the multiple regressions used in this study are useful for demonstrating the existence of relationships. However, they do not provide compelling evidence with regard to a cause-and-effect relationship, when in real life, a wide range of factors, although some of these were controlled in the study, influence the ultimate performance of small firms. However, the analyses of the case study data provided in conjunction with quantitative analyses help us to develop an understanding about the ways in which strategic planning leads to better performance for small firms.

³¹as in all those groups the elements of strategic planning and the measures of performance were found to

Chapter 9

Conclusion and Implications

9.1 Summary of Findings and Conclusions

The study explored the practice of strategic planning and its effect on performance in small engineering firms in Bangladesh. It began with a review of the literature on strategic planning in small businesses. This emphasised certain problems of capability, in particular of definition of the terms planning, strategic planning, small business and performance. It also pointed to the normative approach taken by some writers, the possible weakness of 'top-down' approaches derived from applications in large companies, and the lack of an agreed integrated conceptual model in evaluating the contribution of planning in small business.

Small scale industry in general and engineering in particular plays an important role in the economy of Bangladesh. In addition to providing employment for many people in a poor and densely populated country, small engineering enterprises also contribute to the economy by producing import substitute machinery and spare parts, and building and maintaining the industrial base of the country by supplying the machinery and spare parts to large and heavy industries. Because it is an important manufacturing sector, the government has put special emphasis on its development and promotion of this sector since 1986.

This emphasis in policy has resulted in creation of a wide range of support services for the sector. Apart from hardware and software support services, many other promotional

be positively and significantly correlated.

incentives, like exemption from taxes, duty-free import of raw materials and machinery, and minimum VAT have been provided for the growth of industries in general and of small enterprises in particular. Despite these substantial efforts, the growth and performance of the small enterprises appear to be very slow and unsatisfactory (Reza *et al.*, 1990, p.140; Sarder, 1995). Their performance has further been subjected to threats in recent years because of the contemporary extended free market economy with its heavy reliance on competitive market forces. The free market economy has expedited the free flow of imported goods, which are cheaper and possibly better in terms of quality, to Bangladesh from other countries, mainly from India, resulting in a very competitive environment for the industry.

Research in industrially developed countries suggests that owner-managers' awareness of their environment in exploring new opportunities and to identify threats, timely action, and the ability to assess the implications of their strategic action are crucial for the success of small firms, particularly of those operating in such a competitive environment. It was therefore hypothesized that lack of strategic planning, or more specifically, environmental awareness, timely action and strategic awareness of owner-managers, is one of the major factors responsible for the under-performance of small firms in Bangladesh. Although the importance of planning has often been discussed in management seminars, the issues surrounding the nature and effects of strategic planning are empirically unaddressed and unanswered in Bangladesh. This study, therefore, is an attempt to investigate if and how engineering firms in Bangladesh practise strategic planning with a particular focus on their environmental awareness and strategic awareness, and at the factors influencing

their planning practices. It has also looked at the relationship between strategic planning and performance, and at the factors influencing this relationship.

To address the issues concerning the practice of strategic planning and its link to performance, a conceptual framework was developed and presented in Chapter 4, including some major hypotheses relating to the major issues researched. Adopting both quantitative and qualitative methods, as described in Chapter 5, the study tested the hypotheses and examined the research issues, based on the data collected during the field work in Bangladesh. The forthcoming sub-sections present the major findings for each of the research issues.

9.1.1 The Incidence (Practice) of Strategic Planning

Overall, strategic planning in a formal sense is unlikely to exist in the small business, as was found to be true in most other studies (Gibb and Scott, 1985; Sexton and Auken, 1982, 1985; Mintzberg, 1994). Although some firms use formal strategic plans, these plans are prepared by outsiders, i.e., mainly by the staff of the support and intermediate organisations, to fulfil the requirements necessary for seeking and obtaining financial assistance. It has been found that firms with a written plan were either currently financially assisted or that they had applied for such assistance. The lack of trust (the prevailing culture in small firms in Bangladesh) and the lack of slack resources (Gibb and Scott, 1985; Robinson and Pearce, 1984; Shrader *et al.*, 1989; Shuman and Seegar, 1986) are the main barriers to the use of written planning in small firms. Most owner-managers perceive that written strategic planning is unnecessary and unimportant, or in the words of a highly educated owner-manager as 'useless', for managing small business

firms, but, as also noted by Mintzberg (1994), useful for dealing with outsiders, especially funders.

Although formal strategic planning is highly unlikely in small firms, the owner-managers of these firms are aware in varying degrees about their competitors, technology, customers, and the policy and regulatory environment (Gibb and Scott, 1985; Smeltzer *et al.*, 1988; Johnson and Kuehn, 1987). Owner-managers are more aware of their competitors, followed by customers, and technology environment; while they are least aware, or in some cases, completely unaware, of the policy and regulatory environment. The main reasons for their limited awareness of the regulatory environment include their lack of education and lack of support in terms of provision of information on the part of the government and promotional agencies. Proactive searches for information about the environment are hardly ever made (Gibb and Scott, 1985; Smeltzer *et al.*, 1988).

Along with their environmental awareness, many of the firms have been found to have ideas or portfolios of ideas for projected action to exploit the opportunities and to deal with the threats that exist in the environment (Gibb and Scott, 1985). Idea generation and its evaluation are characterised mainly by personal judgements of owner-managers, and by insufficient information often based on limited knowledge of the market place, customers' needs, technology, and policy, especially of support environment (Gibb and Scott, 1985; Robinson and Pearce, 1984). Owner-managers do not usually seek for information or think about future unless they experience any difficulties either in the firm or in the environment. Their ideas, in many cases, are not clearly articulated (Gibb

and Scott, 1985; Boyd, 1985; Mintzberg and Waters, 1985). Their ideas are also very often flexible, reactive and set for unspecific future time horizons (Gibb and Scott, 1985; Robinson and Pearce, 1984). Owner-managers also do not usually think about alternative ideas in advance, as many of them are unaware of the potential changes likely to occur in the environment over longer time periods. Owner-managers very often shift to another idea or make changes to their original ideas once they experience any intolerable changes in the environment as well as in their capabilities in terms of resources. This conforms with the small firm owner-managers' iterative approach to building commitment as part of the development process (Gibb and Scott, 1985). This, in other words, fits well with what Mintzberg and Waters (1985) called the 'entrepreneurial strategy', which involves the features of both deliberate and emergent strategies. To varying degrees, owner-managers are capable of anticipating the possible implications of their strategic actions in the long run. However in many cases, their breadth of anticipation is limited in terms of time and area covered (Gibb and Scott, 1985).

Owner-managers are more likely to collect external information personally than by using secondary sources of information (Gibb and Scott, 1985; Jhonson and Kuhlen, 1987; Specht, 1987; Smeltzer *et al.*, 1988). They frequently use competitors and business colleagues to obtain information about the environment. The use of personal sources may relate to their culture and lack of education. As was found in the study of Gibb and Scott (1985), the key factor of taking on board relevant information is the personal contact network of the owner-managers themselves, which in this study was largely affected by their physical proximity to other owner-managers.

9.1.2 Influences of Strategic Planning

Overall, the incidence of the elements of strategic planning process (i.e., environmental awareness, strategic course of action and strategic awareness) is higher for firms that are better-performing (Mulford et al. 1988; Shuman and Seegar, 1986), larger in size (Sexton and Auken, 1982; Stoner, 1983) and more entrepreneurial (Matthews, 1991; Bracker et al. 1988; Bracker and Pearson, 1986). The incidence of strategic planning is also higher in firms whose owner-managers have previous business and/or work experience in the same or a similar industry (Shuman, Shaw and Sussman, 1985), and when they have both on-the-job and institutional training (Gibb and Scott, 1985). The incidence is lower for those firms whose owner-managers have only on-the-job training (as opposed to both on-the-job and institutional training). The age of the firm and that of owner-manager, and their family experience, however, do not have any links with any of the three elements of strategic planning. The evidence leads us to reject the argument that older firms possess more experts who can contribute to the process of environmental scanning and strategic awareness (Lindsay and Rue, 1980). No relationship also exists between the incidence of strategic planning and the age and family experience of owner-managers.

The analyses of correlations show positive relationships between some elements of strategic planning and some variables like capital intensity and environmental uncertainty. Multiple regression analyses, however, show no significant relationship between these variables. Further, the effects of some other variables, like entrepreneurial experience, family experience, and slack time have been found to be related to only a few elements or sub-elements of strategic planning process.

9.1.3 The Relationship between Strategic Planning and Performance

One of the frequently debated issues in the literature on strategic planning is the impact of strategic planning on firm performance (Miller and Cardinal, 1994; Schwenk and Shrader, 1993). In order to gain an understanding of this issue, an examination of the relationship between certain measures of strategic planning and aspects of performance of small engineering firms in Bangladesh was carried out, and the results are presented in Chapter 8. Further analyses were also conducted to examine if the relationship was moderated by the influence of firm, the personal backgrounds of owner-managers, and environmental uncertainty.

Consistent with expectations, the research demonstrates that firms that are highly aware of their environment, have strategic courses of action, and are highly aware of the implications of their strategic course of actions outperform their counterparts (Bracker and Pearson, 1986; Bracker *et al.* 1988; Shrader *et al.* 1989; Orpen, 1993; Kelmar and Noy, 1990; Deakins, 1996). The correlations and multiple regressions have revealed a significant and positive relationship between the elements of strategic planning and the measures of performance used. The degree of relationship between measures of performance (i.e., growth of employees, value added per employee and overall performance) and strategic awareness of owner-managers (compared to other two elements of strategic planning, i.e., environmental awareness and strategic course of action) has indicated that strategic awareness of owner-managers is the most important component of strategic planning affecting performance of small firms. Qualitative case study data have also demonstrated this relationship. The planning-performance relationship, however, is stronger in entrepreneurial (Matthews, 1991), largely capital

intensive, relatively large firms (Robinson and Pearce, 1984), firms facing fairly uncertain environment (Miller and Cardinal, 1994) and the firms the owner-managers of which have both on-the-job and institutional training (Bracker *et al.*, 1988).

