

Relationship Between Strategic Planning and SME Success: Empirical Evidence from Thailand

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Abstract

The role of small and medium enterprises (SMEs) is becoming increasingly prominent throughout the world. Thailand is no exception. SMEs in Thailand represent over 90 percent of the total number of entrepreneurs in nearly all business sectors, and employ over 60 percent of the labor force. However, many SMEs fail each year. Given the significance of SMEs to the Thai economy and the fact that no study has yet examined strategic planning in the SME sector, this study seeks to investigate the linkage between strategic planning and growth of SMEs in Thailand. The primary objective is to determine whether or not there is a relationship between the use of strategic planning by SMEs and their growth. In addition, this research seeks to explore the factors that influence SME decision makers to use strategic planning. The findings indicate that the level of strategic planning is positively associated with the growth of the SME. This conclusion is very significant for SMEs because it shows them the usefulness and benefits of practicing strategic planning. Furthermore, the results reveal that certain demographic factors, such as age and education level, are significantly and positively related to the decision to use strategic planning. However, neither the gender of the SME decision maker nor the age of the SME business is related to the decision to use strategic planning.

1. Introduction

The role of small-to-medium-sized enterprises (SMEs) is becoming increasingly prominent throughout the world. For example, in the United States, SMEs represent an overwhelming majority of all businesses and account for almost one-half of the gross national product. SMEs create two-thirds of all new jobs and invent more than one-half of all technological innovations in the United States (U.S. Small Business Administration, 2005).

Similarly, in most developing countries, SMEs are the most important source of new employment opportunities. SMEs make substantial contributions to employment and comprise the majority of businesses in the nation (Burns & Dewhurst, 1996; Bushong, 1995).

In Thailand, the largest number of businesses is comprised of SMEs. Their distribution is covered in all sectors including manufacturing, trade and service. Strengthening SMEs is a main issue to consider when it comes to growth and income distribution in the country. The Institute for Small and Medium Enterprises Development (ISMED) reported that SMEs in Thailand represent over 90 percent of the total number of entrepreneurs in nearly all business sectors, and employ over 60 percent of the labor force. Furthermore, SMEs contributed between 38% and 39% of the total GDP in Thailand from 1999 to 2003. In 2003, the value of industrial exports from Thai SMEs was over 45% of all industrial products exported from Thailand. All these statistics underscore the huge contribution of SMEs to the Thai economy.

Unfortunately, many SMEs fail each year. According to the Thai Ministry of Commerce, the failure rate was 69% in 2002. This indicates that business failure is a huge problem among SMEs.

Many studies have suggested that business failure is due largely to an organization's failure to plan. As Norman and Thomas (2003) noted, "Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace." This view is shared by numerous empirical studies that reveal a link between strategic planning and corporate success (e.g. Bracker et al, 1988; Lyles et al, 1993; Schwenk and Shrader, 1993; Rue and Ibrahim, 1998; Gibson et al, 2002). Strategic planning is therefore a very important research topic for organizational success. Studies have shown that the high failure rate among small firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castrogiovanni, 1996).

Despite the significant role played by SMEs in the Thai economy, little research has been done on them. First, most research studies in Thailand have emphasized publicly listed firms (e.g. Yammeesri, 2003; Graham et al, 2000; Tirapat and Nittayagasetwat, 1999; Person, 1999). Second, there is no study to date that has looked at the role and impact of strategic planning in relation to SMEs in Thailand.

This study attempts to fill the void in these two areas. First, it will examine whether or not there is a relationship between the use of strategic planning by SMEs and their growth performance. Furthermore, it will investigate those factors that influence SME decision-makers in Thailand to use strategic planning. It is hoped that the results of this study will guide the Thai government in developing and implementing useful policies for SMEs in the future.

2. Literature Review

Studies have generally shown that planning is not only important for large organizations but for SMEs as well (Rue and Ibrahim, 1998). Berman et al (1997) found that firms that plan produce better financial results than firms that do not plan. Lerner and Almor (2002) contended that planning lays the groundwork for developing the strategic capabilities needed for high performance.