Strategic planning is found to be highly correlated with all the measures of performance in entrepreneurial firms while it is found to be unrelated or negatively related to performance in non-entrepreneurial firms. Although, the results are mixed for different performance measures, the study has indicated that the educated owner-managers (particularly, with technical academic background, i.e., engineering background) and owners having industry experience and both on-the-job and institutional training are better aware of the environment, and more importantly, the implications of their strategic course of action (Gibb and Scott, 1985). The study also indicates that planning affects performance equally in large and small and capital-intensive and labour-intensive firms, as in all those groups the elements of strategic planning and the measures of performance were found to be positively and significantly correlated. However, the study indicates, further, that planning affects performance more strongly in large (Robinson and Pearce, 1984; Lindcamp and Rice, 1983) and capital-intensive firms (Kukalis, 1991). This study finds that strategic planning and performance are positively related when the firms' environment is uncertain (Miller and Cardinal, 1994). The effect of firms' age on the strategic planning-performance relationship is largely mixed.

9.2 Implications of the Findings

The findings of the study, as summarised in the previous section, have several implications for theory, methodology and practice. A discussion of some of the major implications of the research findings follows.

9.2.1 Theoretical Implications

At a very general level, the findings of the study have contributed to the existing stock of knowledge in the literature of strategic planning in small business by relating this to the experience of small firms in a developing country. Despite the recognition of the importance of strategic planning in small business, there has been a specific gap in the empirical knowledge in developing countries about the practice and effects of strategic planning, particularly in small business. The findings of this study, therefore, have contributed, at least to some extent, to fill this knowledge gap.

While little is known about strategic planning in small business in many developing countries including Bangladesh, the study has revealed that small business in Bangladesh do not practice strategic planning in the way it has been described normatively in much of the literature (i.e., formal procedures). Although strategic planning in the formal sense is unlikely to exist, as is true in most other studies in developed countries, this thesis has clearly indicated that like small firms in developed countries, small firms in Bangladesh are also aware in varying degrees about the events in their competitors, technological, customers, and policy and regulatory environments. Many of the firms tend to have ideas or portfolio of ideas of projected action, mostly non-articulated, very often flexible and reactive, to exploit the opportunities and to deal

with the threats that exist in the environment. The findings thus suggest that the emphasis given to the 'formal procedures of planning' or 'formalisation of planning' in some earlier studies in developed countries (e.g., Lyles *et al.*, 1993; Orpen, 1993) may not be appropriate for small firms in Bangladesh.

Similar to the findings of many studies in developed countries (Ackelsberg and Arlow, 1985; Schwenk and Shrader, 1993, Kelmar and Noy, 1990; Bracker *et al.*, 1988) this study has confirmed and also has advanced the research on strategic planning for small businesses by developing our understanding of the benefits that strategic planning provides on the success of small firms. Researchers who have concluded that strategic planning does not generally benefit performance appear to have been incorrect (e.g., Gable and Topol, 1987; Watts and Ormsby, 1990a; Shrader *et al.*, 1984). It can be said that conceptual and methodological differences across studies - such as controlled or uncontrolled industry effects, archival or informant source of planning and performance data, operational definitions of planning focusing on formalised planning or planning in general - have been largely responsible for the inconsistent findings, and thus the confusion in the debate, in the literature concerning the value of strategic planning in general and small business in particular.

The literature on strategic planning has indicated the absence of an integrative conceptual model that takes into account the relevant, moderating variables relating to firm, environment and personal background of owner-managers that could have affected the strategic planning practices and its effect on performance. Based on the present findings, it is suggested that models of strategic planning in small business

should recognise the mediating role played by size, type of firm (entrepreneurial versus non-entrepreneurial), capital intensity, industry experience, training and environmental uncertainty, as all these variables have been found to be important in understanding the strategic planning- performance relationship in small firms.

As maintained by others (e.g., Greenlay, 1986), the results of this study have also indicated that in addition to strategic planning, many other variables such as size, type and capital intensity of firm can affect performance. This suggests, unlike using a bivariate model of relationship between two concepts/variables (usually strategic planning and performance), which was used in previous research, any study dealing with performance should take into account all possible variables affecting performance.

9.2.2 Methodological Implications

The study has found that small firms in Bangladesh do not formalise their strategic action, if it is not necessary to fulfil the condition for seeking financial assistance. Moreover their strategic vision is frequently not very articulated. This findings suggest that focusing heavily on standardised planning guidelines and written plans is problematic in deciding about operational definitions of strategic planning. Taking a more general approach appears to result in a more accurate estimate of firm's emphasis on strategic planning.

As has already been stated, the present research, unlike most of the previous studies, has adopted a 'multi-methods approach' - a combination of quantitative and qualitative methods to study the practice and effect of strategic planning, as has been suggested by

several scholars (e.g., Snow and Thomas, 1994; d'Amboise, 1990). The study has utilised, among others, some of the sophisticated statistical tools, such as correlation and multiple regression. However, it was realised that while the use of such quantitative methods can reveal some positive results in demonstrating the influence of strategic planning, they seem to be unable to explore adequately the real influence of strategic planning. Consequently, the study has also utilised qualitative case study data, while showing no major signs of inconsistencies in the overall findings.

The qualitative results have disclosed that strategic planning helps many firms to expand their product and market base significantly and to pay-off their debts. Therefore, the use of some widely used performance measures, such as rate of return, growth in sales and employment, and productivity in terms of value added or sales per employee, appears to be effective in making them partial yardsticks of performance or areas of business on which strategic planning can have a significant effect. Indeed there are other end results which are established in strategic planning objectives. Future research dealing with strategic planning should also consider those end results to conclude the effect of strategic planning.

Similar to some previous studies of small traders in the similar cultural setting of India (e.g., Harris, 1981; Fox, 1969; Mines, 1972), unavailability of reliable financial data in this study resulting from lack of provision of published information and lack of owner-manager's willingness to provide these data suggests that researchers, particularly in Bangladesh, attempting to examine effect of any variable on performance should not depend solely on reported quantitative financial information.

9.2.3 Practical and Policy Implications

The findings of this study have important implications for the owner-managers of small firms and for those who are concerned with influencing the behaviour of small firms officially.

The findings indicate that small firms can improve their performance through strategic planning, but only if it is based on an understanding of the opportunities and threats in the environment, and of their own strengths and weaknesses which enable them to assess both the short and long-term implications (strategic awareness) of their actions, as was also made clear by Gibb and Scott (1985). The present findings highlight dangers of assuming that the process of strategic planning (normative/formalisation) will, by itself, lead to improvements in performance.

Stemming from this, the present findings suggest that small firms will suffer if they are ignorant of their own strengths and weaknesses, and are unaware of likely future changes in their environment. They also suggest that getting and using information about the environment is not a luxury that small firms can afford to do without, especially over the long term, but is a necessity if strategic planning is to have a desired effect. In this respect, it is not a matter of how much time is spent on strategic planning, but rather the quality of decision making that is important. The present findings may suggest that the emphasis given to the length of time spent on planning, rather than how well it is done, in earlier studies, notably those by Thune and House (1970) and Herold (1972) may well be rather misplaced.

If this is the case, there might be important implications not only for the design of the policy instruments but also for their delivery mechanisms.

If policy makers are concerned to encourage the growth of small firms, then overall emphasis should be much less on dependence on formal written plans by small firms. There should be rather more emphasis on heightening their awareness about the environment, triggering their portfolio of ideas, and in doing so, seeking also to encourage effective exploitation by heightening the strategic awareness of firms.

This strategy emphasises the importance of 'software' (provision of information, counselling, training, and education) as opposed to traditional 'hardware' instruments (grants, loans, premises provision and so on). The study emphasises the importance of improving management skills of owner-managers so that they can exploit new opportunities and explore their own potential, particularly in a sustained fashion (Gibb and Scott, 1985; Deakins, 1996, p. 198). In providing such services the implications of the research are that they should be as proactive as possible, maximising the personal contact with the owner-managers, possibly by setting up agencies on a regional basis, as physical proximity has been found to affect the personal contact network of owner-managers, and manned by experienced staff who can provide specialist sector-specific, market-specific and products-specific help and knowledge to firms (Deakins, 1993, p.66), particularly in the provision of market, technological and other environmental information. Support and promotional organisations should provide these services on a regular and continuous basis. In doing so, the supporting agencies should attract specialists and experts and motivate them by providing good incentive schemes.

As many owner-managers have displayed distrust about the motives and procedures of the bureaucratic support organisations which sometimes deterred them from seeking help, this study therefore suggests that support organisations should present themselves as 'consultants' rather than as providers of bureaucratic expertise. It needs to be recognised that the difference in size, objectives and structures of small firms and bureaucratic advisory organisations may be real barriers to the exchange of information (Anderson, 1995).

The positive relationship between strategic planning elements and performance, and the higher incidence of strategic planning process in firms that are better-performing, larger in size, more entrepreneurial, the owner-managers of which have previous business and/or work experience, and have both on-the-job and institutional training suggest that support agencies should be selective, if necessary, in providing assistance to these firms for their growth and development. In other words, policy focus should shift from blanket coverage and incentives for all new starts to the potential of surviving and growing firms, as the social costs associated with a drive to improve start-up rates are often high (Deakins, 1996, p. 40). In general, the emphasis on policy should be more on quality than quantity.

9.3 Limitations

The focus of this study necessarily limits its findings. One important limitation concerns the design followed to identify factors influencing the incidence of strategic planning in small business and the evaluation of the effect of strategic planning. Although a longitudinal study seemed to be a best method, it was not feasible to adopt

in the present study due to the reasons stated in Chapter 5 (section 5.2). Because of the relatively large sample size, one-by-one differences between the sample firms in terms of their levels of environmental and strategic awareness were not scrutinised. Moreover, none of the variables used in the field experiment was controlled or manipulated to examine causality in strategic planning. Furthermore, within an open environment where numerous factors, internal and external to firms and their owner-managers influence performance, strategic planning (i.e., environmental awareness, strategic course of action and strategic awareness), as a whole is only one factor of the entire range of such influences. However, in addition to quantitative analyses, qualitative case study data were also used to demonstrate the relationship, which help to develop understanding of this causality. For example, the better performance of Case 045 might be, to a large extent, if not whole, attributable to the owner-manager's recognition of the gap in the market, its exploration and his awareness of the capital requirements, marketing and technology for launching the project. On the other hand, the owner-manager's failure to recognise the possible market might have, to a greater extent, caused a heavy loss for the firm in Case 015. In spite of all this evidence, establishment of causality with regard to strategic planning and performance is difficult without conducting a longitudinal study.

Another limitation relates to the measurement of the effect of strategic planning. The quantitative measures of number of employees, percentage changes in employment and value added per employee were used in this study. As was stated earlier, in Chapter 5, financial data were not provided by as many firms or over as long period as might have been desired. Moreover, when they were provided, the data were not reliable enough.

Furthermore, there are many other measures, such as profitability, diversification in products, innovation and so on. Some of these measures were considered in the qualitative analyses.

The same limitation of measurement further applies to the measurement of capital intensity of firms and entrepreneurial firms. Capital intensity, in this study, was measured by observation of the machinery in the sample firms during the field work. The balance sheet data, if available, would have been more accurate for grouping the firms in terms of their capital intensity. There has been much speculation in the literature about whether entrepreneurial firms can be identified (Deakins, 1996, p.187).

Finally, the sample consisted of firms only from one industry category - the engineering sector - and from one particular region - the Dhaka city (the capital city). Thus the findings of this study may not apply to other small industry sectors and to firms located in other areas of the country.

9.4 Further Research

One of the major justifications of the study, as mentioned in Chapter 1, was the lack of research in the area of strategic planning in small business in developing countries in general, and in Bangladesh in particular. Further, the review of literature revealed a lack of an integrated model for studying strategic planning and its influence in small business. This study is an attempt to address several issues relating to strategic planning practice in small business and its effects on performance of firms using an integrated framework. It has, however, its limitations, as stated above. Therefore, it would be

enlightening to conduct a follow-up study of the firms involved in this research, especially to evaluate the effect of strategic planning. As it is argued that the effects of planning may not be both experienced immediately and readily measurable, exactly how long it takes for a strategic plan to affect performance is unknown (Mulford *et al.*, 1988). Therefore, a longitudinal investigation involving a control group as well as firms with high levels of strategic planning is suggested. Information should be collected from both groups before and after the adoption of strategic planning. This sort of longitudinal experiment has an enormous potentiality for revealing the process of strategic planning, the factors influencing the process and its effect of on performance.

This study is, as stated earlier, confined to the engineering sector within the Dhaka city. Studying the research issues of this study in other industry sectors and within industries would be an interesting extension of this study. This might reveal interesting results in terms of variations within the industrial sector as well as geographical location.

A firm's performance is influenced by the effects of strategy processes and contents as well as their interaction effects. While the researchers have suggested the need to study strategy content and process simultaneously as influences on business performance, research showing the effects of the interaction of strategy process and content on performance is very limited especially with regard to small business. Further research should explore the impact of strategy content and strategic planning processes on small business performance.

Because the business environment is becoming increasingly competitive, with very few sectors immune to global competition (Reijnders and Verhallen, 1996), a number of the small businesses in my study were considering engaging in various forms of collective activities such as joint ventures and other kinds of strategic alliances. Although such alliances have become more popular than in the past, researchers still know little about strategic alliances in small business and what these firms gain from them. Further developing countries lag behind in this area of research. Therefore more research into strategic alliances involving small businesses would be helpful.

It was revealed that most small entrepreneurs considered existing government policy not to be conducive to the effective operation and development (and growth) of small firms in Bangladesh. Therefore, different aspects of government policies that have direct relevance to the small enterprise sector need empirical scrutiny to provide a more appropriate policy framework in future. This is an area where there exists a promising opportunity for conducting future research in Bangladesh.

Finally, the mixed results about the effects of moderating variables on the relationship between strategic planning and performance suggest the need for more research in this area.

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Appendix I

Definition of Small Enterprise

There is a remarkable diversity of definitions of small enterprises. Although the term 'small enterprise' is used everywhere, both in developed and developing countries, there is no consensus on its definition (Kholo, 1991, p. 21). In fact, the definition of small firms has undergone several changes over time in most countries, and due to this constant change, it is difficult, although not impossible, to make international comparisons of this sector (Kamal, 1981, p. 15). However, there is still some value in attempting to reach an agreed definition (Hertz, 1980, p. 20). The adoption of a unified definition, however, is highly improbable due to a number of reasons such as the difference in economic development between countries, the stage of economic development within the country itself, the nature of various types of industries, the period in question and so on. Moreover, there remain precise measurement problems (Rahman, Mian, Bhattacharjee, and Khan, 1979; Ho, 1980; Elkan, 1989).

As a result, there have been numerous attempts to define small enterprises. For example, Auciello (1975) reported that even in the mid-1970s seventy five different countries had over fifty different formal definitions. These definitions, however, are usually based on either quantitative or qualitative characteristics. Some scholars use qualitative criteria in terms of functional characteristics, for example, specialization in management, close personal contact between management and customers, lack of access to capital markets and relatively close integration with the local community. In the United Kingdom, the first qualitative definition was offered by the Bolton Committee (1971). One of such early qualitative definitions provided by the U.S. Small Business Administration, embodying

three distinct elements: independent ownership, independent management and small market share (Robinson and Pearce, 1984). This type of categorization, however, is not generally valid in the contemporary business world, whilst it does not permit internal and international comparability of enterprises, even within the same sector (Ahmed, 1987, p.3).

In response to this problem, quantitative definitions rely on clearly defined parameters or combinations of parameters, such as employment, value added, sales turnover, investment size, profit generated etc. In general, such measures are applied where it is necessary to clearly identify a specific target group. However, quantitative definitions are marked by their range and diversity, and accordingly, are of little use for purposes of international comparison (Hailey, 1991, p.4).

Facing these difficulties, Hollander *et al.* (1967, pp. 4-5) emphasized a different approach, using a minimum size requirement accompanied by some value of the qualitative criteria. This unique dimension recognized that neither the measures of number of employees, value of assets, sales volume nor net profits earned can delineate the small enterprise satisfactorily. However, Bates (1971) stated that *'it probably does not matter much in practice which measure is chosen, provided it is reasonably accurately calculated, has some relevance to the problem under discussion and is used consistently during an investigation'*. In addition, Liedholm and Mead (1987, p.3) suggest that *'since no single measure is ideal, one must search for and use the "least objectionable" concept'*.

In a dozen of developing countries (except Jamaica) including Bangladesh, employment size up to 49 has been used to define small enterprises (Liedholm and Mead, 1987, p. 3). In seven Asian countries, Sharma (1979, p.12) reported the use of maximum employment of 49 people with, or without, some investment criteria define a small enterprise. In Bangladesh, most studies have used either employment size up to 49 in conjunction with, or without, investment size to define a small enterprise (Rahman *et al.*, 1979; Kamal, 1981; Ahmed, 1987; Sarder, 1995; Mannan, 1993). In fact, the government agencies, mainly for the policy purposes of supporting the SME³² sector, have used investment size, which has been raised over time, perhaps, for adjustment to inflation. Some international development agencies, such as World Bank, also apply investment criteria to differentiate small from medium and large enterprises.

The foregoing discussion, therefore, reveals that there is a superabundance of employment criteria, in combination with, or without, investment size to define small enterprises in most developing countries, and particularly in South East Asia. Therefore, the operational definition of a 'small enterprise' for the purpose of the present study will be:

'an establishment with a maximum of 49 full-time employees and/or total fixed investment of TK. 30 million (Approximately £428,000) excluding the value of land'

³²Small and medium Enterprise

The employment size of 49 was used for international comparison, whilst the investment size of maximum of £214,000 was the limit followed by the government for policy purposes.

Appendix II

Demonstration Cases³³

Firms with High Environmental and Strategic Awareness Performing Better

Case 44

Shaheen started his engineering business in 1985 soon after he had graduated from the engineering university with two partners. Both of his partners - Manju and Selim, also with engineering backgrounds, had owned construction firms for 5 and 8 years respectively. Both of the partners were unsuccessful in their previous business. In the present business, although all the partners take part in decision making, Manju particularly looks after the production and operation while Shaheen and Selim are in charge of general management and marketing. They have one manager and one accountant in their firm. The manager, an M.Com in Marketing, looks after the day to day operation and marketing, while the other business graduate performs the accounting functions.

The initial business idea of making metallic containers and P.P caps came from a business colleague of Manju. This colleague of Manju, Nasim, is the owner of a pharmaceutical company. Manju studied the market and felt that there was a gap in the market for metallic container and related products. After recognising this opportunity, he talked about it with Shaheen and Selim. They realised that metallic containers and p.p.caps could be marketed to companies like pharmaceutical, toiletries, food, and other firms such as firms that make batteries. Shaheen, in demonstrating further his awareness about customer, noted “... *as the income level of the poor people has gone up*

in recent years they would spend money on cosmetics product which will in turn, create more demand of metallic containers". Before start-up their business, they had identified all the existing firms, one large in Chittagong (second biggest city in Bangladesh) and nine very small in Dhaka, involved in that business. The small firms in Dhaka lacked required production and marketing skills and, thus could not meet the demand of the market. After exploring the gap in the market and the weaknesses of competitors, Shaheen and his partners now gave a serious thought of exploiting this opportunity.