Planning does not guarantee business success (Mintzberg, 1994). However, it is maintained that many of the contributing factors to business failures may be predicted and effectively address during the infancy of small business development when strategic planning is employed, thereby decreasing the failure rate for small business. Where strategic planning has been adopted, businesses usually report that it benefits them (Baker et al, 1993).

However, an extensive review of the literature shows that research on the impact of strategic planning on SME success is inconclusive. Below, we divide the research into two categories: those that show a positive impact of strategic planning on SME success and those that show a negative impact.

2.1 Positive Impact

Sexton and Van Auken (1985) found in their longitudinal analysis that the survival rates of SME that apply formal strategic planning are higher. Boyd (1991) found that the probability of survival is substantially smaller for non-planning enterprises. Birley and Niktari (1995) found an association between the failure of small firms and a lack in business planning. Castrogiovanni (1996) linked the lack of strategic planning with higher mortality rates of SMEs. Miller and Cardinal (1994) claimed that planning produces better results than non- planning. Michalisin et al (1997) stated that firms can achieve sustainable competitive advantage from such resources as strategic planning.

The studies that examined the nature of business planning activities undertaken by small firms suggest that a relationship exists between enhanced sales growth and the implementation of sophisticated business planning techniques (Berman et al, 1997). A further study by Olson and Bokor (1995) of 442 small start-up firms supported the case for formal planning enhancing business performance, although this was found to be context dependent. Characteristics of the entrepreneurs – prior management experience or previous work history – were found to be significant.

The empirical literature widely assumes that strategic planning is a substantial success factor for small or new ventures. Accordingly, strategic planning increases not only the rate, but also the extent of success. Meta-analyses conducted by Robinson and Pearce (1984) and Schwenk and Shrader (1993) showed that the existence of strategic planning is significantly positively correlated with the success of an enterprise. Small firms can benefit from strategic planning particularly if it involves long-range thinking and systematic screening of opportunities (Schwenk & Shrader, 1993).

Robinson and Littlejohn (1981) found a positive relationship between strategic planning and financial success in their investigation of small business enterprises. Similarly, Jones (1982) found that small business 'planners' were shown to be more successful measured by return on assets than 'non-planners'. Besides, they were engaging more in anticipating changes in the marketplace and looking for ways to take advantage of these changes.

Based on an analysis of 51 small enterprises in the U.S., Robinson et al (1984) showed that simple planning activities can have a positive influence on the success of small enterprises. Furthermore, the process of (formal) planning itself seems to have a positive effect in that it leads to a better understanding of the business and to a broader range of strategic alternatives.

Ackelsberg and Arlow (1985) have proven that strategically planning enterprises achieve better financial results. This implies that expenditures related to planning activities would be compensated financially. Further positive relationship between strategic planning and financial performance was discovered by numerous researchers in different industries (Orpen, 1985; Bracker and Pearson, 1986; Bracker et al, 1988; Baker et al, 1993; Peel & Bridge, 1998; Walter et al, 2001; Baker et al, 2001; Masurel and Smit, 2000).

Delmar and Shane (2003) examined the relationship between planning and enterprise development on the basis of 211 Swedish new ventures and found that planning reduces the probability of enterprise dissolution, thus increasing the probability of survival. According to the authors, this contradicts the widespread opinion that due to a lack of time, planning is less relevant for enterprise founders than other value-increasing enterprise activities. The authors likewise regarded planning as a value-increasing activity itself, even in a largely uncertain and unclear situation like the establishment phase of an enterprise.

2.2 Negative or No Relationship

Although the majority of studies has identified a positive relationship between strategic planning and SME success, there are also those that have identified no relationship between these variables [e.g. Robinson and Pearce (1983) in their investigation of 50 small American banks; Gable and Topol (1987) in their study of 179 small retailers from North-East U.S.; Gibson et al (2001) in their investigation of 2,956 small Australian enterprises, and French et al (2004) in their investigation of 127 small Australian service enterprises]. Some studies even found a negative relationship between planning and success. For instance, O'Gorman and Doran (1999) demonstrated that the presence of a formal mission or mission statement does not seem to have any direct influence on the success of small enterprises.

However, even those studies that could not show a positive relationship usually emphasized the positive impact of planning (Robinson and Pearce, 1984; French et al, 2004).