Although none of the partners had any experience in the present business, their engineering backgrounds helped them to identify the type of machinery and the skills needed and the cost thereof. Since Shaheen's partners had been in the business for several years, they knew about the tax-advantaged areas designated by the government. They decided to set up the plant in one of those areas- Shyampur - not only to avoid the tax but also to take the advantage of cheap rent of the plant space. They also knew that the government provides better support to those businesses that produce import-substitute products. They applied to the Sonali Bank for a loan and the bank provided 90% of their capital requirements. They bought four highly automated machines and started the business with 15 employees. Their business was reasonably good at the initial stage and it continued to improve in the subsequent years. Their business became prominent in metal container manufacturing.

After 4 years of operation, they observed that there was a market for ready-made garments in international markets. After observing this opportunity, they established an

³³The names used in the cases are fictitious. The names are used to make them more interesting to the

export-oriented garment factory with a 50% capital from the profit they made in their engineering business. In the same year, they bought the land they initially rented for their factory. Selim was given the responsibility of day to day operation of the garments factory. In 1992, they extended their plant size of engineering business and opened another branch and a sales office in Dhaka.

Both the engineering and garments business were performing better than other similar firms located in the same location, according to Shaheen. The number of employees has gone up to 27 in 1992 and 49 in 1993.

Case 45

Mahbub Ahmed, aged 44 in 1994, had worked as a Deputy Chief Engineer in Bangladesh Chemical Engineering Corporation (BCIC) before starting his business. He held many other important positions in textile firms and Tabani Beverage Company (local licence holder for Coca-Cola). Altogether he had about 20 years of experience as a chemical engineer.

While holding the positions as an engineer in public sector corporation, he thought about the business idea of making steam boilers, steam irons, iron tables and related products used in garments and textile firms. This business idea was triggered mainly by the advice of his friends, most of whom owned garments factories. He came to know these people while he was working at BCIC. He thought about the idea for three years. He knew that these items were imported mainly from UK and Japan and that there were

readers.

only two local firms making these products. He decided to start the business to exploit the opportunity as he felt that there was a vacuum in the market to fill in the huge demands of the growing garments factories in early 1980s. He set up his business in his own land with two partners - one engineer and the other one is his wife (sleeping partner) - in 1981. Before starting this business the engineer partner had been working for about 15 years in a similar engineering firm making the same products as their present firm does. They bought three foreign and one local automated machines. Mahbub, his wife and their partner financed the whole project with no bank loan. The partner, Alauddin, was given the charge of looking after the production, while Mahbub was in charge of marketing.

At the initial stage, they had 35 employees including Mahbub and his partner Alauddin and they produced only one product- mini steam boiler. From the experience they acquired during their working life, both Mahbub and Alauddin examined the feasibility of the project. When they felt that it was feasible from capital requirement, marketing, and technical knowledge, they launched the project. They had some ready customers who became known to Mahbub while he had been working in his previous jobs. Their business was unexpectedly good as they did not face any strong competition.

After observing the demand by the existing customers, they added new products (steam iron, iron table, pressure vessel) in their product line during 1984-88 with the financial assistance by Sonali bank. Mahbub took a training on maintenance and quality control. They employed two managerial people - one to perform the day to day operation of the business and the other one to do the accounting functions. The business was doing

tremendously well and they repaid 90% of their loan. According to Mahbub, their business hold 90% of the share of the market. The number of employees in their firm was 48 in 1994. Now they were thinking of adding ironing machine for specialised iron system, the demand of which was growing in the automated and large-scale garments factories. Mahbub assessed its feasibility and hopeful that they would be able to add the product without any external financial assistance.

Case 002

Suresh, aged 42 in 1994, has been in his business for the last 19 years. Before started his business, he had been working in a workshop for making moulding dice, hanger dice and related products for 11 years. By working in this workshop, Suresh turned to be a skilled employee. He started thinking of starting his own business. He was thinking about how to provide better quality products to the customers. He decided to buy one automated machine. He saved some money from his wages and approached the BSCIC³⁴ for financial support. BSCIC granted him a loan from which he bought a Taiwense machine and two manually operated local machines.

Suresh rented a small place for the factory about 120 yards away from his previous workplace (a workshop). He started the operation with no employees other than himself. Since he came to know many customers when he was working in his previous work and, since his factory was located very near to his previous work place, many of those customers became his customers. Suresh had considered this before starting the business. Therefore he did not have to try hard to look for the market.

³⁴Bangladesh Small and Cottage Industries Corporation.

In 1985, some of his customers requested him to make a copy milling machine for them. He made two for the two customers. Suresh talked to the wholesalers and retailers about its market. The wholesalers and retailers advised him that he would get a good market as the item was imported from India and China. He thought about buying an automated machine to make the better quality product than the imported one. He talked to the supplier of machinery and found that it would cost him a lot - about TK. 1.4 million (£1=TK.70). It would be really hard for him to buy such a machinery. He thought about it for about a year and finally approached BSCIC and managed to get a loan. The supplier of the machine advised him to take a training from Bangladesh University of Engineering and Technology (BUET) to operate the machine and he did it. He did tremendously well in the market. His number of employees rose and he employed 3 skilled workers. He extended his plant size by buying another place near the old plant. In 1993, he was employing 21 people. Over the years, his market has expanded extensively. Presently, his customers include the Coca-Cola company, a local television manufacturer and other business units that use plastic boxes. Suresh maintained that his business has been doing a lot better than other small firms in the same locality. He believed that he would repay the loan (of 20 instalments) in only 2 instalments.

Since he is very aware of the free market economy and its possible threats, he has been thinking of launching a project for manufacturing dice for toy manufacturers. He has made an assessment about the cost involved and approached BSCIC for financing the project. At the same time he had made some contacts with other alternative sources of

funding including a joint venture project with an Indian firm in case BSCIC declines his loan application.

Case 009

Mafijul, aged 40, started his bathroom fittings business in 1973 when he was only 17. He studied up to Class VI (six years of schooling). Before starting his bathroom fittings business, he had owned a sports medal factory for about one year, and an electra plating factory for 2 years, and a self-employed painter for 2 years. His father was in Rickshaw (manually operated three-wheeler transport) business for his whole working life. His other two brothers have also been involved in light engineering businesses. Starting a bathroom fittings business was his father's and friends idea as there was lack of local manufacturer in the market.

Mafijul thought about the idea and started the business with a small capital outlay of TK. 12,000 (£1=TK.70), TK. 7,000 from his father and the other 5,000 from his aunt. He started his business with two working people including himself. At start-up, the production concentrated mainly on some ordinary sink taps. The market responded very positively since his product was much cheaper than the already dominated foreign products.

Although he was satisfied with his business performance, he kept on thinking about how to improve the quality of his product so that he could beat the competitors. He took part in different training programmes conducted by BUET, BSCIC and MIDAS (Micro Industries Development Assistance and services). With his extensive training, in few

years, he was able to improve the quality of products and he got a good share in the market.

His number of employees increased to 13 in 1992 including one in managerial level who looked after the day to operation of the business and performed the main functions of the business when Mafijul is away. Mafijul was very committed to the development of his business and he could sacrifice anything for that. He said '*.I could survive with only two hours of sleep for the sake of expansion of my business*'.

Mafijul is a very socially active person. Because of his personal contact with other business owners, he became one of the important officials in the business owners associations and chamber of commerce. He travelled to India, Hong Kong, Japan and Thailand organised by the government to attend training seminars and industrial fairs. Through his overseas trips, he came to know business people in other countries as well.

Because of his positions and contacts, he was always well informed about the events in the environment. He knew all his competitors in the market. He reckoned that because of certain measures taken by government such as VAT on locally manufactured products and free market economic policy, cheaper products from India would flood the market and he might lose his share in the market. Therefore he made contact with one bathroom fittings business manufacturer in Calcutta (approximately, 200 miles west of Dhaka), India, whom he met at an industrial fair in Thailand, and proposed a joint venture project to make a new product, a hand shower with wire. This product was an imported item from Thailand and India, and so far not available by local manufacturer.

He considered the joint venture project to maintain and expand his share in the local market at little extra cost and to find new markets for his products in India. Three months before the field work in 1994, the joint venture project was launched.

At that time, the number of employees in Mafijul's business reached 15 and the number of main products reached 14 with many different sub-species. He repaid 80% of his loan which he had taken in 1987 and which was supposed to be repaid by 2007 in 20 instalments. He received five national awards in the industrial fair in 1993 for the contribution he made to the economy. Mafijul was very satisfied with his business and very committed to its further growth. He was ready to give up anything for that, as he said, '*...I could survive with only two hours of sleep for the sake of expansion of my business*'. According to him, overall, his business had been doing much better than other similar firms.

Case 049

After the liberation war in 1971, Ali, aged 41 in 1994, joined in his father's business as a worker in 1972. His father had worked as a foreman in TATA company (the Indian car company) for about 10 years, engaged in trading of ship scrap for 35 years and finally started an engineering business to manufacture a gas operated lantern in 1970. At that time, rural areas in Bangladesh were lacking electricity supply. Two years later, after his father's death, Ali inherited the business with three very skilled workers. These workers are still with Ali.

The discovery of gas fields in Bangladesh and its supply and use in many parts in the country created opportunities for a new market in the 1970s. After recognising this opportunity, Ali talked to his senior workers about making a gas control bulb, control key and related products. When he had obtained a positive indication from the workers, Ali studied the market in order to identify the demand for these products and possible ways of marketing. This was done through informal discussion with wholesalers, retailers and his friends. He assessed the feasibility of the project which included buying of a new machinery. After talking to the supplier, he was confident about financing the machinery by his own capital.