2.3 Extent of Strategic Planning

Much of the research into the process of strategic planning in small firms has looked at the level of sophistication or "formality" used to define the strategic planning process (e.g. Naffziger and Kuratko, 1991; Lyles et al, 1993; Ramanujam and Venkatraman, 1987; Veliyath and Shortell, 1993). Formal business planning has been defined as the development, implementation, and continued update of a documented business plan tailored for a specific business (Stewart, 2002).

Perry (2001) found that although the overall level of strategic planning was low in small firms, successful firms did more systematic planning than failed firms. Armstrong (1982) examined the

extent of formal planning by five main variables (i.e. setting objectives, generating strategies, evaluating strategies, monitoring the process, and commitment to the process) and concluded that it positively affects success.

Lyles et al (1993) stated that a more advanced and more detailed strategic planning system results in more substantial corporate growth. In addition, they concluded that enterprises that adopt a more formal planning process will place greater emphasis on the quality of the strategic decision-making processes.

Harris and Ogbonna (2001) were able to show a direct link between market orientation, strategic human resource management, and financial performance. In addition, a study conducted to examine the interactive effects of strategic planning on hotel performance shows that there is a direct positive link between planning sophistication and planning thoroughness on performance (Phillips et al, 1999).

A study of 168 manufacturing SMEs in Sri Lanka found that planning and control sophistication led to increase sales (Wijewardena et al, 2004). This study concluded that the greater the sophistication in planning the greater the sales.

Research studies and strategic management texts that examined the kinds of activities included in the planning process have generally identified the following eight areas: defining mission, setting objectives, external analysis, internal analysis, developing alternative strategies, strategy selection, implementation, and control (Dess et al, 2007; Hitt et al, 2007; Pearce and Robinson, 2007; Stewart, 2002). These activities will be examined in this study in order to evaluate the extent of strategic planning carried out in the small business organization. These activities also serve as indicators of the degree of formal business planning.

2.4 Time Factor

Time may play an important role in determining the impact of strategic planning on the performance of the firm. Stubbart (1982) mentioned that any causal link between environmental scanning and organization performance must be a long and tenuous one. He also said that scanning of the business environment will have positive effects if a long time passes and timely actions yield good results.

The longer the planning process has existed within the organization and the longer the time span covered by the plan, the more formalized the planning process tends to become (Crittenden and Crittenden, 2000).

2.5 Owner and Firm Factors

This category includes all those factors that are uniquely associated with the individual decision-maker. These factors include variables that are a result of birth (e.g. nationality, sex, age, etc.) as well as those that are a result of the human development and socialization process (e.g. personality, attitudes, values, education, religion, employment, etc.). These factors, then, represent the sum total of the life experiences and circumstances of birth that a particular individual brings to the decision-making process.

In SMEs, the owners of the companies are often personality-driven and influenced by the individual values and motivations of the entrepreneur. These owners also like to play a role in the decision-making of the business (Culkin-Smith 2000). Therefore, understanding the individual small business owner becomes as crucial as understanding the business. Some evidence exists to support a link between growth focus and the characteristics of the owner-manager (Kotey & Meredith, 1997).

In this study, the researcher examines four variables – age of owner/manager, gender, educational level and age of business - as factors that may affect the SME decision to use strategic planning.

- **Age of Owner-Manager**

Various studies have shown an association between age and inflexibility. For example, older managers tend to be more risk averse, whereas younger managers tend to pursue more risky, innovative growth strategies (Guthrie & Olian, 1991). Wiersema and Bantel (1992) found that firms undergoing strategic change were run by younger managers, and younger managers were more willing to bring up new and creative ideas than older managers. Therefore, youth should be positively associated with planning. Sorensen and Stuart (2000) suggested that, on balance, older firms have a wealth of organizational knowledge but that their older owners may be too stuck in their ways to respond to new innovative opportunities. Bass (1991) stated that age has also been associated negatively with sensory and memory functions to integrate information in decision-making. Older managers might tend to avoid complexity in their decision-making by decreasing their information gathering and search for new ideas.

- **Gender**

Research on the relationship between gender and the decision to use strategic planning is inconclusive. For example, Cliff (1998) found no differences between male and female entrepreneurs in their growth intentions. However, with the same desire to grow, most entrepreneurs – of which the majority were women - established maximum business size thresholds that represent the size the entrepreneur is comfortable managing.