Because of having skilled workers and the long experience in the same industry, Ali thought that they would meet the stiff quality standards and output levels that the market requires. Since he was thinking of making the new products in the existing factory which was located in his own land, he also thought that he would be able to supply the products at a lower price than his competitor as he would not need to spend additional money for factory space and workers (e.g., for unnecessary unskilled workers). Ali started manufacturing the new products in 1975 and got a good respond from the market although his only competitor was also doing well. In a few years, his business increased many fold, and in 1986, Ali founded another plant.

In order to secure more share of the market, Ali continued to add new products to his product line. Ali's business has been exceptionally good for the last three years and he mentioned, "*.. there is still a huge demand in the market and it is yet to fulfil*". In 1994, because of the extensive use of liquid gas in every corner of the country, Ali was

actively thinking of adding another new product : a regulator for liquid gas cylinder, at the time of field work. The number of products in 1993 had reached 19 and the number of employees has gone up to 27. Because of his dominance in the market, his only competitor had closed down his business three months before the field work. Ali has never approached any external sources for a loan.

Firms with Low or No Environmental and Strategic Awareness Performing Poor

Case 034

Shahjahan, aged 28 in 1994, had been studying in the secondary school (in class viii) before he started working in his father's engineering firm. Their business made liners, pistons, u-bolts etc. After working for one year, Shahjahan virtually took the charge of the business in 1983 when his father became ill. He inherited four other employees from his father. The business, with no growth record, provided a good income for Shahjahan's family.

In 1993, many foreign cable TV stations started broadcasting their programmes in Bangladesh. Only the foreign expatriates working in Bangladesh were able to see the programmes as very few Bangladeshi got the dish antenna. Shahjahan observed the gap and felt that he had a flair to manufacture dish antenna. He decided to start small scale production. He manufactured a total of six antennas which became successful both in engineering and marketing terms. At the same time, he applied to BSCIC for support to finance this project in a larger form. However, his application was declined after one year of processing. Shahjahan did not think about alternative sources of funds and approach any other supporting agencies. This caused him a substantial loss of potential

market. In about 3 months time, a large firm started manufacturing antennae like the one marketed by Shahjahan. Because of Shahjahan's failure to recognise the potential threats resulting from unavailability of funds and the emergence of large competitor, he failed to implement the planned project and thus, suffered a substantial loss of initial investment.

In 1994, Shahjahan moved back to his original product line. His number of employees dropped to 3. He was again thinking of making cycle parts, but the thinking was merely a thinking. His business had been bad in the last couple of years excepting in 1992 when it was exceptionally good because of good response he received in the market for dish antenna.

Case 014

Khaled, aged 28 in 1994, got his BA in Arts before his father brought him in his business which dealt with manufacturing of lathe machine. One year later in 1988, his father delegated the charge of running the business to him. Their business was situated in Tejgaon area, approximately 8 miles away for the market. They had 19 employees in 1988.

In 1990, after he had briefed by one of his workers, Khaled intended to extend his production line by adding power pump, a product which was already produced by 8 other firms and which was also an imported item. He applied for a loan from BSCIC and got the loan. He installed expensive automated machinery imported from Japan. He launched the new project in the late 1991. Khaled then went to the market to sell the

power pump but found that the wholesalers offered him a very little money. He had not done any market research before the production to find out the market demand in terms of quality, price and marketing of new products.

He started the production with his existing workers who were not skilled enough to produce the right quality power pump. He did not take this issue into account and did not make any attempt to recruit qualified workers for the new product. Another important problem relates to the location of his factory (8 miles away from the market). This acted adversely in two ways. Because he did not have any personal contact to any wholesaler or retailer of power pump, he found it difficult to persuade them for marketing a new brand in a highly competitive product. Secondly, the distance raised the transport cost unexpectedly high to supply the product to the market located in a traffic-congested area. Khaled was asked if he had considered these problems before launching the project. He answered negatively. He was stuck with his product and unable to find a suitable market. He was very dissatisfied with his project and thinking of quitting the business after suffering heavy losses.

At the time of interview in July 1994, the business was about to end. The number of employees dropped to 2. He had a huge loan, 100% of it yet to repay. Khaled was not sure about what to do after quitting the business, other than going abroad.

Case 031

Laskar, aged 55 in 1994, started his steel furniture business mainly to make closet and wardrobe in 1974. Before he started his business, he had worked as a worker in three

similar business units for 17 years. He was dissatisfied with the wages in previous jobs and decided to start his own business. Laskar had a very minimum level of formal education (five years of schooling) and no formal training. He started his business with 80% capital from his own and 20% from his family. He had two other employees at the start up. At the initial stage, Lasker made the products for order from customers.

As the business had gone up a lot, in 1981, he employed six more people. Laskar started making products for stock. He sold the products both direct to consumers and to wholesalers and retailers. He introduced a secret locking system in the cabinet. His business was so good in the early 1980s that the then President of the country himself visited his factory. In 1983, he took a loan of TK. 200,000 for the expansion of his factory. The loan was scheduled to be repaid in 10 years.

In mid 1980s, a large number of showrooms for steel furniture appeared in a newly built market in the nearby area where the roads were very wide and people were able to move easily. Laskar's business was located in a very congested area of the city where the movement of goods was pretty difficult. Therefore, the customers preferred to buy furniture from the newly built showrooms. Laskar started losing his customers. He could have opened a store room in the new market place, but he did not do it. Moreover, unlike Laskar, some of his competitors gradually added new products like chairs, file cabinets, garden chairs etc. The failure to identify the effect of the newly-built market place and the lack of awareness of customers preference and competitors actions caused Laskar a drastic loss of business and so his number of employees.

When he was asked if he was thinking of moving his factory or opening a showroom in the modern part of the city where he could get a good market, he answered negatively although only a very few furniture shops were located in those areas. He still wanted to open a showroom in the nearby market area. However, at present, it was hard to find a place in that market place, and if at all found, it would be very expensive to buy or rent a showroom there.

He was very dissatisfied with his business, and he was ready to quit the business for a moderately paid job. In 1994, forty per cent of his loan was still due. His business was so bad that he was unable to continue his support towards his son's education even after the son had passed the secondary school certificate examination in first division (top score group) in 1989.

Case 055

Jabbar was 48 years old in 1994. He had a BA degree in arts. Before he started his engineering business in 1973 for manufacturing liner, piston and related products, he had worked as a school teacher for 3 years. Because of the low pay in school, he decided to start business. He did neither have any experience in business nor any training to manage an engineering firm. He started his business with capital from his personal and family sources.

Jabbar's business had been always operating at a very marginal level, while many other similar businesses were doing much more better. His business was located at a very narrow lane of the main road. Because of the location, he did not have enough

customers³⁵. Moreover, it seemed that he rarely tried hard to attract new customers, although he had intended to expand his business and showed that he could do anything for expanding his business. He had never thought about moving his factory from the narrow lane to the main road. It was not necessarily the best decision, however, it could have brought some more customers for his business. This certainly demonstrates his lack of strategic thinking.

Jabbar usually did not interact with other businessmen in the area. He came to know a lot about the changes, like introduction of VAT and free market economy, that took place in recent years in the policy environment through newspaper and TV. However, unlike many others, he did not take any attempt to explore the opportunities that were created and the threats that were appeared resulting from the policy changes. He recognised that his business was doing very badly. During the three hours time of the interview, unlike other business firms, I did not see any customers in his business.

Case 015

Bimal, aged 43 in 1994, had worked in his father's electric fan manufacturing business for about 11 years before he inherited the business. At the time of taking over the business from his father in 1972, he had 5 employees including his father and Bimal himself. Their production concentrates to only one product: exhaust fan for other factories and cinema halls. Because his father was still attached to the business, he used his father's contact to wholesalers and retailers and therefore successfully run the

³⁵It was already mentioned in Chapter 5 that most of the sample firms were located in some particular locations. For example, there were 159 firms on main roads in Dholaikhal area. Because of the locational advantage in a competitive market, firms on the main street had attracted more customers as they were easily visible to customers.

business without any lacking of customers. In a few days he became a good friend of some of the retailers.

In spring 1985, some of the retailers advised Bimal to make small fan to be used in the small shops and factories. Bimal talked to his father and his uncle (who was also a business man) and then talked to about 10-12 other retailers. He observed that there was indeed a demand for that product. In order to explore this market opportunity, he bought two lathes and hired three skilled people for making the new product. He started making the small ceiling fans in February and marketed it through its existing retailers and wholesalers in mid-March (early summer). He monopolised the market as there was no other manufacturer of that product. His product continued to gain the share of the market and Bimal had to extend his plant size to meet the increasing demand. His number of employees went up to 42 in 1988.

In 1989, after the huge success in marketing the ceiling fan for small shops, Bimal now thought of making ceiling fan for residential use. This time he also consulted his existing wholesalers who did not market residential ceiling fan before. He applied for financial support to the BSCIC, and he was granted a loan. With the loan, he bought three automated machines: two Japanese made and one Indian made. He launched the project in early 1990 and approached his existing wholesalers to sell his new products. But his new product - the ceiling fan for residential use - did not do well in the market. The main reason was that there were many other large companies which had been marketed their branded product for a very long period of time. Over the years, residential users formed a sort of loyalty to those brands and they did not prefer to buy

any new products. Bimal perhaps could have made some customers by extensive advertising his product, which he also did not do. Bimal's lack of awareness of potential customers' preference and marketing the new brand product in a competitive market led him to experience a huge loss of investment. One week before this interview was conducted, Bimal made 14 of his employees redundant. All of his loan to BSCIC had yet to be repaid.

Appendix III

INTERVIEW SCHEDULE³⁶

STRATEGIC PLANNING PRACTICES IN SMALL BUSINESS IN BANGLADESH

PLEASE TICK [] APPROPRIATE BOXES FOR ALL OF YOUR ANSWERS, UNLESS OTHERWISE INSTRUCTED

SECTION-I: YOUR PERSONAL BACKGROUND

Q.01. Age (As of 1st of January 1994) _____

Q.02. Sex Male [] Female []

Q.03. Marital status

Married [] Single [] Never married [] Divorced [] Separated [] Widowed []

Q.04. Educational Qualification

PRE-SCHOOL [] SSC [] HSC [] BACHELOR [] MASTER [] GENERAL []

TECHNICAL [] PLEASE SPECIFY _____

OTHERS _____

Q.05. Number of years in your present business? _____

Q.06. Do you own this business ?

Yes	No
-----	----

Q.07. How did you become the owner of this firm?

Q.08. Do you have any other businesses in addition to this firm?

Yes	No
-----	----

If 'Yes', would you please tell me when did you start the other business?

[If 'No', Go to Q. 10]

Q.09. What proportion of external finance (including funds from friends, family) was invested in starting your other businesses? _____

Q.10. Did you own any business before starting the present business ?

Yes	No
-----	----

³⁶Modified after second pretest on 05 June 1994.

If 'YES',

What types of business [most recent first]

How many years

- i.
- ii.
- iii.
- iv.

Q.11. Did you work any where before starting the present business ?

Yes	No
-----	----

If 'YES',

What kind of jobs [most recent first]

How many years

- i.
- ii.
- iii.
- iv.

Q.12. Is any other member of your family involved in any business?

Yes	No
-----	----

If 'YES', who are they?

If 'No', Go to Q.

Q.13. Is any other member of your family retired from business ?

Yes	No
-----	----

If 'YES', who are they?

Q.14. Is any other member of your family involved in this business?

Yes	No
-----	----

If 'YES', who are they?

Q.15. Are any members of your family involved in managerial position in this business?

Yes	No
-----	----

If 'Yes', who are they?

Q.16. Has any other member of your family retired from the ownership / management of this business ?

Yes	No
-----	----

If 'YES', who are they? _____

Q.17. Could you please give an idea about your father's occupation? [most recent first]

What kind of jobs/business [most recent first]

How many years

- i.
- ii.
- iii.
- iv.

Q.18. How many hours per week do you spend in running the enterprise? _____

Q.19. How many hours in the last week did you spend in running this enterprise? _____

Q.20. Have you had any particular training ?

Yes	No
-----	----

If 'YES', what type of training?

Q.21. Are you a member of any business/commerce association

Yes	No
-----	----

If 'no' why ?

SECTION-II: BUSINESS DESCRIPTION

Q.22. In what year the business firm was founded? _____

Q.23. Type of production process involved (e.g. Capital / labour intensive, manual / mechanised etc.)?

Q.24. What is the form of ownership?

sole trader [] partnership [] Joint Stock company []

Q.25a. How many products does your firm produce? _____

Q.25b. What are those?

Q.26. What was the volume of production in the financial year :

1992-93

<u>Product</u>	<u>Unit produced</u>	<u>Price per unit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

1991-92

<u>Product</u>	<u>Unit produced</u>	<u>Price per unit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

1990-91

<u>Product</u>	<u>Unit produced</u>	<u>Price per unit</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

Q.27. a) How many people including owner currently work here?

Employees	Full-time		Part-time		Casual		Total
	Male	Female	Male	Female	Male	Female	
Skilled Unskilled							
Managerial Non-managerial							
Hired Family							
Paid-wages Non-paid wages							

b) How many regular employees were employed here in:

- i. at the starting year
- ii. 1992-93
- iii. 1991-92
- iv. 1990-91
- v. 1989-90
- vi. 1988-89

c) Could you please state the academic background and work experience of other managerial people (excluding you) ?

Employees	Academic Background	Experience		
		Nature of work	Work Place	Years

Q.28. How does your firm recruits the employees ? Please elaborate.

Q.29. Please indicate what do the employees do in running the firm?

Q.30. How many hours of the day do the employees of your firm work?

Q.31. Do you maintain the attendance register for the employees ?

If 'No', why?

Yes	No
-----	----

Q.32. Please specify the time of the working day the employees are supposed to come at the place of work?

Q.33. Do the employees come at the time they are supposed to come ?

Yes	No
-----	----

If 'No', what action do you take to make sure that they come duly ?

Q.34. Could you please tell me how many employees of your firm including you and other shareholders have come duly and how many have come late at the place of work today?

No. of employees have come duly _____

No. of employees have come late _____

Q.35. How many shareholders are there in your enterprise?

[if no shareholders, Go to Q.39]

Q.36. Could you please tell me how do other shareholders take part in running the business?

Q.37. Do they take part in any long term decisions with regard to employees, land, raw materials, machinery ?

Yes	No
-----	----

If 'Yes', could you please give me some examples about their participation in the last time your firm has made such a decision?

If 'No', Why do they not take part?

Q.38. In the absence of the active owner-managers (in case of more than one owner) who looks after the business?

Q.39. Would you please mention the sources of finance on entering this business?

Personal capital _____%

Loan from i) friends _____%

Trade credit _____%

ii) banks _____%

Profit re-invested _____%

iii) others _____%

Not classified above _____%

Q.40. Could you please mention the financial arrangements you have made while running the business?

Personal capital _____%	Loan from	i) friends _____%
Trade credit _____%		ii) banks _____%
Profit re-invested _____%		iii) others _____%
Not classified above _____%		

Q.41. Have you had any support (financial, non-financial) from any support organisation or bank?

Yes	No
-----	----

If 'Yes', from who?

what type of support did you receive (i.e., finance, training) _____

Q.42. How much money did you spend in this business in

1992-93 for:

Raw materials	Tk. _____	Wages & Salaries	Tk. _____
Electricity & Gas	Tk. _____	Taxation	Tk. _____
Rent	Tk. _____	Others (Pl.. specify)	Tk. _____

1991-92 for:

Raw materials	Tk. _____	Wages & Salaries	Tk. _____
Electricity & Gas	Tk. _____	Taxation	Tk. _____
Rent	Tk. _____	Others (Pl.. specify)	Tk. _____

in 1990-91 for:

Raw materials	Tk. _____	Wages & Salaries	Tk. _____
Electricity & Gas	Tk. _____	Taxation	Tk. _____
Rent	Tk. _____	Others (Pl.. specify)	Tk. _____

Q.43. What were the total sales in the financial years ?

i. 1992-1993 Tk. _____

1991-1992 Tk.

1990-1991 Tk.

ii. By what percentage do you estimate that your firm's annual sales will increase or decrease in the next 12 months? _____%

iii. By what percentage do you estimate that annual sales for your firm's local industry will increase or decrease in the next 12 months? _____%

iv. By what percentage do you estimate that your firm's profit will increase or decrease in the next 12 months? _____%

v. Please list briefly the ways you would alter the operation of your company to accommodate anticipated changes in turnover or profit?

Q.44. What is the most important factor for the success of a business of your type?

Q.45. What can you sacrifice for your firm?

SECTION III. PLANNING PRACTICE

[I Would Like to Ask You Some Questions about the Way You Run the Business]

Q.46. Would you please tell me why did you start the business ?

Q.47. Did you start the business to avail any new opportunity (s) not identified by others so far?

Yes	No
-----	----

If 'Yes', what was (were) that ?

Q.48. Have the objectives of starting the business been modified since the business was founded?

Yes	No
-----	----

If 'Yes', when , and why

Q.49. How did you get the idea of starting this business from? Please elaborate.

Q.50. How long before you started the business firm did you start thinking / planning it?

Q.51. Do you have any idea/plan about how you are going to attain your objectives?

Yes	No
-----	----

If 'Yes', Please elaborate

If 'No', Go to Q.64d]

Q.52. Have you written down these ideas ?

Yes	No
-----	----

If 'Yes', can you show me those

[I do not need to look inside the documents, please show.

Count how many and in what areas as well as the nature of the documents].

If 'No', Go to Q.56]

Q.53a. When did you first attempt to have your ideas into written planning documents ?

Q.53b. Why did you make these documents?

Q.54. Would you please say something about your firm's position with regard to number of employees, turnover, and profit at the time when you first attempted to have the ideas into planning documents?

i. No. of Employees

ii. Turnover

iii. Profit

Q.55. For how many years has your firm been preparing such written documents / plans ?

Q.56. Why do you not prepare written documents/plans ?

Q.57. What time period do the idea/documents cover ?

Q.58. Has anyone helped you in developing the idea or preparing documents?

Yes	No
-----	----

If 'Yes' Who are they ?

What did they do ?

Q.59. Has any outside organisation helped you developing the idea or preparing the documents ?

If 'Yes' Who are they ?

Yes	No
-----	----

Q.60. Do you inform the employees of your firm about the ideas/documents ?

Yes	No
-----	----

If 'No',
why?

If 'Yes'

i. Who are they ?

ii. How do you inform them?

iii. Do they take part in preparing the plan/documents?

Yes	No
-----	----

If 'Yes', Please elaborate

Q.61. Do you review, modify or update your ideas/ documents?

Yes	No
-----	----

If 'Yes', when did you last modify your idea/ document? and why?

Q.62. Do you have any other alternative ideas or documents about what will you do if your present idea/document can not be achieved ?

Yes	No
-----	----

If 'Yes', would you please mention those plans/ideas?

Q.63. What problems do you face in implementing plan/ideas?

Q.63a. Would you please say something about the problems that you have encountered in the last month in implementing the plan/ideas?

Q.63b. Has any of these problems of implementation of planning related to the employees of your firm?

Yes	No
-----	----

If 'Yes', what are those problems ?

How are you thinking/planning to resolve those problems?

Q.63c.Has any of these problems of implementation of planning related to the production process (e.g., machinery, raw materials) of your firm ?

Yes	No
-----	----

If 'Yes',

i) What are those problems ?

ii) How are you thinking/planning to resolve those problems?

Q.63d.Has any of these problems related to the capital assets (i.e., land, premises) of your firm ?

Yes	No
-----	----

If 'Yes',

i) What are those problems ?

ii) How are you thinking/planning to resolve those problems?