However, Brush and Bird (1996) stated that firms owned or managed by males had more sophisticated planning compared to female owned or managed businesses. Research shows that women put less emphasis on long-range, formalized strategic planning. Implicitly, women-owned ventures that put less emphasis on strategic planning will have low performance.

On the other hand, Lerner and Almosr (2002) stated that there is lack of research on the relationship between strategy and performance of women-owned businesses. A major finding by Kalleberg and Leicht (1991) is that businesses headed by women are not more likely to go out of business, nor less successful than businesses headed by men. However, it has not yet been proven that females use strategic planning less than males.

- **Education Level**

Studies have typically equated attained education level with attributes such as cognitive ability, capacity for information processing, tolerance for ambiguity, and propensity or receptivity to innovation (Guthrie et al, 1991). Managers' education levels have also been empirically linked with propensity to deviate from implementing strategic change (Wiersema and Bantel, 1992).

A higher education level has been associated with the tendency to engage in higher boundary spanning, show a higher tolerance for ambiguity, and to exhibit higher integrative complexity (Dollinger, 1984). In addition, a more educated person will exhibit a broader and more complex cognitive functioning, such as having a higher capacity for information processing. Recognizing the value of new information, assimilating it, and applying it to commercial ends are closely related to prior knowledge and skills (Cohen and Levinthal, 1990). Such knowledge and skills are acquired partly through education. Therefore, more highly educated managers are expected to have a greater need to gain a more thorough and complex understanding of a situation. Hence, education level should be positively associated with planning.

- **Age of Business**

It has been reported that mature firms are more securely established and thus are positively associated with growth and performance (Begley and Boyd, 1986). Sorensen and Stuart (2000) also argued that older firms have a wealth of organisational knowledge and creativity, and this can lead to strategic planning. Another study found that experience is positively related to product strategies (Davidson, 1991). Similarly, Borch and Huse (1993) found that a firm's age has a direct impact on resources as well as strategies. Hence, SME decision makers in older firms may be more inclined to embrace strategic planning.

3. Model & Hypotheses

The research model used in this study is presented in **Figure 1**. It has two parts, each addressing one of the research objectives stated earlier in the paper. The first part, consisting of Hypotheses 1 through 4, addresses the demographic factors that may have an impact on the decision of SMEs to use strategic planning. The second part, consisting of Hypotheses 5 and 6, examines the relationship between the extent and duration of strategic planning and growth performance. **Table 1** encapsulates all the hypotheses in this study.

In this study, small business success is defined by the extent to which the firm exhibits a number of indicators of business growth. A total of four indicators were employed to measure small business success: (1) sales/revenue growth, (2) expanding clientele, (3) increasing staff, and (4) establishing new sites.

4. Methodology

4.1 Population and Sample

The subjects of study consisted of small- to medium-sized businesses in Thailand. For the purposes of this study, a SME in Thailand is defined according to a regulation passed by the Ministry of Industry in September 2002. The Ministry defines SME by business sector and, within each sector, by the number of employees or value of fixed assets (excluding land). The four business sectors are as follows:

Manufacturing Sector: A small enterprise is one where the number of employees does not exceed 50 people or where fixed assets (excluding land) do not exceed THB 50 million. If employees range between 51-200 people or if fixed assets (excluding land) exceed THB 50 million but less than THB 200 million then it is considered a medium enterprise.

Service Sector: (same definition as manufacturing sector)

Wholesale Sector: A small enterprise is one where the number of employees does not exceed 25 people or where fixed assets (excluding land) do not exceed THB 50 million. If employees range between 26-50 people or if fixed assets (excluding land) exceed THB 50 million but less than THB 100 million then it is considered a medium enterprise.

Retail Sector: A small enterprise is one where the number of employees does not exceed 15 people or where fixed assets (excluding land) do not exceed THB 30 million. If employees range between 16-30 people or if fixed assets (excluding land) do not exceed THB 60 million then it is considered a medium enterprise.

Given the definition of SMEs in Thailand, the authors focused on the four biggest SME sectors, namely, production, trading, retail, and servicing.

4.2 Survey Instrument

This study used a survey research design. A questionnaire was designed to gather information concerning the nature and scope of strategic planning. The questionnaire consists of two parts. The first part is designed to gather general personal and firm information such as age, gender, and level of education of the respondents as well as age of the business. The second part of the survey is based on the strategic planning process model specified in Figure 1. This part uses a 6-point type scale ranging from “strongly disagree” to “strongly agree”. The questionnaire could be answered in 10 minutes or less. This is important because studies have suggested that small business respondents are unlikely to respond to lengthy surveys.

4.3 Reliability Analysis

A pilot study was conducted 63 SMEs in order to ensure the reliability of the survey instrument and the effectiveness of the research design in general. These SMEs came from the four largest business sectors in Thailand, as indicated above. The reliability statistics were within acceptable levels, ranging from 0.738 to 0.923.

4.4 Data Collection

The respondents in this study consisted of business owners and operators. Owners were defined as individuals who actually owned the business. Operators were defined as people who held key operational or senior management positions, within the business, and support the principals of the firm in business development. Common professional titles for individuals in ownership positions include: President, Chief Executive Officer (CEO), Director, and Principal. Vice President, Chief Financial Officer (CFO), and Assistant Director are examples of acceptable titles for individuals who hold supporting positions to the principals and, thus, serve as operators as opposed to owners.

A total of 1,000 were mailed out. From this, the usable returns were 656 for Part 1. However, for Part 2, we had to focus only on SMEs that had a written strategic plan and eliminate those that did not. The data collected showed that 455 out of the 656 respondents (69.37%) had written strategic plans. Therefore, we used these 455 returns in Part 2 of the study.

5. Results

With regard to demographic and firm variables, the results show that the age and education level of the SME decision maker are positively correlated with the decision to use strategic planning ($p < 0.05$). Hence, H1 and H3 are supported. However, the findings reveal that neither the gender of the SME decision maker nor the age of the SME business is related to the decision to use strategic planning. Therefore, H2 and H4 are not supported. Further analysis using ANOVA shows that education level has the strongest influence on the decision to use strategic planning while the age of the respondent is also a significant factor.

With respect to growth performance, the findings reveal that there is a significant positive correlation ($p < 0.05$) between the extent of strategic planning and all the 4 growth variables. In other words, H5(a) through (d) are supported. This finding is very significant for SMEs because it shows them the benefits and usefulness of practicing strategic planning. SMEs can benefit from strategic planning in terms of enhancing their competitiveness which, in turn, will strengthen the Thai economy.

However, it does not matter how long the small business has been using a written strategic plan because the results show that this is not significantly correlated with any of the growth variables. This implies that SMEs should benefit from strategic planning no matter how long they have been adopting the practice.

Overall, this study has important implications for the government of Thailand. Since the findings show that strategic planning could benefit SMEs significantly, the Thai government can play a vital role in encouraging and supporting Thai SMEs to use strategic planning. There are many ways that the government can do this, for example, by providing consulting assistance, developing training courses, providing business planning resources such as software, books and videos, and so on. As the results indicate, the more educated the SME decision maker, the more likely he or she will embrace strategic planning for success.