Q.64. Does your support organisation or bank has instructed you to make written document (s)?

If 'Yes', would you please say something about that/those plan(s)?

Yes	No
-----	----

Q.65. How important do you feel written documents/planning is to your busines?

Not At All Important (1)	Not Important (2)	Very Important (3)	Somewhat Important (4)	Extremely Important (5)
--------------------------------	-------------------------	--------------------------	------------------------------	-------------------------------

Q.66. Would you please tell me something about your **COMPETITORS**?

i) Who are they _____

ii)Has any of the competitors recently closed down his/her business ?

Yes	No	D.K
-----	----	-----

If 'yes'

iii)Who are they ?

iv) Has any new competitor appeared in the market ?

Yes	No	DK
-----	----	----

If 'yes'

v)Who are they ?

vi) What new competitors can appear in the market in future?

vii) When the potential competitors can appear in the market? _____

viii) Could you please tell me the new products have been introduced by your competitors recently?

ix) What are the strong points of the competitors over your business?

x) In what areas they are weak than your firms?

xi) Could you please say something about the competitors plan to strengthen their positions in the market?

xii) In which respects (e.g., pricing, delivery, service, quality) the main competition to your business are arising from?

xiii) How are you thinking about strengthening your position over your competitors ?

If Answered Q. Xiii, and have idea

xiv) Could you please describe the implications of your idea on

- i. your time
 - ii. your life style
 - iii. the firm's capital asset
 - iv. employees
 - v. raw materials
 - vi. marketing
-

xv) How do you get the idea/information about competitors?

xvi) Do you think that all the firms of your industry are suffering from lack of information with regard to competitors?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack of information?

xvii). Does your firm suffer from any lack of information about competitors ?

Yes	No
-----	----

[If 'No, Go to Q. 67]

xviii) How are you thinking/planning to resolve the problems of obtaining information?

Q.67. Would you please tell me something about your **MARKETING CHANNELS?**

i) Who are the people involved between you and your product's consumers?

ii)How are your competitors selling the goods to consumers?

iii) What new intermediaries (retailer, wholesaler) can appear in the market in near future?

iv) Are the retailers, wholesalers strong enough to increase/decrease your firm's sales level ?

Yes	No	DK
-----	----	----

If 'yes', Please elaborate (how?)

v)How are you thinking about coping with the situation that may arise out of activities of the members of the marketing channels?

vi)Are you thinking about changing of your present marketing channels?

Yes	No	DK
-----	----	----

If 'yes',vii) Why?

viii) Is this change due to impose more control on your intermediaries?

Yes	No	DK
-----	----	----

If 'yes',

ix) How?_____

If Answered Q. Vii., and have idea

x).Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style
- iii. the firm's capital asset
- iv. employees
- v. raw materials
- vi. Marketing

xi)How do you get the idea/information about the marketing channel?

xii)Do you think that all the firms of your industry are suffering from lack of use of proper marketing channels?

Yes	No	DK
-----	----	----

[If 'No', [Go to Q xiv].

If 'yes',

xii) what are the reasons for this lacking?

xiii)Has any of these reasons related to the lack of information with regard to marketing channels?

If 'yes', Please elaborate.

Yes	No	DK
-----	----	----

xiv) Does your firm suffer from any lack of information about marketing channel ?

Yes	No
-----	----

[If 'No, Go to Q. 68]

xv) How are you thinking/planning to resolve the problems of obtaining information?

Q.68. Would you please tell me something about the **GOVERNMENT POLICIES** that may affect your business?

i) Could you please tell me if any new changes in the tax policy have been introduced in the last budget?

ii) Could you please tell me if any new changes regarding import and export have been introduced by the government that may affect the business of your type?

iii) Could you please tell me if any benefits have been offered by the government in the last budget to promote the business of your type?

iv) Could you please tell me if any new tax changes are being proposed by the government in the coming budget?

v) Could you please tell me if any new changes regarding the support to small firms of your type been introduced in the last budget?

vi) Could you please tell me if any new changes regarding the support to small firms are being proposed by the government in the coming budget?

vii) Could you please tell me if any new changes of regulation are being proposed by the government in the coming budget that might affect the operation of firms of your type in the near future?

viii) What is the new rate of interest on short term and long term loan ?

ix) How are you thinking of coping with the situation that may arise out of activities of the government ?

If Answered Q. ix, and have idea

x). Could you please describe the implications of your idea on

i. your time _____

ii. your life style _____

iii. the firm's capital asset _____

iv. employees _____

v. raw materials

vi. marketing

xi) How do you get the idea/information about government policies?

xii) Do you think that all the firms of your industry are suffering from lack of knowledge about government policies?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack of information?

If 'No', Go to Q. xiii]

xiii). Does your firm suffer from any lack of information about govt. policies?

Yes	No
-----	----

If 'No, Go to Q. 69]

xiv) How are you thinking/planning to resolve the problems of obtaining information?

Q.69. Would you please tell me something about the **TECHNOLOGY** that may affect the business of your type ?

i) What type of machinery do you have ?

ii) Could you please tell me what type of machinery do your competitors use?

iii) Could you please tell me if there has been any new/better quality machinery been marketed recently ?

Yes	No	DK
-----	----	----

If 'yes', Please describe

iv). In what respects the new machines are superior than the one you have got already?

v) Could you please tell me if any new machinery can be marketed in the near future that may be more suitable to your firm's operation? .

If 'yes',

vi) Are you thinking of buying new machinery?

Yes	No
-----	----

If 'yes',

.

vii Why _____

viii) Have you looked at the price of those machinery?

Yes	No
-----	----

If Answered Q. vi and have idea of buying

ix). Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style _____
- iii. the firm's capital asset _____
- iv. employees _____
- v. raw materials _____
- vi. marketing _____

x) How do you get the idea/information about technology?

xi) Do you think that all the firms of your industry are suffering from lack of proper technology?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xii]

xii). Does your firm suffer from any lack of information about technological development?

Yes	No
-----	----

[If 'No, Go to Q. 70]

xiii) How are you thinking/planning to resolve the problems of obtaining information?

Q.70. Would you please tell me something about the RAW MATERIALS AND SUPPLIES that you use ?

i) What raw materials and supplies do you use ?

ii) What type of raw materials and supplies do your competitors use?

iii) What are the sources of procurement of your firm's raw materials and supplies ?

iv) Who are the suppliers of your competitors?

v) Could you please tell me if there is any new suppliers of raw materials and supplies ?

Yes	No
-----	----

If 'yes', Please elaborate _____

vi). In what respects the new materials are superior than the one you have got already?

vii) Could you please tell me if any new materials can be marketed in the near future that may be more suitable to your firm's operation?

If 'yes',

viii) Are you thinking of buying new materials?

Yes	No
-----	----

If 'yes',

ix). Why _____

x). Have you looked at the price of those materials?

Yes	No
-----	----

If Answered Q. viii, and have idea of buying

xi). Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style _____
- iii. the firm's capital asset _____
- iv. employees _____
- v. raw materials _____
- vi. marketing _____

xii) How do you get the idea/information about raw materials?

xiii) Do you think that all the firms of your industry are suffering from lack of proper raw materials?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xiv]

xiv) Do you think that all the firms of your industry are suffering from lack of information about raw materials?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xv]

xv). Does your firm suffer from any lack of information about technological development?

Yes	No
-----	----

[If 'No, Go to Q. 71]

xvi) How are you thinking/planning to resolve the problems of obtaining information?

Q.71. Would you please tell me something about the **LAND and PREMISES** of your firm ?

i) Do you have any office/warehouse apart from your plant?

If 'yes',

Yes	No
-----	----

ii) where are they?

iii) Where did you set up your plant at the time of starting the business?

iv) Have you changed the location of plant after starting the business?

If Yes, Please elaborate

Yes	No
-----	----

v) Why have you decided to set up your factory in the present place ?

vi) Where have your competitors set up their plants?

vii) Could you please tell me if there is any particular areas where certain advantages can be achieved from the government for setting up of plant?

Yes	No	DK
-----	----	----

If 'yes',

viii) What are those areas?

ix) Why have not you set up your plant in those areas?

x) Are you planning to move your plant to those places ?

Yes	No
-----	----

[If 'No', [Go to Q. xv].

If 'yes',

xi) Why?

xii) Have you considered any area for changing the location of plant ?

Yes	No
-----	----

If 'yes',

[a] what are those areas ? _____

b] why are those areas?

xiii).Have you looked at the price of the land/building of the new place ?

Yes	No
-----	----

If Answered Q. x, and have idea of moving/buying

xiv).Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style _____
- iii. the firm's capital asset _____
- iv. employees _____
- v. raw materials _____
- vi. marketing _____

xv)How do you get the idea/information about land and premises?

xvi)Do you think that all the firms of your industry are suffering from lack of enough and proper land and premises?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xvii]

xvii)Do you think that all the firms of your industry are suffering from lack of information about land and premises?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xviii]

xviii). Does your firm suffer from any lack of information about land and premises

Yes	No
-----	----

[If 'No', Go to Q. 72]

xix)How are you thinking/planning to resolve those problems?

Q.72. Would you please tell me something about the **EMPLOYEES** of your firm ?

i)Who are they? Please elaborate [are they skilled?].

ii)Who are your competitors' employees? Please elaborate [are they skilled?].

iii) Are the employees of your competitors better qualified than that of yours?

Yes	No	DK
-----	----	----

iv) Will your present employees be able to continue the operation of your firm in future to cope with any change?

Yes	No	DK
-----	----	----

If 'No'

v) Please state how are you thinking to strengthen your work force?

If Answered Q. v, and have idea of strengthening work force

vi). Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style _____
- iii. the firm's capital asset _____
- iv. employees _____
- v. raw materials _____
- vi. marketing _____

vii) How do you get the idea/information about employees?

viii) Do you think that all the firms of your industry are suffering from lack of skilled employees?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. ix]

ix) Do you think that all the firms of your industry are suffering from lack of information about employees?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

x). Does your firm suffer from any lack of information about employees?

Yes	No
-----	----

[If 'No', Go to Q. 73]

xi) How are you thinking/planning to resolve those problems?

Q.73. Would you please tell me something about the CUSTOMERS of your firm ?

i). Who are your customers/end users? Please elaborate.

ii). Who are your competitors' customers/end users? Please elaborate.

iii). Are your original customers still buying your products?

Yes	No	DK
-----	----	----

If 'Yes', [Go to Q. iv].

If 'No', Please state

a) where do they buy from and?

b) what are the reasons of buying from others?

iv). How does your firm listen to customers complaints?

v). When did you change/add the products/activities last time in your firm?

vi). Please state the reasons of this change/addition.

vii). Has any of those changes/additions been made in order to meet the requirement of the customers?

Yes	No
-----	----

If 'Yes', would you please give some examples?

viii). Is the market for your products expanding ?

Yes	No	DK
-----	----	----

Please give details [why or why not]

ix).Has any of your firm's old customer/customers stopped buying of your firm's products?

Yes	No	DK
-----	----	----

Please give details [when and why]

x). Has any new customer/customers started buying of your firm's products?

Yes	No	DK
-----	----	----

Please give details [when and why]

xi). Do you have any idea about what type of products the customers may want in the future?

If 'Yes', Please elaborate

Yes	No	DK
-----	----	----

xii). What new types of customers can buy your products in the future?

xiii). How are you thinking about expanding your sales level/customers ?

If Answered Q. xiii, and have idea of expanding sales/customers or coping with the change

xiv). Could you please describe the implications of your idea on

- i. your time _____
- ii. your life style _____
- iii. the firm's capital asset _____
- iv. employees _____
- v. raw materials _____
- vi. marketing _____

xv). How do you get the idea/information about customers?

xvi). Do you think that all the firms of your industry are suffering from lack of customers?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

[If 'No', Go to Q. xvii.]

xvii). Do you think that all the firms of your industry are suffering from lack of information about customers/end users?

Yes	No	DK
-----	----	----

If 'yes', what are the reasons for this lack?

xviii). Does your firm suffer from any lack of information about customers/end users?

Yes	No
-----	----

[If 'No, Go to Q. 73]

xix). How are you thinking/planning to resolve those problems?

74. Could you please tell me about the project (explain) you took last time?

(Ask if the respondent thought about its future impact, and if he was able to forecast/visualise the impact of the project on his/her time, life style, employees, resources and marketing the way the respondent faces it today).

Q.74. What was your firm's performance in relation to similar firms in your industry?

<u>1992-93</u>	Below Average	Average	Above Average	Don't Know
Sales				
Profit				
Overall Business				

<u>1991-92</u>	Below Average	Average	Above Average	Don't Know
Sales				
Profit				
Overall Business				

<u>1990-91</u>	Below Average	Average	Above Average	Don't Know
Sales				
Profit				
Overall Business				

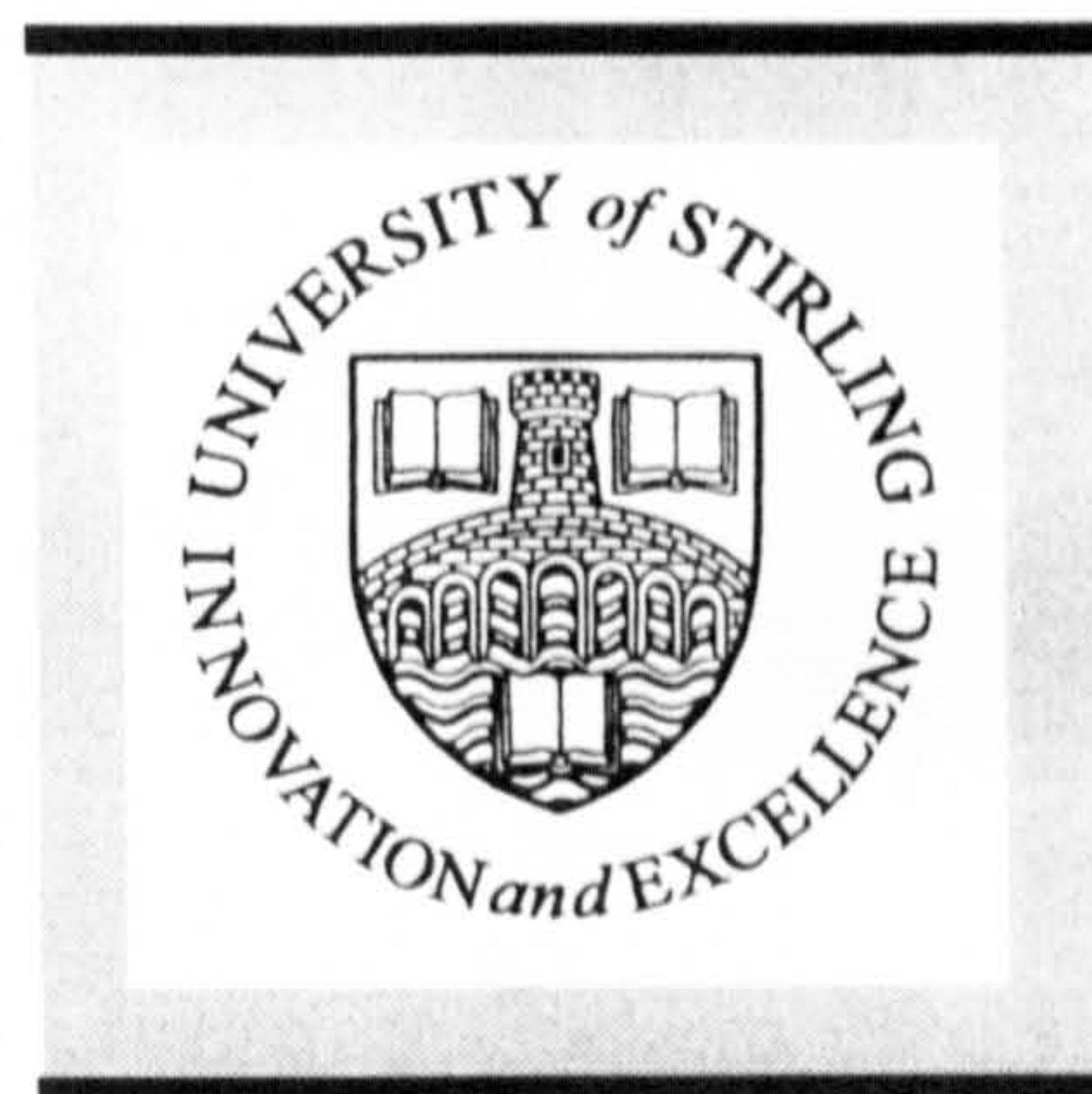
THANK YOU VERY MUCH FOR YOUR COOPERATION.

DO YOU REQUEST A SUMMARY REPORT OF THE RESULTS AND RECOMMENDATIONS OF THIS RESEARCH?

Yes	No
-----	----

IF 'YES', PLEASE IDENTIFY THE PROPER ADDRESS IN THE BOX PROVIDED.

Appendix IV



Dear Sir/Madam,

This is to certify that Mr. A F M Abdul Moyeen is a lecturer at the Department of Management, University of Dhaka and a doctoral student at the Scottish Enterprise Foundation, University of Stirling, United Kingdom. He is undertaking research on Strategic Planning Practices of the Small Business in Bangladesh. As part of his study, Mr. Moyeen needs to collect data from small manufacturing firms in Bangladesh and to conduct interviews of owner/managers of these firms. The information will be treated as highly confidential and will be used only for his research. We would be grateful if you could agree to an interview.

Thank you in anticipation.

Yours sincerely

Dr. Peter Rosa
(Supervisor)
Director of Postgraduate Research Studies
Scottish Enterprise Foundation

SCOTTISH ENTERPRISE FOUNDATION
UNIVERSITY OF STIRLING
STIRLING, SCOTLAND FK9 4LA

TELEPHONE: (0786) 473171
SEF FAX: 0786 450201
DIRECT LINE NUMBER:

DEPARTMENT OF MANAGEMENT

FACULTY OF COMMERCE
UNIVERSITY OF DHAKA
DHAKA-1000, BANGLADESH



প্রিয় উদ্যোক্তা

আমি ঢাকা বিশ্ববিদ্যালয়ের ব্যবস্থাপনা বিভাগের একজন শিক্ষক। বর্তমানে কমনওয়েলথ স্কলারশীপ নিয়ে গ্রেট ব্রিটেনের স্টার্লিং বিশ্ববিদ্যালয়ের পি.এইচ.ডি করছি। পি.এইচ ডি'র অংশ হিসাবে "বাংলাদেশে ক্ষুদ্র ব্যবসায়ের স্ট্রাটজিক ব্যবস্থাপনার অনুশীলন" এর উপর বর্তমানে জরীপ করছি।

আপনি কিভাবে ব্যবসা পরিচালনা করেন, কি অসুবিধার সম্মুখীন হচ্ছেন ইত্যাদি বিষয়ের উপর আপনার সাথে আলোচনা করে আপনার মূল্যবান মতামত জানতে চাই।

আপনি যদি অনুগ্রহপূর্বক আমাকে আপনার সাথে কথা বলার সুযোগ দেন, তাহলে আমি কৃতজ্ঞ থাকব। খুব শ্রীষ্টই আমি এ ব্যাপারে আপনার সাথে সাক্ষাৎ করার চেষ্টা করব।

ধন্যবাদান্তে

আপনার বিশ্বস্ত

এ এফ এম আবদুল মন্নান
পি.এইচ.ডি. শিক্ষার্থী
স্টার্লিং বিশ্ববিদ্যালয়
গ্রেট ব্রিটেন।