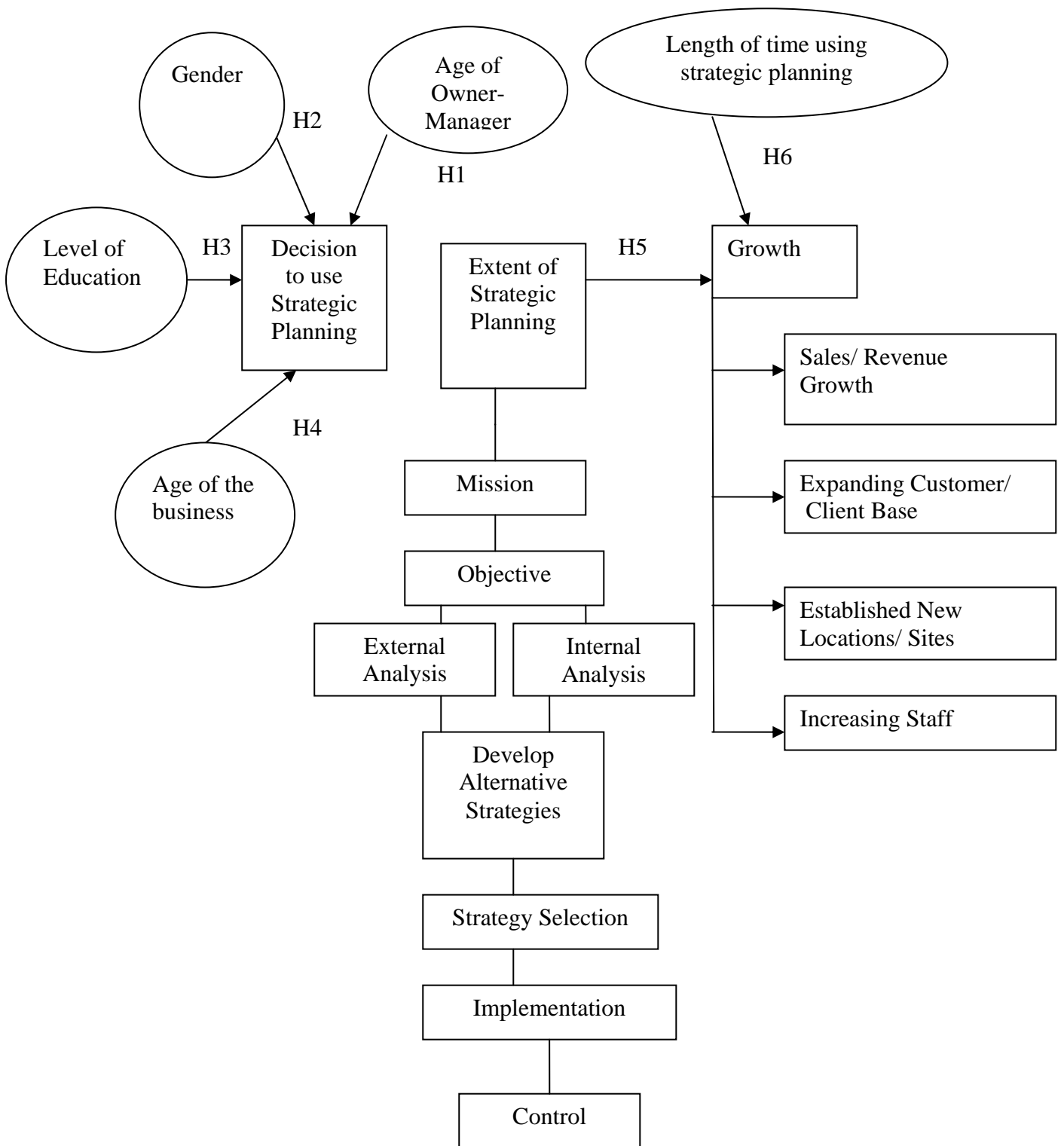


Fig. 1 Research Model

Table 1 Hypotheses

Demographic Factors and Strategic Planning

- H1: There is a positive relationship between the **age** of SME decision maker and the decision to use strategic planning.
- H2: There is no relationship between the **gender** of SME decision maker and the decision to use strategic planning.
- H3: There is a positive relationship between the **education level** of SME decision maker and the decision to use strategic planning.
- H4: There is a positive relationship between **age of business** and the decision to use strategic planning.

Extent of Strategic Planning and Growth

- H5a: There is a positive relationship between the extent of strategic planning and sales/revenue.
- H5b: There is a positive relationship between the extent of strategic planning and an expanding customer/ client base.
- H5c: There is a positive relationship between the extent of strategic planning and the number of established new locations/sites.
- H5d: There is a positive relationship between the extent of strategic planning and an increasing staff.

Duration of Strategic Planning and Growth

- H6a: There is a positive relationship between the length of time a small business has used written strategic plans and its sales/revenue.
- H6b: There is a positive relationship between the length of time a small business has used written strategic plans and its expanding customer/client base.
- H6c: There is a positive relationship between the length of time a small business has used written strategic plans and established new locations/sites.
- H6d: There is a positive relationship between the length of time a small business has used written strategic plans and increasing staff.

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